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Witness:	**Charles P. Melcher**
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Case No.	**HR-2014-0066**
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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

CHARLES P. MELCHER

VEOLIA ENERGY KANSAS CITY, INC.

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BEFORE THE PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF CHARLES P. MELCHER
ON BEHALF OF VEOLIA ENERGY KANSAS CITY, INC.
CASE NO. HR-2014-0066

Q. Please state your name and business address.

A. My name is Charles P. Melcher and my business address is Veolia Energy North America, 200 East Randolph Street, Suite 7900, Chicago, IL 60601.

Q. By whom are you employed and in what capacity?

A. I am employed by Veolia Energy North America, LLC, as Vice President Central United States. My duties and responsibilities include the management and oversight of Veolia Energy Kansas City, Inc. (referred to herein as "Veolia" or the "Company").

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science in Mechanical Engineering from the United States Naval Academy in 1984. I received an MBA from Johns Hopkins University in 1997. I served in the United States Navy as a nuclear submarine officer, a program manager and a Navy Base Commander. I hold Department of Defense (DoD) Certification in Nuclear Plant Operation, Maintenance and Supervision and operated nuclear power plants for 28 years. Additionally, I was DoD Project Manager and hold DoD certification in Financial Management and

Marine Engineering. In 2013, I became the Vice President for Operations for the Central United States for Veolia Energy North America.

Q. Have you ever testified before this Commission or any other regulatory commission?

A. No.

Q. Please summarize the purpose and content of your testimony.

A. The purpose of my testimony is to provide a comprehensive strategy to improve Veolia's steam service in Kansas City and describe how Veolia intends to place the business on a firm footing and deliver more and improve products to an expanded customer base. I will provide a history of the district steam heating business in Kansas City, present technical aspects of the system, describe characteristics of our customer base, discuss recent developments relating to the system, summarize the need for requested relief in the form of increased tariff revenue and present the Company's request to expand its service territory. My testimony will also sponsor the restructuring of existing tariffs rates and introduce new proposed tariffs, including a Production Adjustment Cost Clause ("PACC"), a tariff to address emergency service, an economic development rate, a rate for residential customers in high-rise buildings, and a special contract rate to meet unique customer service needs. I will also introduce the other Company witnesses filing direct testimony and sponsor the Company's minimum filing requirements ("MFRs").

CORPORATE OVERVIEW

Q. In the event that there may be references in this proceeding to Trigen-Kansas City Energy Corporation, please explain the relationship between Trigen-Kansas City Energy Corporation and Veolia Energy Kansas City, Inc.

A. The two entities are one and the same. Veolia Energy Kansas City, Inc. represents the new "brand" and corporate identity of what formerly was known as Trigen-Kansas City Energy Corporation. The entity changed its name from Trigen-Kansas City Energy Corporation to Veolia Energy Kansas City, Inc. as part of a broader rebranding initiative that introduced the Veolia Energy name to a number of former Trigen locations throughout the United States. The Commission approved the Company's request for the name change in its Order Recognizing Name Change and Approving Tariff Sheets, File No. HN-2011-0286, effective April 10, 2011.

Q. You previously stated that you are currently employed by Veolia Energy North America, LLC. What is the relationship between Veolia Energy North America, LLC and Veolia Energy Kansas City Inc.?

A. Veolia Energy North America, LLC and Veolia Energy Kansas City, Inc. are wholly-owned subsidiaries of Thermal North America, Inc. Thermal North America, Inc. is a wholly owned subsidiary of Veolia Energy North America Holdings, Inc. ("VENAH"). Veolia Energy North America, LLC is a management services company for all subsidiaries of VENAH, including Veolia

Energy Kansas City Inc. VENAH is the largest owner of district energy companies in North America.

Q. What are the locations of the other Veolia Companies?

A. There are subsidiaries located in Los Angeles, California; Atlanta, Georgia; Baltimore, Maryland; Boston, Massachusetts; Grand Rapids, Michigan; St Louis, Missouri; Las Vegas, Nevada; Trenton, New Jersey; New York, New York; Philadelphia, Pennsylvania; Oklahoma City, Oklahoma; Tulsa, Oklahoma; Portland, Oregon; and Houston, Texas.

Q. What are the "Veolia Companies"?

A. The "Veolia Companies" are managed by Veolia Energy North America LLC on behalf of VENAH and refer to the following operating units: Veolia Energy Glendale, LLC (f/k/a Trigen-Glendale Energy Company, LLC); Veolia Energy Las Vegas, LLC (f/k/a Trigen-Las Vegas Energy Company, LLC); Grays Ferry Cogeneration Partnership; Trenton Energy Company, LLC (f/k/a Trenton Energy Corporation); Veolia Energy Baltimore Corporation (f/k/a Trigen-Baltimore Energy Corporation); Veolia Energy Boston, Inc. (f/k/a Trigen-Boston Energy Corporation); Veolia Energy Building Services Corporation (f/k/a Trigen Building Services Corporation); Veolia Energy Kansas City, Inc. (f/k/a Trigen-Kansas City Energy Corporation); Veolia Energy Los Angeles, Inc. (f/k/a Trigen-LA Energy Corporation); Veolia Energy Missouri, Inc. (f/k/a Trigen-Missouri Energy Corporation); Veolia Energy Oklahoma City, Inc. (f/k/a Trigen-Oklahoma

City Energy Corporation); Veolia Energy Philadelphia, Inc. (f/k/a Trigen-Philadelphia Energy Corporation); Philadelphia Thermal Development Corporation; Philadelphia United Power Company, LLC; Trigen-St. Louis Energy Corporation; Veolia Energy Atlantic Station, LLC (f/k/a Trigen Atlantic Station, LLC); Veolia Energy Tulsa, Inc. (f/k/a Trigen-Tulsa Energy Corporation); Veolia Energy Portland, LLC; Veolia Energy Efficiency (PA), LLC; Veolia Energy Baltimore Heating LLP; Veolia Energy Baltimore Cooling LLP; Veolia Energy Trenton, L.P.; Veolia Energy Maryland Steam Corporation; Trigen – Inner Harbor East, LLC; Veolia Energy Grand Rapids, LLC; Veolia Energy Facilities Services, LLC; Veolia Energy Operating Services, LLC; Veolia Energy Renewables, LLC; Veolia Energy Solutions, LLC; Dalkia Energy Services, LLC; Dalkia Facilities Services, LLC; SourceOne, Inc. (DE); SourceOne Harborside, Inc. and SourceOne APT, Inc.

Q. Are costs allocated for the management services provided by Veolia Energy North America, LLC?

A. Yes. The costs incurred by both VENAH and its subsidiaries and Veolia Energy North America, LLC are either retained at the corporate level or allocated between the Veolia Companies in accordance with the cost allocation manual previously filed with the Commission.[1]

[1] The allocation process is discussed by Company witness Steven Weafer while Company witness Steven Carver describes how these costs were recognized for ratemaking purposes. Mr. Weafer will also discuss the planned restructuring activities that are currently in process.

Q. When did the Commission last approve a rate increase for Veolia?

A. Veolia Energy Kansas City, Inc. last adjusted its tariff rates for district steam service effective November 1, 2011 (Case No. HR-2011-0241).

Q. Did Veolia update the Class Cost of Service Study initially required by the settlement agreement in the 2008 rate case (Case No. HR-2008-0300) and presented in the 2011 rate case (Case No. HR-2011-0241)?

A. Yes. In 2010 and continuing into 2011, the Company prepared a Class Customer Cost of Service Study to assess the assignment and allocation of costs among customer classes. Company witness Joseph Herz addressed the initial study results and has updated that study in the pending proceeding. Mr. Herz's direct testimony will summarize how those results should be considered in the current proceeding.

Q. Why is Veolia Energy Kansas City, Inc. filing for a rate increase at this time?

A. During both rate filings in 2008 and 2011, the Company did not increase rates to cover the entire rate deficiency. Veolia is seeking to further modify its tariffs in part because of the nature of the Company's filings in those prior rate cases and in part because the cost of providing regulated steam service has continued to increase. In spite of its desire to file a rate case less frequently, Veolia determined that this "next" rate case could no longer be deferred.

Q. Do the proposed tariffs represent an attempt by the Company to recover the entire calculated revenue deficiency?

A. No. The Company's proposed tariffs in this case do not seek to increase rates to cover the entire calculated revenue deficiency. Veolia has been able to avoid filing a rate increase application for two years to the cumulative benefit of our customers. We have once again not sought a full rate increase in order to mitigate customer attrition and provide an opportunity for other beneficial changes to help mitigate the burden that would result in higher rates. Unlike many other regulated services, Veolia must compete with other possible forms of heating such as electricity or natural gas. Veolia has again limited its rate increase to maintain its customer base, ultimately to the benefit of all ratepayers. All of our customers have other options for thermal supply and we must move carefully and deliberately in changing rates. This is the primary basis on which Veolia elected to again seek what we believe is a conservative rate increase. However, Veolia is restructuring our existing tariffs to improve their clarity and auditability, simplifying our tariffs so they are more easily understood by our customers, rebalancing the rate steps between tariffs to ensure a more equitable distribution of costs, requesting an increase in the number of tariff rate offerings to enable us to more accurately and effectively serve a wider array of customer needs.

Q. Do you believe that Veolia is a financially viable entity for the foreseeable future?

A. Yes. Since mid-2005, Veolia has made significant strides in improving its operations and customer base. As a result, VENAH sees a significant opportunity

for the provision of district steam service in Kansas City for many years. The nature of the Downtown Kansas City area however is expanding and developing into new and more varied uses as well as becoming more spread out. As such, the long-term viability of Veolia's operations is reliant on receiving adequate rate relief and tariff options that can enable us to be competitive into the coming decades.

MINIMUM FILING REQUIREMENTS

Q. How did Veolia satisfy the minimum filing requirements set forth in the Commission's rules for purposes of this case?

A. In order to address the specific requirements of 4 CSR 240-3.030, the following information associated with the filing of this case was prepared by me or under my direction and supervision:

A: Letter of Transmittal

B: General information, including:

1. the amount of dollars of the aggregate annual increase and the percentage of increase over current revenues which are proposed (Schedule CPM-2);
2. names of the counties and communities affected (Schedule CPM-1);
3. the number of customers to be affected in each general category of service and in all rate classifications (Schedule CPM-2);

4. the average change requested in dollars and percentage change from current rates for each general category of service and for all rate classifications (Schedule CPM-2);
5. the proposed annual aggregate change by general categories of service and by rate classification (Schedule CPM-2);
6. a summary of reasons for the proposed changes (Schedule CPM-3). CPM-3 will provide a high level discussion of our attempt to rebalance and simplify our tariffs and to propose several new tariffs all which will be discussed in detail below. These MFRs are attached to this testimony as the schedules referenced above.

Q. Has a proof of revenue analysis been prepared by you or under your direction for purposes of quantifying the aggregate annual rate increase requested by the Company as well as the impact on each rate classification?

A. Yes. A proof of revenue analysis has been prepared which supports the amount and percentage rate increases set forth on Schedule CPM-2.

OVERVIEW OF VEOLIA'S RATE FILING

Q. Please summarize the rate relief sought by Veolia in this proceeding.

A. This is the third rate increase submitted by Veolia before this Commission, with the Company's prior rate case filings in 2008 (Case No. HR-2008-0300) and 2011 (Case No. HR-2011-0241). Prior to the 2008 rate filing, Veolia had never sought a rate increase since the acquisition of the system in 1990 – even though increases

in fuel, operating and maintenance expenses, plant and facility investment over the years far outpaced its increase in revenue over the same period. As evidenced by the calculated revenue deficiency (Schedule SCC-3 sponsored by Company witness Steven C. Carver) and the Class Cost of Service Study (CCOSS) based on the overall revenue requirement (Schedule JAH-3 sponsored by Company witness Joseph A. Herz), Veolia's revenue deficiencies are substantial for the services it provides.

While Veolia understands that rate increases are not welcomed by customers, the rate increase sought by the Company represents only a portion of the revenue deficiency presented by these witnesses. Furthermore, Veolia is proposing to better align our revenue deficiencies and rate changes within and across customer classes.

Consistent with its two prior rate cases, the Company has conservatively approached the quantification of overall revenue requirement in this proceeding and has employed a historical test year for the twelve months ended June 30, 2013, updated for significant known and measurable changes through December 2013.

Q. Is Veolia seeking to recover its entire revenue deficiency by means of this rate case? If not, why?

A. The Company's proposed tariffs do not seek to increase rates to cover the entire calculated revenue deficiency. Although Veolia's rate case filing supports a calculated revenue deficiency of about $2.8 million, the new tariffs filed by the Company would result in a more modest rate increase of about $1.0 million. Veolia believes it is prudent to limit the amount of the rate change imposed on our business customers through this rate proceeding for several reasons. First, at the time of the prior two rate filings, Veolia opted to recover an amount that was less than our calculated revenue deficiency in hopes that maintaining a lower rate during the ensuing years would promote growth on the system resulting in additional economies of scale. While that has occurred to a certain degree, anticipated growth on the system has not sufficiently materialized to fill the deficiency. Additionally, changes in the cost of operations to serve our customer base have increased since the last rate case mostly due to the steady increase in the commodities we buy and the repeated rate increases by utilities of which we are customers. We continue to believe that moderate rate increases will allow customers to adapt to the new cost structures and the new tariff provisions being proposed in this proceeding, while providing an opportunity for Veolia to recover sufficient revenues to meet the ongoing needs of the business.

Second, we also identified a need to continue the modernization of our tariff structure and related billing determinants that was commenced in the 2008 rate case. Since the 2008 rate case, Veolia has added new rate classes, closed one to new customers and terminated another rate class. The addition of the

Interruptible Heating Service ("IHS") class served to consolidate two Alternative Heating Source ("AHS") classes (small and large) that were eliminated.[2] However, the IHS tariff was initially created to serve existing AHS customers and closed to new customers or customers not already on the IHS or prior AHS tariffs. As a key element of the current rate case, Veolia is proposing to re-open the IHS tariff to new qualifying customers that have and will continue to maintain operational steam boilers.

As part of the ongoing efforts to match up cost of service with the revenue recovery from the classes being served, we have modified and standardized the demand charge blocks between the Large Commercial Service ("LCS") and IHS classes on a revenue neutral basis and have continued to simplify those rate tables. Included across all rate classes is an increase in the usage charge which reflects an increase in both fuel and variable operating costs.

Third, we continue to work on other strategies (e.g., efforts to reduce costs, add new customers, increase sales, etc.) that are expected to produce future benefits and further mitigate our need for rate relief. Rather than rely on our existing regulated customers as the first source of covering our earnings shortfall, it has been and continues to be our goal and objective to implement additional strategies before seeking rate relief beyond our pending filing. We have had success on these fronts in recent years and are optimistic that continued success with pro-

[2] A Vacant Building Rider tariff was also eliminated without replacement.

active measures will help serve to further reduce the earnings shortfall resulting in reduced need for future regulated rate relief. The Company is again proposing to expand its service territory, as part of this rate filing, in order to provide an opportunity for Veolia to compete for existing and future business prospects in the downtown Kansas City area. This will be vital as the downtown area of Kansas City expands to the south and east to an extent that the original service territory could not have anticipated due to evolutionary technology and transportation and communication technologies that have taken hold in cities throughout the Midwest. Additionally, the nature and use of the downtown areas is going through a metamorphosis that will fundamentally change the size, scope and use of these downtown areas. To be successful, Veolia must position itself to serve these new customer types in existing areas and be able to reach potential new customers in the expanded areas of downtown Kansas City.

Unlike many other regulated services, Veolia must compete with other available options for 100% of the heating service it provides to its customers. Uniquely, Veolia is not only a competitor of other utilities, but Veolia is a competitor of the very customers we seek to serve as each customer has the ability to evaluate their own ability to develop solutions that serve their energy needs and weigh those against Veolia's value proposition. Veolia's proposal to limit its rate increase should moderate the impact on customers and help maintain its customer base, ultimately to the benefit of all ratepayers. With all of our customers having other options for space heating supply, it is critically important that Veolia undertake

reasonable steps and actions to manage costs, retain existing customers and attract new customers to district steam service all with the same set of rates

In some future rate proceeding, it may become necessary for Veolia to seek recovery of its full revenue deficiency, rather than continue to limit its requested rate increase. However, any subsequent rate proceeding would be commenced with an eye towards maintaining a high level of customer value and providing service that is competitive in the marketplace. Obviously, any future rate relief sought by Veolia would be based on a new test year.

Q. How is the Company proposing to implement the rate relief requested in this proceeding?

A. Veolia is proposing to recover the requested rate increase through the usage charge component of the tariff rates across all rate classes, with only revenue neutral changes to the demand charge components of the LCS and IHS tariffs. The proposed usage charge is driven primarily by variable production costs such as fuel (i.e., coal, natural gas and purchased electricity) and consumable (i.e., water, sewer, chemicals, etc.) expenses necessary to produce a unit of steam. In addition, Veolia proposes to include a portion of the fixed cost of operation in the commodity or usage charge.

Q. You previously referred to Messrs. Carver and Herz as Company witnesses in this proceeding. Other than yourself, please identify all witnesses that have filed direct testimony in this proceeding on behalf of Veolia.

A. The Company's direct filing in the current rate case is comprised of five witnesses in addition to myself. Those witnesses and the general subject of their respective testimonies are summarized below.

- Mr. Steven R. Weafer: Accounting, corporate services and cost allocations.
- Mr. Thomas Hardwick: Existing service territory, potential business opportunities and service territory expansion.
- Mr. Steven C. Carver: Revenue requirement.
- Mr. Joseph A. Herz: Class cost of service study.
- Mr. Stephen G. Hill: Capital structure and cost rates.

SUMMARY OF VEOLIA'S BUSINESS OPERATIONS

Q. What is the nature of the business of Veolia Energy Kansas City, Inc.?

A. Veolia Energy Kansas City, Inc. owns and operates the district steam system located in the central business district (i.e., principally in an area commonly identified as the "downtown loop") of the City of Kansas City, Missouri. Steam is produced at Veolia's Grand Avenue Station and distributed to approximately 50 district steam tariff customers through a network of approximately 6.5 miles of pipe buried in the streets of Kansas City. Veolia's customers typically use steam to heat and humidify buildings, heat domestic water, provide for hospital use and equipment sterilization, and for food service applications. Veolia's retail

customers include commercial and governmental office buildings, hospitals, hotels, and owners/managers of multi-unit residential buildings. One of the Company's tariff customers is Veolia Energy Missouri, Inc. (hereafter, "Veolia-Missouri" or "Veolia-MO"), the Company's unregulated affiliate, which utilizes steam for motive power in the provision of chilling service in downtown Kansas City.

Veolia also sells steam to two large industrial process steam users with physical locations outside of the current or anticipated downtown area. Steam is metered and sold to these industrial process customers before it leaves Veolia's plant and is delivered through separate, dedicated pipelines serving only those customers. All such steam is supplied under the terms of contracts separately negotiated between Veolia and each process steam customer.

Q. Please summarize the general load characteristics of the Company's current mix of customers.

A. Within the tariff customer base, significant variations exist in load characteristics and usage requirements. Some buildings, such as event spaces or conference centers, tend to have high peak demands relative to overall steam usage. Others have multiple uses for steam in addition to space heating. As such, their steam usage is spread more evenly throughout the year, as well as around the clock.

Q. Is Veolia also engaged in district cooling efforts?

A. No. However, Veolia's affiliate, Veolia-Missouri, provides chilling service to a number of buildings in downtown Kansas City.

Q. What is the nature of the business relationship between Veolia and Veolia-Missouri?

A. Veolia's relationship to Veolia-MO is essentially that of a lessor-lessee and vendor-customer relationship. Veolia-MO owns four chilling compressor units located at Veolia's Grand Avenue Station and also operates five chillers at the Bartle Hall Convention Center Complex. Two chilling distribution loops, termed the east loop and the west loop, are routed in the public rights-of-way. These originate at the respective production sites and are also owned by Veolia-MO.

Because the east loop chillers occupy plant space at Veolia's Grand Avenue Station, Veolia collects a lease payment from Veolia-MO keyed to the space requirements used at Grand Avenue. Further, Veolia-MO shares employees with Veolia. Timekeeping records are kept to attribute personnel costs between the companies. Operating and maintenance costs associated with running the Veolia-MO equipment are directly charged to Veolia-MO. Finally, Veolia sells steam to Veolia-MO for motive power to run the chilling equipment at full tariff rates. The specifics of cost allocation to maintain the separation of these separate business entities can be found in Veolia's Cost Allocation Manual, which is submitted annually to the Commission.

Q. Do any synergies exist between Veolia and Veolia-MO that would inure to the benefit of Veolia's customers?

A. Yes. As a winter-peaking utility, Veolia benefits from the improvement in load factor presented by Veolia-MO's complementary steam consumption, which takes place largely in the summer. Similar to the salutary effect that the process customers offer to the Veolia system and existing customers in terms of off-season, off-peak load, Veolia-MO also helps to flatten Veolia's steam load, while not imposing significant sustained additional peak demand requirements on steam plant assets in the high (winter) season. While the steam-driven chilling machines are in fact used to some extent in the winter, the nature of chilling load requirements in the winter months generally has an inverse relationship to heating (that is, steam demand) needs. Therefore, deployment of these steam machines is subject to greatly reduced use, and a high level of steam plant flexibility. For example, non-peak heating times and periods of warm, mild winter weather is generally the only time this chilling equipment sees use during the heating season. Operation of steam-driven chilling equipment in the non-cooling (winter) season is furthermore highly controllable by operators who ensure that chilling machines do not operate coincident with times of high space heating steam demand, rendering the effect of winter chilling steam demand inconsequential. Moderate customer chilling demand and the operating characteristics of Veolia-MO's chillers ensure that steam capacity for space heating customers, is not unduly affected by Veolia-MO's requirements.

GENERAL RATE STRUCTURE

Q. Are you sponsoring the rate structure proposed by Veolia?

A. Yes.

Q. How does the Company's existing rate structure compare to the structure of the rates proposed in this rate case?

A. Veolia has endeavored to keep the new rate structure similar to the current rate structure while updating that structure for our existing and potential customers. The primary change is associated with the percentage increases in the usage charge component of the tariff rates applicable to all rate classes. As mentioned previously, Veolia has proposed a revenue neutral restructuring of the demand charge structure in both the Large Commercial Service ("LCS") and Interruptible Heating Service ("IHS") rate schedules.

We have proposed new tariffs each of which will be discussed herein below:

a. Economic Development Rate Tariff

b. Capacity Reserve/Emergency Service

c. Production Adjustment Cost Clause

d. High-rise Residential Tariff

e. Special Contract Steam Service Tariff

Q. Does the Company propose to maintain the existing declining block structure of its tariff schedules?

A. Yes. Veolia's current tariffs include the LCS, IHS and the Standard Commercial Service ("SCS") rate schedules. While the Company proposes to retain the declining block rate structure, Veolia has modified the structure so that the LCS and IHS classes contain the same number of demand blocks or steps[3] and revised the percentage decrease between steps to reflect a more rational and understandable approach.

Q. Please identify the new tariffs Veolia is proposing as part of this rate filing.

A. As the Company continues to evaluate current and future business opportunities, Veolia has developed the following new tariffs for the Commission's consideration and approval:

- Economic Development Rate ("EDR") Schedule. The EDR tariff is designed to encourage the development of commercial business in the Company's service territory under terms that mitigate, to a degree, the initial cost hurdles faced by enterprises desiring to adopt or shift to district energy. The proposed structure is comparable to Veolia's competitors in the energy market – Kansas City Power & Light Company and Missouri Gas Energy.
- Capacity Reserve/Emergency Service ("CR/ES") Schedule. The CR/ES tariff enables a commercial business that is not currently a district steam customer, but physically located near the steam distribution system, to pay a reduced demand charge for purposes of reserving capacity on to the system. This tariff

[3] Under the currently effective tariffs, the LCS demand charge has four (4) steps and the IHS capacity charge has seven (7) steps. The Company proposes to revise both tariffs to reflect six (6) declining block steps to the demand charge, with each step based on an common interval of 3.0 thousand pounds of steam use of peak hour demand (mlb/hour of peak usage).

also explicitly provides for connection and provision of district steam service to a non-customer on a temporary or emergency basis while precluding a customer from using this rate to circumvent the applicable full tariff rate.

- Production Adjustment Cost Clause ("PACC"). The proposed PACC will track the difference between the variable costs of producing steam (i.e., fuel and consumable costs, etc.) included in base rates resulting from this proceeding and future actual costs incurred by the Company. Any quarterly cost variance would be recovered from customers in equal installments over a twelve month period.
- Residential High-Rise ("RHR") Schedule. The high-rise residential tariff would apply to new residential high-rise buildings and to those buildings that have converted or are undergoing conversion to residential living space where the building owner, manager or owner association desires separately metered service. Veolia has a need to introduce a Residential High-Rise tariff in order to enable us to address the changing face of the downtown area, to adapt to the new types of customers that require service in our service area and to give those customers more service options. This rate will benefit qualifying residential customers by offering an energy efficient steam energy product in the high density downtown area. Currently, our competitors offer a limited set of heating solutions to these high-rise residential customers, while locking them into long-term service commitments and obviating longer term benefits district steam service can offer to this new class of customers.

- Special Contract Steam Service ("SCSS"). The SCSS tariff expands our ability to address and retain existing customers with competitive options or unique circumstances that cannot be met by other tariff schedules.

Q. You previously indicated that Veolia is proposing to recover most of the revenue requirement through a usage, or volumetric charge component. Explain the reasoning behind this proposal.

A. Veolia currently charges a flat commodity rate (usage charge) $8.45 per thousand pounds (hereinafter "mlb" or "MLB") of steam sold to district customers to cover our variable costs and contribute to our fixed costs plus a demand type of rate designed to also cover a portion of our fixed costs.

This commodity rate (termed a "steam charge" or "usage charge" in the existing tariffs) was increased in each of the last two rate cases, but has not changed nor been adjusted for general inflation, changes in fuel and consumable costs, or for any other reason, between rate cases consistent with the Company's current tariffs.

Under both existing and proposed rates, this component of the Company's tariffs was and is intended to recover the variable cost of commodities in the form of fuel (coal, natural gas and purchased electricity), and consumables (mainly water, sewer charges, and water treatment chemicals) and variable operation & maintenance costs (i.e. that portion of the other costs of operation that vary with

increasing or decreasing loads) necessary to produce a unit of thermal energy for delivery to the customer. An example of a variable non-consumable O&M cost is maintenance requirements on a coal feeder and mill equipment and boiler floor refractory. Although these costs could be considered a fixed cost, the wear on them, and hence a portion of the maintenance cost, will vary directly with the quantity of coal that it must process.

Since our last rate case in 2011, Veolia has experienced an increase in most of our key cost elements. While Veolia has seen the price of coal and gas fluctuate since 2011, the delivered cost of water and water treatment, purchased electricity and sewer service have all increased. As an example, even a small increase of 3.5% annually results in an increase of more than 7% to 10% over a three-year period. Veolia's proposed usage charge reflects the cumulative effect of these cost increases plus a contribution to the fixed costs of providing steam service.

Veolia has a good understanding of the fixed costs that must be covered to adequately maintain and run our Kansas City Facility. We understand what our value proposition to the customer is and how to provide excellent value and service to our customers. We think we have a balance on the fixed asset side of the equation. What is keeping us chasing longer-term stability is the variable part of the equation. We are not only a competitor of other utilities in the area but we are also a customer. As such, we have seen repeated rate increases in the cost of gas, gas transportation, delivered cost of coal, purchased electricity and water and

sewer not to mention the standard commodities that increase over time due to inflation. Repeated increases in the rates we pay make our variable assumptions in our rates cases almost irrelevant within months after we set them. This conundrum impacts our budgeting accuracy and distracts us from growing our business. Allowing only these variable costs beyond our control to adjust with the market, both increasing and decreasing, would enable Veolia to focus its resources on better service, new customers and capital improvement to the plant while allowing the customer to benefit in decreases in fluctuating energy prices while clearly seeing the source of any cost adjustments Veolia is experiencing. In addition to the proposed PACC, Veolia fully expects to utilize general rate cases over time to address fundamental changes in the business, shifts in the business model and additional infrastructure needs.

Q. Please describe the usage charge component of the proposed rates?

A. The usage charge is a per-mlb charge that is billed to all customers. It appears as a separate charge under the LCS and IHS tariff, and it is incorporated into a volumetric structure as a component of the SCS tariff steam charge. Veolia has proposed a usage charge of $10.46 for each unit of steam sold to tariff district steam customers – a rate that covers our current variable fuel and consumable costs and variable O&M costs (i.e., variable production costs). Based on the Company's direct filing, this usage charge includes $8.30 representing the cost of energy and consumables necessary to produce one mlb of steam. The proposed

usage charge also includes a contribution to the fixed cost of labor, maintenance, other overhead costs or a return on our plant investment.

Q. Please explain this distinction between how the higher usage charge will be reflected in the overall rate structure?

A. All classes of customers would pay the usage charge of $10.46 for each mlb of steam consumed. Customers receiving service under the LCS and IHS tariffs (described below) see this directly as a line item on their bill. Customers receiving service under the SCS tariff also pay this $10.46 per mlb, but this usage charge component is integrated with an additional contribution to fixed charge recovery. The integrated volumetric charge is known as the "steam charge". The monthly bill for an SCS customer is made up of this steam charge and a monthly meter charge. In contrast, the demand charge elements of the LCS and IHS also include an additional contribution to fixed charge recovery. The rate structures are discussed in greater detail in the Rate Design section of this testimony.

RATE DESIGN

Q. You previously indicated that Veolia currently has three tariff schedules that are available to eligible customers – SCS, LCS and IHS. Please describe the Standard Commercial Service ("SCS") tariff.

A. The Company's smaller commercial customers, taking less than 5,000 mlbs of steam in a calendar year, do not qualify for the LCS or IHS tariffs, and receive steam under the Standard Commercial Service tariff. The steam service provided

to SCS customers is typically measured with meters that do not register demand use, but utilize condensate (drum) meter(s).[4] Therefore, the contribution to fixed cost recovery by an SCS customer is solely keyed to the total quantity of steam delivered, not steam demand. Veolia's existing and proposed SCS tariff rate enables recovery of costs related to steam capacity and other fixed costs through a volumetric steam charge.

In many cases, demand-registering steam flow meters are either impractical or not economically justified for smaller use customers, so drum (condensate) meters and steam flow meters remain in service for many customers. These devices cannot be economically refitted to measure a customer's true steam demand and work best as an accurate metering device for registering volumetric usage. For most SCS customers with usage patterns below a certain volume, the installation and proper registration of demand meters is impractical, impossible or not cost effective as these demand meters can be significantly more costly.

An advantage of the volumetric steam charge structure is that it links the amount billed to these smaller customers each month more closely in time to the period when they used actual units of steam. We continue to believe that this more simplified tariff structure has been attractive to our smaller customers since its introduction in the 2008 rate case, as SCS customers receive a bill with charges assessed closer in time and magnitude to the actual usage. For all classes of

[4] Condensate meters are typically used for the smaller customers due to considerations that include meter costs, available space on customer premises and/or small quantities of steam purchases.

customers, Veolia is also proposing that the applicable meter and/or customer charges continue to be assessed to accounts on a monthly basis.

Q. Please describe the Large Commercial Service ("LCS") tariff.

A. For the larger customers, defined as those customers taking greater than 5,000 mlbs of steam in a calendar year, Veolia meters and records hourly demand data, which is used to determine each LCS tariff customer's peak hour use for demand charge purposes over the previous 2 years. The peak-hour based demand charge is billed in equal monthly installments over the course of the year and is primarily associated with the recovery of fixed costs of providing service. Each LCS customer's monthly bill includes the recurring demand charge in addition to the usage charge applied to metered steam volumes and the meter charge.

Demand meters are, generally speaking, best-suited to those customers with relatively large overall steam requirements, defined generically as customers whose use or non-use can have an effect on the overall system and "capacity" to meet their peak demand must be available on the system. So it is important not only to know how much steam use they have over time but also their peak hour use. By extension, these customers are the ones to whom a demand-based rate applies.

The peak hour demand of larger volume users may materially affect Veolia's capacity to deliver steam, which supports the need for and availability of demand

meters that are required to support demand-based rates. These customers may be able to more proactively manage demand and limit their impact on the Veolia system.

These larger LCS customers have demand meters in place and the fixed rate portion of their bill is keyed to steam demand. In this rate case, Veolia proposes to first restructure the LCS rate steps on a revenue neutral basis to ensure the tariff is structured properly for all users and not targeted to benefit some users at the expense of others. In this way, the demand charge for all LCS customers will be based on regular declining-block rate steps that involve predictable discounts for additional use. Each customer will not only be able to understand what the affects of certain levels of usage are, compared to their bill, but will be able to plan for expansion and contraction of their service as their business model dictates.

Q. Please explain the Interruptible Heating Service ("IHS") tariff and the changes proposed to this customer class.

A. As noted previously, Veolia terminated two tariffs known as the Alternate Heating Source, or AHS, in its 2008 rate case. The AHS tariffs essentially offered a steep capacity charge discount to customers that maintained an operational boiler in standby condition. It attracted and retained customers for the Veolia system that had already invested capital in their own boiler system and could not economically switch to district steam without consideration for their investment. In the 2008 rate case, the two AHS tariffs (i.e., AHS Small and AHS

Large) were discontinued and customers were migrated to the new IHS tariff. In the 2011 rate case, the discount offered by the IHS capacity charge relative to the LCS demand charge was reduced, while continuing to maintain a significant discount.

The IHS capacity charge rate, while offering qualifying customers cost advantages relative to the SCS and LCS rates, requires the IHS customers to provide a return benefit to the overall steam system and customer base. This benefit is in Veolia's ability to interrupt service to the IHS customers in order to relieve the system from having to meet the steam demand needs of these customers in the event of capacity constraints experienced by Veolia. In order to remain qualified for the IHS rate, each IHS customer is required to have and maintain fully operable boilers. Despite the rate increases implemented in the 2008 and 2011 rate cases, this class of customers has continued to enjoy a steeply discounted rate for steam, as evidenced by the CCOSS sponsored by Mr. Herz.

However, Veolia must be mindful of the relative cost of providing service to each customer class, including the IHS class. In this rate case, Veolia proposes to restructure the declining-block demand rate steps on a revenue neutral basis and increase the usage charge that is applied to all customers, while being mindful of the unique and extremely beneficial capability interruptible customers bring to Veolia and the remaining customers on the system.

Notwithstanding any lack of eligibility for IHS service, Veolia believes its proposed rate tariffs, whether SCS or LCS as the case may be, will be sufficiently attractive to retain similarly-situated district heating customers.

Q. You indicated that Veolia is proposing to restructure the demand charge elements of the LCS and IHS tariffs. Please explain the proposed restructuring.

A. As a result of the last two rate cases, the Company has been able to achieve marked improvement in the design and structure of all of its tariffs, but particularly the LCS and IHS tariffs. However, in those prior rate cases, Veolia did not attempt to address the design of the LCS or IHS demand rate steps or the relative discount between each rate step to address uniformity, clarity and fairness to all customers. In communications with existing customers and new customer prospects, it has been challenging for Veolia representatives to explain the basis of or rationale for the existing demand/capacity rate structures, as set forth in the following table:

Present Rate Structure

LCS Demand Charge				IHS Capacity Charge			
	Mlb/Hour	$/mlb/hr	% Change		Mlb/Hour	$/mlb/hr	% Change
1st Block	first 3.0	$ 13,693.22		1st Block	first 3.0	$ 7,506.27	
2nd Block	next 2.0	$ 11,654.13	-14.9%	2nd Block	next 2.0	$ 8,062.29	7.4%
3rd Block	next 3.0	$ 11,362.97	-2.5%	3rd Block	next 3.0	$ 6,741.75	-16.4%
4th Block	over 8.0	$ 10,955.54	-3.6%	4th Block	next 2.0	$ 5,212.69	-22.7%
				5th Block	next 2.0	$ 3,961.65	-24.0%
				6th Block	next 3.0	$ 3,753.14	-5.3%
				7th Block	over 15.0	$ 3,614.14	-3.7%

It is difficult to relate the above table to any specific costs and/or service benefits that the rate blocks and varying step discounts might imply. As part of this rate filing, Veolia is proposing to restructure and move toward standardization of the demand charge elements of these tariffs so that each will contain six (6) uniform

rate blocks with improved consistency and fairness in the step discounts in the declining block rate structure, as follows:[5]

Proposed Rate Structure

LCS Demand Charge				IHS Demand Charge			
	Mlb/Hour	$/mlb/hr	% Change		Mlb/Hour	$/mlb/hr	% Change
1st Block	first 3.0	$ 13,693.22		1st Block	first 3.0	$ 7,506.27	
2nd Block	next 3.0	$ 11,639.24	-15.0%	2nd Block	next 3.0	$ 6,755.64	-10.0%
3rd Block	next 3.0	$ 11,348.26	-2.5%	3rd Block	next 3.0	$ 6,080.08	-10.0%
4th Block	next 3.0	$ 11,064.55	-2.5%	4th Block	next 3.0	$ 5,472.07	-10.0%
5th Block	next 3.0	$ 10,787.94	-2.5%	5th Block	next 3.0	$ 4,924.86	-10.0%
6th Block	over 15.0	$ 10,518.24	-2.5%	6th Block	over 15.0	$ 4,432.38	-10.0%

NEW PROPOSED TARIFFS

Q. You earlier identified and briefly described five new tariff schedules that the Company was proposing in this rate case – an Economic Development Rate ("EDR") Schedule, a Capacity Reserve/Emergency Service ("CR/ES") Schedule, a Production Adjustment Cost Clause ("PACC"), a Residential High-Rise ("RHR") Schedule and a Special Contract Steam Service ("SCSS") tariff. Why are these new tariffs necessary to sustain and promote Veolia's district steam operations in Kansas City?

A. The landscape in Kansas City has changed dramatically over the last decades. The number and types of businesses in the downtown area continues to change to include more office and residential space than industrial or light industrial space; work from home initiatives, advanced transportation and city planning are allowing areas outside of the main downtown area to become viable for additional

[5] See Schedule CPM-2, pages 2 and 3.

office, dense residential and commercial space; industry that would be a high steam use customer is moving toward the suburbs in part to find more accessible labor and in part at the urging of city planners who desire to clean up the downtown areas to promote a residential feel to the area. The general ongoing shift to a service economy has driven Veolia to fundamentally reevaluate the types of services that we can offer and the customer base that we can serve. These factors taken together mean that more people will be living in the downtown area, fewer office and commercial buildings will be in our service area and the developing areas that we could serve will be on the outskirts of our service territory. Our existing tariffs coupled with the new proposed tariffs are structured and designed to identify potential customers and provide services that will meet their needs.

Q. How do you envision that the proposed EDR, CR/ES, RHR and SCSS tariffs will better position Veolia to compete for new customers and energy sales opportunities?

A. The EDR is a specific response to the need that our customers have to blunt the capital investment it takes to install a new energy source or to shift to a more economically and efficient energy source like district energy. This fact has long been recognized by our competitors who already have programs to address this need. To continue to provide service, we must not only provide a compelling value proposition for the ongoing customers we serve but also provide a competitive solution for new system installation. While district energy gets

cheaper over time due to the lack of a requirement for repeated, significant capital reinvestment every 5-10 years, we must also be competitive at the outset to match the customers capital needs early in the process so that they can reap the benefits of our solution over the long term.

The CR/ES addresses potentially unique customer situations. As data centers and financial institutions and even residential buildings populate our service area, we anticipate that many of these buildings will desire a service that provides a reliable and tailor-able back up system, either due to the critical nature of their business or the clientele that they serve. Current solutions are limited for development. It is often not desirable for the developer to put in an oversized energy system because, while it provides excess capacity, it is still subject to the same failure of mechanical systems and is not a backup system. To install a second system for the purpose of backup only is tremendously inefficient from a number of aspects. A second system takes up commercial space that will detract from revenue generating uses for the developer, may result in the equipment running at low load which is inefficient from a cost perspective, may damage the equipment due to cycling over time, or the backup equipment may essentially be left in layup resulting in excess deterioration of the system itself such that it may not work when the time comes.

Improving our value proposition is the fact that electrical and gas supplies travel a much further distance and are much more exposed to the elements than our

underground system which, for all intents and purposes, is completely protected from the elements. As such, we provide a very robust backup energy proposition. The CR/ES tariff rate seeks to serve that customer while reflecting the fact that their need and use for our service is primarily as a backup for emergency purposes only.

The RHR service is strictly an acknowledgement that more and more buildings in and around our service area are converting and will convert to residential use to draw youth into the city center over the next several years and decades. This trend is being seen across the country as younger generations seek to be more socially connected and to avoid home/work commuting. It also acknowledges what our competitors have already known and implemented – that technology has developed to the point that it is possible to remotely monitor and bill residential customers without a significant manpower overhead. No longer is a building owner required to assess a utility bill to residential building apartments as these can now be monitored in real time either by a central monitor or wirelessly and the building owner can get out of the utility bill business that is significant extra work and headache for them. This niche has rapidly been filled by a series of companies that provide only this function for residential buildings.

While our service will not meet all residential high-rise applications, it will service the specific developer that desires to lower their initial investment and a developer that is targeting a more upscale resident that can afford a more

comfortable radiator heat system than the dry electric heat or heat pump application can deliver. We will also have traction with the discerning customer who realizes that rooftop heat pumps have a very limited life span and are not able to manage the temperature extremes that are becoming more and more common.

The SCSS tariff is proposed to expand our ability to address and retain existing customers with competitive options or unique circumstances that cannot be met by other tariff schedules. As the face of Kansas City shifts over time, we anticipate that the varied steam needs of current and prospective customers may not fit precisely with in the parameters of Veolia's then existing tariff schedules. The evolution of customer needs will present unique opportunities that, if we can develop a solution to serve, should provide steam sales opportunities and reduce the burden on the remaining tariff customers by spreading Veolia's fixed costs over a broader customer base.

Q. Has Veolia previously offered a residential tariff for individual residential customers?

A. No. For many years, Veolia has sold steam to building owners, managers or owner associations qualifying under either the SCS or LCS tariff schedules – the related steam sales were for the entire building, with the "customer" responsible for determining whether, how and to what extent the steam costs were recovered from individual building tenants, whether renters or owners. Veolia has been

contacted by building redevelopers interested in continuing district steam service as former office buildings and other commercial structures are converted to residential use. However, they are not interested in taking on the obligation of billing the residents for their utility costs themselves.

Veolia's inability to service this customer class leaves the developer with only one option and that is to design the building with all-electric service as the electric company is willing, able and has approved tariffs to offer such service to the customer. The RHR tariff will benefit the customer by encouraging competition and provide building developers with multiple energy options. Critically, we now see a future where our current commercial customers are being converted to Residential High-Rise buildings and so not only are we missing the opportunity for new customers we are losing current customers at the same time. The Residential High-Rise Schedule represents Veolia's proposal to meet the needs of the redevelopers and avoid the loss of a former steam customer building to either gas or electric service. The reality of these conversion projects is that, once steam piping and related facilities are removed during the conversion process, the building is permanently lost as a district steam customer.

Q. Has Veolia, or its predecessor in Kansas City, ever had a fuel adjustment clause or any form of a production cost adjustment clause for the district steam portion of its business operations?

A. No. While Veolia's competitors have long used this method to enable them to adjust to their spiraling costs, Veolia has been exposed to absorbing increases in fuel and consumable costs (i.e., variable production costs) that arise between rate cases attributable to its district steam operations. In contrast, the terms of the negotiated contracts between Veolia and its two process steam customers do contain provisions that provide for price changes as variable production costs increase and decrease over time.

Q. Why is Veolia now seeking to implement a PACC?

A. Failure to address this longstanding deficiency has been the primary cause of Veolia continuing to trail the market and an imbalance in the revenues needed to cover our fixed costs as well as our variable production costs. Additionally, the lack of a standard process to account for steadily risings costs and budget variation has distracted the Veolia KC team from developing new customer relationships to relieve the burden on the existing customer base. This spiral has reached a critical point at which we must institute these changes to allow us to focus on our core business and to prepare for the increasing volatile energy markets that will be driven by both sharply increased environmental regulation, government subsidy of renewable resources and the glut of natural gas for the first time coming from the east to the west due to the advancing technologies involved in fracking and shale gas.

Q. You previously stated that the proposed PACC would track the difference between the actual variable costs of producing steam (i.e., fuel costs, water and sewer costs, purchased electricity, chemical costs, etc.) relative to those costs included in base rates in this proceeding. Please explain why the proposed cost tracking mechanism should include fuel costs and consumable costs.

A. These are the basic elements that Veolia purchases to produce steam for its customers. They represent only what is directly required to produce one additional unit of steam, are largely beyond the control of Veolia and represent the most basic costs of producing steam. These costs are appropriately passed on to the customer. Additionally, many of these elements (i.e., gas, purchased electricity and water/sewer costs) are levied on Veolia by other utilities. Any failure to address these costs in real time is a two fold disadvantage in that Veolia is unable to manage its business properly while other utilities are doing so at the expense of Veolia's viability.

INDUSTRIAL PROCESS STEAM & RETAIL TARIFF CUSTOMERS

Q. In addition to the commercial building customers located in the downtown district that purchase steam service primarily for space heating and related uses, Veolia also serves industrial process customers with significantly different uses for the steam. Which customers are these?

A. Ingredion, Inc. (formerly National Starch and Chemical Co.) and Cargill, Inc. each operate industrial processing plants that make significant use of Veolia

steam for their respective purposes. At present, these two industrial process steam customers are the largest Veolia steam consumers. Ingredion, including its predecessor entities, has been a steam customer since the mid-1970's,[6] and Cargill has been a customer since mid-2006.

Q. Could you explain the distinction between industrial process steam customers and district steam customers?

A. Yes. The process customers utilize Veolia's steam to produce an agricultural end-product, for example corn starch in the case of Ingredion and soybean oil or biodiesel in the case of Cargill, rather than for space heating. In that sense, consumption is dictated by process requirements. This is in contrast to tariff-based space heating loads which, generally speaking, tend to be driven by ambient weather conditions, and the resulting need to heat the occupied spaces of buildings.

The nature of these agricultural product processes is such that steam is generally used around the clock virtually 365 days per year, at relatively large volumes, with more or less steady loading characteristics. With some notable exceptions, district tariff customers use steam predominantly during business hours in the winter season, with off-season and nighttime usage trailing off considerably. The primary exception to this would be tariff steam sold to Veolia's affiliate (Veolia-

[6] The steam transactions commencing in the mid-1970's were between National Starch and Kansas City Power & Light Company, the original owner of the district steam operations in downtown Kansas City.

Missouri) as an energy source to drive chilling compressors and to Truman Medical Center. As explained earlier in my testimony, chilling service demand is naturally highest in the summer when air conditioning demand is at its peak. Among other tariff customers, hospitals, hotels and residential buildings have nighttime usage and some level of off-season usage for miscellaneous purposes such as domestic hot water heating, laundry, sterilization or, in some cases, for their own chilling equipment.

Q. Explain the key differences in terms of delivery of service between process and district steam customers.

A. Tariff customers are physically located and use steam within Veolia's certificated service territory from pipes in the downtown area loop that is Veolia's steam network. Additionally, these tariff customers' use is metered at each customer's facility. All steam is provided to these customers according to tariff rates, rules and regulations approved by this Commission. As noted previously, tariff customers predominantly use steam for space heating purposes.

Conversely, the two process steam customers use steam for a quite different purpose, as described above. Further, the terms of service provided to these customers is determined by separate arms-length contracts negotiated between the Veolia and a sophisticated customer who is knowledgeable and experienced and retains indigenous legal, engineering and financial analysis departments.

From Veolia's perspective, these two process customers, that use the steam for internal purposes, are very similar in that they both take steam in substantial quantities and under comparable conditions and for similar processes. The steady steam consumption and load factor advantages imparted to Veolia's system for decades by Ingredion have been compounded by the addition of Cargill. As Messrs. Carver and Herz will establish elsewhere, Veolia's tariff customers receive substantial benefits by the contribution to fixed cost recovery by the process steam customers. Without these industrial customers, Veolia's rates to its tariff customers would see a significant increase.

Further, it is important to note that these process steam customers are not connected to Veolia's steam distribution network. Veolia's tariff steam distribution system originates at Grand Avenue Station and is delivered to a piping network that resides underneath public downtown rights-of-way that serve Veolia's tariff customers. The process steam customers purchase and take delivery of their steam directly from Veolia within the Grand Avenue production facilities, metered inside Veolia's Grand Avenue Station, according to terms and conditions arrived at through bilateral agreement between the parties. This means that the process steam customers directly bear the risk of line losses associated with delivery of steam to their premises, unlike retail tariff steam customers. Finally, the process customers also enter into long term agreements (upwards of ten to twenty years) that include fuel and consumables - related charges indexed to Veolia's actual cost of fuel and consumables and also take a contractual stake

in costs that Veolia may incur due to potential future environmental regulation that require capital investment in the plant in order to comply with regulations among other things.

Q. Earlier, you discussed the Company's provision of steam service to retail tariff customers and to industrial steam customers. How do the general load characteristics of Veolia's industrial process steam customers compare to its mix of retail steam customers?

A. The process steam customers consume large quantities of steam virtually around the clock, 365 days a year and are the largest customers, in terms of steam consumed, by a significant margin. During the test year which ended June 2013, the two process steam customers purchased more than twice as much steam as all tariff customers combined.

Q. How have the process steam sales been treated for ratemaking purposes in this case?

A. Veolia has taken the "revenue crediting" approach with regard to the process steam customers. That is to say that the margins generated under the process steam service contracts have been recognized in quantifying overall revenue requirement for purposes of this rate filing. In our financial modeling for this case, we have anticipated that both contracts will generate positive margins, thereby reducing our overall revenue requirement. However, if the process steam contracts were to cost more to perform than the fees they generate, the Company

would not seek recovery of any resulting deficiency through our proposed retail revenue requirement. Instead of the revenue crediting approach, other alternatives could have been used to remove the margins and allocate/assign costs to the industrial process steam customers or to recognize 100% of their revenues and costs in quantifying revenue requirement much like tariff customers. Because of the complexity of this process and the desire to ensure that district steam customers would not bear any costs to serve the process steam customers, the Company elected to continue the revenue crediting methodology proposed in both of its prior two rate cases, in an effort to further simplify this case and provide the regulated ratepayers with equitable treatment. Mr. Steven Carver of Utilitech will speak to this issue in greater detail.

Q. Does the presence of the process customers impart any positive effect upon Veolia, and how do Veolia's tariff customers benefit from Veolia's service to the process customers?

A. The presence of the process customers relative to the provision of steam heating service to tariff-based district customers is wholly beneficial. Without the steady, year-round requirements of the process loads, Veolia would not have the steam loading necessary to support consistent coal combustion, forcing primary use of higher-cost fuel much of the time and/or idling of coal capacity for as many as eight months out of each year, due to the seasonal (winter) nature of the district customers' usage. In other words, the presence of the process customers provides a relatively constant base-load demand, enabling Grand Avenue Station to operate

in a more efficient load range and lower unit cost-of-production mode over the entire year.

The presence of the process customers further serves to spread the fixed costs associated with owning, operating and maintaining power plant assets. As this Commission is aware, the energy utility business is capital and labor-intensive. This reality manifests itself in terms of a utility's fixed costs. The greater the number and larger the size of customers that can be connected to the system inures to the benefit of all customers by reducing each customer's share of fixed costs, thereby mitigating rate impact on existing tariff customers.

FINANCIAL STATUS AND PROSPECTS FOR THE FUTURE

Q. Describe Veolia's progress and plans to improve its financial situation.

A. Since its first rate case in 2008, Veolia has seen the addition of Truman Medical Center, an expansion at Cargill and the return of the Federal Bolling Building as a steam customer. Significantly, Veolia is producing more steam today than we ever have before. However due to aging infrastructure, the doubling in our cost of coal in the last 7 years and the new environmental regulations, these increased revenues driven by increased sales when realized have been offset by rapidly advancing costs. In addition, the Company has also lost a number of typically smaller customers due to the rehabilitation or repurposing of buildings within our certificated service territory and aggressive pricing by competitors. Overall, the net organic growth over the past five years has positively contributed to Veolia's

nascent turnaround efforts and enabled us to take this strategic step forward to address the underlying flaws in our model.

Also significant to Veolia's improvement plan is this rate case itself. Having held rates (i.e., tariff rates and depreciation rates) unchanged since November 2011 and having taken only partial rate increases since 1990, the Company is earning far less than its revenue requirement and must periodically adjust its rates and revise its tariff structure in order to move revenues toward the cost of providing service.

Through successful efforts to attract new customers in recent years, Veolia has successfully mitigated even larger potential rate increases for existing tariff customers. By adding new loads and associated revenues, Veolia has been and will continue to be able to spread its fixed costs over a broader base of customers, and continue to achieve fuel efficiencies by operating Grand Avenue at higher load levels. Overall, Veolia has worked diligently to provide value to its district steam customers through offering a relatively low cost energy option, without the recurring annual need for regulatory relief. Veolia has committed to address a significant portion of its earnings difficulties largely through increased sales and cost containment. Both Veolia and its existing, long-time tariff customers benefit from these successful efforts to reduce the revenue deficiency.

In addition to simply applying for revenue generation in a rate case, Veolia has strategically decided to modernize our rate structure to be competitive with our

competitors by including a Production Adjustment Cost Clause, developing tariffs that more accurately meet our existing customers needs through our Capacity Reserve and Emergency Service, designing new tariffs to accommodate our changing potential customer base such as our proposed Economic Development Rate and our proposed Residential High-Rise service, and expanding our territory to include areas where new customers can be found. And, Veolia has chosen to fundamentally simplify and clarify our tariff structures such that customers can not only be served accurately and effectively but can in turn understand the tariffs, plan their own budgets and be assured that the tariffs are logical and fair across all classes of service.

Q. You mentioned increasing steam loads that included adding Cargill as a process steam customer as well as Truman Medical Center. Please describe how you have addressed the steam capacity situation at Grand Avenue, before and after the addition of these significant new customer loads.

A. Veolia is producing and selling steam in far greater physical volumes than ever recorded in Veolia's history. Test year steam sales (physical volumes) are more than double those of 2005, which were roughly comparable to the flat-to-declining annual sales volumes experienced the prior fifteen years.

While such an increase in steam sales in such a short time frame may raise questions regarding the adequacy of steam capacity going forward, Veolia's installed steam production capacity at Grand Avenue is more than ample to serve

the new loads, while maintaining consistent and reliable service to Veolia's longstanding customer base. Veolia maintains more than 1,250,000 pounds per hour ("lb/hr") steam capacity at Grand Avenue Station. On a system peak load day following addition of these new customer loads, we have not experienced a total system demand exceeding 500,000 lb/hr steam production. On the distribution side, Veolia benefits from an extensive network of steam pipes that are sized, operated and maintained to ensure steam is reliably delivered to customers at specified temperatures and pressures.

Additionally, Veolia has put in place a long-term upgrade plan for the plant. In fact in the next 12 months Veolia will invest $2.5 Million in boiler upgrades alone to maximize their production capacity but also to maximize their reliability. This increased reliability is an equally important step as ensuring an adequate production by volume metric.

Additionally, with an eye toward the future and the long planning cycles required by utilities, Veolia introduced an interruptible rate (described above) in our 2008 rate case. This rate allows us to call on our customers to assist Veolia in shaving peaks or otherwise reduce steam demand to achieve overall system savings, when needed and if needed. To date, we have only called on these customers to reduce load on one occasion and that was due to equipment failure.

Nonetheless, implementation of this rate schedule allowed for integration of a valuable feature that exists in some buildings (i.e., the ability to produce steam by a customer to meet its own requirements), into a system-wide benefit, in return for rate treatment that recognizes this benefit.

Q. What other positive factors do you anticipate which may affect the business in the near future?

A. Growing customer awareness of the environmental impact of their energy supply choices is generally favorable for Veolia. Veolia utilizes combined heat and power, perhaps the most resource-efficient means to make use of fossil fuel, particularly in the realm of space heating and process thermal requirements.

Recognition of the superior environmental benefits of combined heat and power is real and growing. The US DOE, for example, encourages and promotes utilization of combined heat and power. Veolia believes that growing awareness of the need for conservation will raise the public's awareness and help drive the expanded deployment of combined heat and power technology, and encourage customers to choose Veolia. Veolia's simple cogeneration capacity adds significant efficiencies of scale, use of waste energy and minimization of resources required with the result that facilities that use cogenerated steam not only are the recipient of economic benefits but are also eligible for significant LEED credits with multiple benefits to both developers and municipalities. Additionally, the vast supplies of Shale Gas in the eastern United States has made

available a century's worth of affordable and importantly cleaner fuel for use through out the country. While Veolia historically had no choice but to purchase its gas from the southern United States, today gas is equally flowing from east to west providing competition in the fuel market that can only benefit Veolia's underlying cost but also its cost of service to its customers.

With much of the current focus on demand-side (i.e., customer-driven) efficiency gains, such as use of compact fluorescent lights and other consumer-side energy savings measures, it is interesting to note that cogeneration as practiced by Veolia is a very powerful and significant *supply-side* driver of efficiency. In large part, by virtue of heating production through fossil-fuel cogeneration, Veolia has accomplished a great deal of energy-conversion savings before the energy is even delivered to the customer. We believe that Veolia's inherently fuel-efficient process makes it a wise alternative, and recognition of this fact will grow over time.

Q Despite the favorable trends in the business at present, what are the challenges that Veolia faces going forward?

A. Veolia acknowledges that it is a very small niche player, relative to its competitors, and that we lack the scale and resources these other participants wield. Even though regulated by this Commission, each and every one of Veolia's customers has a competing option for space heating. If a Veolia customer requires electricity, they have one choice. If they require gas, they have

one choice. If they require heat, they have many choices: Veolia Steam, Electric Heat, Electric Heat Pumps, Gas Heat Pumps, Industrial Gas boilers or a self installed energy system. We are the sole utility that faces a bevvy of customer choices. Recognition that every customer has a choice motivates Veolia to provide the best value for our customers' energy dollars. Our success in essentially doubling the size of the business in only a few years, in the face of intense and highly resourceful competition, would seem to indicate a measure of success in getting this message across.

Given the nature of competition, Veolia's story of the past several years is not marked only by successes. Veolia by no means is able to connect every customer it pursues, and does experience some customer turn-over. Depending upon the attractiveness of deals, incentives or terms offered to prospective and/or existing steam customers by our competitors, Veolia will in some instances be unsuccessful in adding new customer loads, and/or retaining existing ones. Generally speaking, though, Veolia has been able to hold its own and, for the most part, sustain the advantage against its rivals, by demonstrating superior value for provision of space heating service to building owners and managers in downtown Kansas City.

Many challenges remain, and not all are external. Although Veolia will benefit from the expanded customer base in covering system fixed costs, maintenance of the boilers, turbines, balance of plant and distribution assets will continue,

requiring ongoing capital investment and upkeep. While not yet fully defined, the EPA's Boiler Maximum Achievable Control Technology (MACT) rules may require Veolia to make significant new investment in major energy production equipment.

SERVICE TERRITORY EXPANSION

Q. Are you familiar with the fact that the rate Application filed by Veolia (Case No. HR-2014-0066) included a request for the Commission to authorize the expansion of its certificated service territory to include additional areas generally extending to the south and to the northeast of the Downtown Loop?

A. Yes. In conjunction with Mr. Hardwick, I am the Veolia representative responsible for considering and evaluating the need and feasibility of the proposed expansion. In general terms, Veolia is seeking to expand its certificated service area southward to 27th Street between Interstate 35 and The Paseo and to the northeast of the Grand Avenue Station. These areas are more specifically identified and described in Schedules attached to the direct testimony of Mr. Hardwick.

Veolia's existing rates and regulations for steam heating service, as contained in the tariffs currently on file with the Commission and as proposed in this rate case, will apply to all district steam service in the new areas. At this time, Veolia is not aware of any pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court within the past three years that involve

customer service or rates, and has no annual report or assessment fees that are overdue.

Q. Is there a need for district steam heating service in the proposed expansion area?

A. Yes. At the present time, central district steam heating service is neither available nor offered by any regulated or non-regulated entity in the proposed expansion area. Although certain businesses may maintain and operate their own boilers to produce steam for their own use, Veolia's proposed expansion would provide a low-cost alternative energy supply source to meet heating requirements. District steam heating will provide a competitive option to commercial and institutional users of steam, enhancing customer choice and promoting economic development through potentially substantial cost savings. Veolia's steam service differs from other commodity energy supplies in that it arrives at the customer's site in finished form (i.e. steam heat), ready for use by the customer. It affords potential customers the opportunity to leave the business of steam generation to others with expertise in the area and focus on their core competencies - that is, directing resources and efforts to their respective businesses or service enterprises. It also protects them from having to manage their environmental impacts from energy produced by onsite boilers, increase available foot print, allows a higher end and more reliable heating system, obviates the need for exhaust stacks in the building design and banks for Heat Pumps in mechanical rooms or on roofs.

Q. Is Veolia qualified to provide district steam service in the proposed expansion areas?

A. Yes. Veolia has been providing district steam service in its currently certificated service territory for many years. The nature of the steam service to be offered in the expansion areas will be identical and Veolia has a proven track record of providing district steam service in Kansas City's neighboring Downtown Loop. Veolia is eminently qualified to provide such service, which represents the Company's core competency.

Q. Does Veolia possess the financial ability to provide district steam heating service in the proposed expansion area?

A. Yes. Veolia currently has steam pipelines that provide access to both geographic areas and has sufficient capital to finance any additional plant investment required to connect new customer load that can be feasibly serviced in the proposed expansion areas, consistent with the Company’s existing tariffs and rules.

Q. Is the proposed expansion economically feasible?

A. Yes. Although a feasibility study was neither prepared nor required for purposes of this extension request, Veolia already owns steam distribution lines that may be used to serve customers in the southward expansion (i.e., pipeline constructed beneath Interstate 70/670 continuing southward to service Truman Medical Center and existing distribution facilities serving the Bartle Hall Expansion that spans over Interstate 70/670) and the northeast expansion (i.e., pipeline that

provides process steam service to Cargill, Inc.) areas. In addition, Veolia manages new expansion costs against the long term partnership and future revenues that a new customer or a cluster of customers can generate. These projects pay for themselves well before contract expiration. Also, Veolia is committed to strategic expansion that is not justified necessarily by the known customers at a given time, but by potential by core activity and customers that could justify the investment.

Veolia's current General Rules and Regulations also contain language that provide guidance to ensure that district steam service is only required to supply service to new customers when doing so is economically feasible:

> **ARTICLE 3. SUPPLYING STEAM SERVICE**
>
> Article 3.1 SUPPLYING OF STEAM SERVICE. Except as otherwise provided by Rule 9 hereof, steam service will be supplied by the Company under an available rate schedule at or below 185 psig and only at such premises or buildings as are adjacent to existing system facilities of the Company which are adequate and suitable, as to capacity, pressure, temperature and other characteristics, to supply steam service for the requirements of the Customer, unless special arrangements are made between the Customer and the Company. Upon application by the Customer, the Company may permit separate buildings or adjoining tracts of land owned or occupied by the Customer to be served by the Company through a single point of delivery.
>
> [Veolia Energy Kansas City, Inc., P.S.C. MO. No. 2, 1st Revised Sheet No. 10]

> **ARTICLE 9. EXTENSION POLICY**
>
> The Company may at its option and in its discretion supply steam service at buildings or premises not adjacent to any of its existing system facilities, as described in Rule 3.1, in accordance with the following extension policy:

> Each application to the Company for steam service to any building or premises requiring extension of the Company's existing system facilities will be studied by the Company, as received, in order that the Company may determine, with regard to such extension, the amount of investment warranted, and the term of service agreement to be required by the Company. In making such determination, full consideration will be given to the requirements and characteristics of the Customer's load, and the estimated annual revenue to the Company from the Customer. In the absence of special arrangements between the *(notation omitted)* Customer and the Company, any cost of such extension in excess of the investment warranted by the Company shall be paid by the Customer to the Company prior to the commencement of construction of such extension.
> [Veolia Energy Kansas City, Inc., P.S.C. MO. No. 2, 1st Revised Sheet No. 28 and 2nd Revised Sheet No. 29]

When and if potential customers apply for steam service and qualify for addition to the system, the economics of the connection must be reviewed and evaluated. Since the construction of new major distribution pipelines are expected or anticipated at this time and the requirements of Articles 3.1 and 9, the Company expects any new customer added to the district steam system will be accretive to the earnings of Veolia and should enhance the Company's ability to recover the total cost of providing utility service.

Q. In your opinion, will the offering of district steam heating service in the proposed extension areas promote the public interest?

A. Yes. Veolia is ready, willing and able to provide cost-competitive district steam service in the extension areas. Enhanced customer choice and the opportunity to switch to a less costly energy alternative, such as district steam, is a means to promote economic development in the extension areas. As discussed in the direct testimony of Mr. Hardwick, Veolia has been contacted by interested parties in

both extension areas about the availability of steam service to meet future business needs. By granting the requested extensions, current and future steam users in the extension areas will have the opportunity to choose the provision of steam in its finished form, rather than be limited to using either natural gas or electricity as energy sources to support the on-site self-generation of steam for private use. The public interest will be served by allowing interested and qualifying steam users to also consider Veolia as the supply source for economical district steam service.

Q. What circumstances led to Veolia's decision to seek Commission authority to expand its Certificate of Convenience and Necessity?

A. Recent business opportunities in publicly announced construction and development projects in these areas make it imperative we adapt to the changing nature of Kansas City. Coupled with the expressions of interest in district steam service by parties associated with the potential projects, Veolia began considering what steps might be required for the sale of potentially large volumes of economically priced district steam that would result in a win-win situation for both the new projects and for Veolia.

While Veolia has participated in those discussions, Veolia was unable to engage in serious talks since the development projects were outside the Company's certificated service territory. Based on those discussions and Veolia's desire to provide economic district steam service whenever feasible, the Company decided

to request expansion of its certificated territory so that discussions with interested parties could proceed while the development projects were in the planning stages. Since the Company already was planning on filing this rate case, it made logical sense to incorporate the extension of its service territory in this rate case.

Q. What is the impact of the prospective expansion of the territory and addition of potential new customers on Veolia's existing customer base?

A. There would be no need for the Company to undertake new capital projects nor would there be any impact on its existing customer base. As these developments take shape and when and if new customers are connected to the district steam system, the impact on Veolia's existing customer base would be uniformly beneficial, whether evaluated in terms of economics, system operations, or system reliability. The tariff revenue realized from serving any new customers will cover variable costs and provide a measurable contribution to Veolia's fixed costs further delaying the need for subsequent rate cases. Spreading Veolia's fixed costs over a larger customer and sales base will help ameliorate the fixed cost burden that would otherwise be placed on existing customers.

Q. Please identify the potential projects about which Veolia has received district steam service inquiries.

A. These will be addressed in Mr. Hardwick's testimony.

Q. Has the Company recognized any proforma costs or sales in this rate case attributable to these inquiries or more generally related to the service territory extensions?

A. No.

Q. Does Veolia have sufficient boiler capacity to meet its existing steam requirements and satisfy the steam requirements of additional customers?

A. Veolia's steam distribution network has ample capacity to satisfy the anticipated requirements. A number of years ago, the Company's steam distribution network reportedly served as many as 400 different accounts with hourly steam distribution demands significantly more than those experienced currently. The primary elements of that distribution network remain in place and remain capable of serving increased load.

Q. How will the extension benefit existing customers in terms of system operations and system reliability?

A. Without committed projects and identifiable customer additions in the extension areas, it is difficult to specifically quantify the impact on system operations and system reliability. However, system operations are expected to improve with additional customers and additional steam load on the system, because district steam can be produced more efficiently and line losses are reduced at higher steam loads. While the load characteristics of potential new customers are unknown at this time, no new or incremental costs will be incurred prior to

determining the economics associated with a potential new customer. Benefits from added customers are expected to produce real economic savings to existing customers in several respects.

First, the addition of new customers, particularly high load factor customers with significant annual steam requirements, will allow Veolia's boiler capacity to operate in a more favorable and efficient load range during the Company's typical shoulder months and summer season. We anticipate that most, if not all, of the additional steam production will further support coal-fired steam production, further constraining the percentage of historically expensive natural gas combusted in Veolia's boilers.

Second, an increase in steam throughput should also produce tangible benefits by proportionally increasing the highly efficient production of back-pressure turbine-generated electricity. The increase in self-generated electricity is expected to help reduce Veolia's annual purchase requirements and result in increased sales of low cost incidental electricity.

Third, any significant use of steam in off-season or non-heating months will also help drive down the proportion of distribution steam losses. During the summer months, Veolia experiences a relatively high distribution system line loss, as a percentage of total steam sendout, because the Company must keep the distribution system adequately pressurized at all times. Increased summer month

sales would allow Veolia to more efficiently use its distribution system and reduce the relative line loss percentage and the cost of providing district steam.

Q. In your opinion, does Veolia face space heating competition in the Downtown Loop and, if so, do you expect similar competition will exist in the proposed expansion area?

A. Yes. Veolia competes with both Missouri Gas Energy ("MGE") and Kansas City Power & Light Company ("KCP&L"), for space heating load in the existing and proposed service territory. Significant increases in retail gas and electricity costs tend to improve Veolia's competitive position, despite the fact that this is the third time Veolia has found it necessary to increase its rates since 2008.

Further, there are a significant number of customers with natural gas heating equipment who may never consider district steam due to the cost of conversion or disruption that conversion would cause. In addition, KCP&L's commercial space heating rate is a primary price competitor for Veolia's steam service. KCP&L's marketers are believed by Veolia to be very active, with varying degrees of success, in trying to persuade Veolia's downtown customers to migrate from district steam heating to electric heating service. However, for potential new customers with steam requirements, Veolia believes that KCP&L cannot economically offer such a customer with an economically viable energy alternative by selling electricity to generate steam heat. Such an approach should be expected to potentially add additional kW demand load to KCP&L's network

in the summer season, depending on an individual customer's steam requirements. Veolia understands that even under KCP&L's own regulatory plan, incremental summer electrical demand loading should be discouraged due to the peak nature of their customer load, and particularly so when a more customer-economic alternative exists.

Q. Assuming Commission approval of the extension proposal, how will Veolia ensure the safety of existing natural gas distribution mains and other buried utility facilities during the construction and installation of any steam mains, distribution lines or other buried steam facilities?

A. Steam mains and natural gas mains, as well as other utility facilities and structures, have been installed underground next to each other in Downtown Kansas City for the better part of a century. It is a routine matter to excavate and install steam mains in public rights of way within a few feet of existing gas mains, whether the utilities' mains run parallel with each other or cross one another. Within Veolia's existing service territory, steam line excavation and installation work has been performed periodically with steam mains and other underground facilities placed in close proximity to existing natural gas facilities. During such installations, including the line extension to serve Truman Medical Center, Veolia, and/or Veolia's contractors, are obligated to adhere to all applicable safety regulations covering all applicable areas of the work, including OSHA standards for worker safety. Such requirements demand that sheeting and shoring of excavation cuts and/or sloping of excavation sides are properly implemented.

During all excavation activities, not less than one OSHA-defined "Competent Person" has been and will be on site at all times. Veolia or its contractor, as installer, is also obligated to ensure that proper traffic control measures, as required by MODOT and KCMO, are followed. Similarly, welders, equipment operators, laborers, etc. will all be required to have the necessary qualifications and certificates, as applicable, to perform their particular trade. In addition, engineering controls will be used to maintain structural support of neighboring pipelines and structures, when and if such measures become necessary.

Regarding the construction and installation of distribution utility facilities in urban public rights-of-way, all work by its very nature takes place in close proximity between and among a host of utility services, not only steam and gas service but also electric conduits, water and sewer mains, telephone, fiber-optic and other communication structures, among others. It is the obligation of those responsible for performing such work, including Veolia, to adhere to those standards for traffic control, excavation, construction activities inside the trench and/or excavated area, backfill and street restoration.

Q. To the extent that questions might be raised about the possible location of steam distribution lines near existing natural gas facilities in the expansion areas, how would Veolia alleviate these concerns?

A. Again, it must be emphasized that steam distribution mains and natural gas distribution mains have co-existed, in many cases side-by-side, on virtually every

street in which Veolia steam mains are currently located. 100% of Veolia's existing service territory in the Downtown Loop and the extension area serving Truman Medical Center is shared with both Missouri Gas Energy and Kansas City Power & Light. These systems have shared the rights-of-way within that defined area for many years. Furthermore, there is nothing unusual in the routing of natural gas and steam utilities in close proximity to one another in numerous other cities around the country.

In Kansas City, the coexistence of steam and natural gas mains has existed for decades. Veolia's distribution drawings, not to mention actual field experience, support that these utility facilities are often located and routed side-by-side. Ongoing construction, operation and maintenance of both services occur regularly, and will presumably continue well into the future. The overwhelming conclusion Veolia reaches is that it is common for steam mains and facilities to be constructed in close proximity to gas mains and facilities. This will continue to be the case in the proposed expansion areas as well. Any future construction by Veolia will proceed in the proposed certificated areas using a standard of due care, as it has historically, in any instances of interference with all neighboring utilities, including natural gas.

Q. In your opinion, would the installation of steam mains near gas cast iron ("CI") or polyethylene ("PE") mains in the proposed expansion areas be any different than areas currently served by both MGE and Veolia for many years?

A. No. To my knowledge, a significant number of MGE gas mains located in the territory that is currently served by Veolia are believed to be CI, but we possess limited details regarding the specific type of MGE installed mains. Similarly, we believe there may be PE gas mains within the current common or overlapping service territory, but again we have little specific knowledge of the length or location of such mains. To the extent that Veolia plans, constructs and installs new steam mains and facilities in the proposed extension areas may raise specific concerns about potential damage to neighboring natural gas CI mains, Veolia will excavate and install its steam facilities with the industry-standard level of care outlined above. Any street construction activity that may be undertaken by Veolia will create no more potential for harm to existing underground facilities than any other utility construction activity, e.g. electric, sewer or water construction.

With respect to CI or PE gas mains that may already be routed in the proposed expansion areas, Veolia is committed to use great care to confirm the location of such facilities and attempt to route any new steam facilities at a distance adequately removed from the gas lines. In the event the avoidance of routing in close proximity or crossing of existing natural gas lines is impractical or impossible, Veolia intends to work closely with MGE when and if concerns arise relative to unavoidable interference with such facilities. Veolia will undertake all necessary engineering, design and construction measures to alleviate reasonable concerns and ensure a safe installation to the satisfaction of both parties.

Although Veolia distributes steam at high temperature, it is not hot enough to ignite natural gas. Utilities that are already permitted to share the expansion areas with natural gas distribution, for example electric transmission and distribution facilities, can create enough heat during an unusual failure condition to cause combustion of neighboring gas that may have escaped by some means, however unlikely such an occurrence may be. For that reason, Veolia would argue that no greater hazard is posed by the routing of steam lines or facilities near gas lines than the routing of electric lines near gas lines.

Q. How does Veolia plan to ensure safe operation of its new underground facilities once they are installed, pressurized and placed in service in the proposed extension areas?

A. All efforts to assure the safe and reliable operation of the new steam mains and facilities begin with selection of materials, fittings and structures. Veolia has and will continue to use a pre-insulated piping product that minimizes thermal losses and protects the carrier pipe from water intrusion. This product is essentially a pipe within a pipe that contains an integral insulation layer and minimizes energy loss under most circumstances. The outer temperature of the conduit system should be in the range of 112 degrees Fahrenheit.

Fittings to compensate for thermal pipe expansion will be either slip joints or externally pressurized bellows joints with piping anchors designed to withstand thermal and pressure thrust loading constructed of concrete and steel. Manholes

for personnel access will be constructed per Veolia specifications, consisting of steel reinforced concrete designed to withstand vehicular street loading. All system low points will be fitted with traps to evacuate condensate. Isolation valves will be located and installed in the system as necessary. In essence, the expansion piping will meet the standards of Veolia's existing distribution network which is in close proximity to existing natural gas mains within Veolia's current territory.

Q. Other than the Commission's authorization to expand its certificated service territory, does Veolia require any additional franchises or permits from municipalities, counties or other authorities to undertake construction in the proposed extension areas, other than routine railroad, road crossing and construction permits?

A. No. Veolia has a valid, up-to-date franchise with the City of Kansas City, Missouri to install and operate steam facilities, including the proposed expansion areas. Prior to commencement of any pipeline construction and following design and evaluation of optimal routing issues, Veolia will file requests for any necessary municipal street opening, railroad crossing and MODOT crossing permits, as necessary.

Q. Has Veolia had any contact with the representatives from Kansas City, Missouri, or Jackson County, Missouri regarding the proposed expansion?

A. Yes. Veolia has been in contact with representatives of the City of Kansas City regarding the prospect for business development in the proposed expansion areas.

Q. Other than the possibility that intervenors in this proceeding or Staff or the Office of Public Counsel may ultimately oppose the requested service territory expansion, are you aware of any individual, group or entity that is opposed to Veolia's proposal?

A. No.

FUEL & CONSUMABLES

Q. Are you aware that Veolia's overall revenue requirement includes adjustments that annualize fuel and consumable expense?

A. Yes. Mr. Carver, Mr. Dickerson[7] and I have worked together in order to develop a reasonably straightforward method to annualize fuel and consumable expense.

Q. Did you and/or Mr. Dickerson provide historical information that was used in the annualization of fuel expense?

A. Yes. Mr. Carver was provided with statistical data regarding historical fuel mix, unit efficiency and line loss. Based on this data, we developed a quantification methodology that considers the key elements of our operations and reflects attainable efficiencies with our expanded steam load.

[7] Mr. Timothy Dickerson is the plant manager at the Grand Avenue Station..

Q. Did you also provide Mr. Carver with information to support recent delivered costs for coal and gas?

A. Yes. Veolia has not based its fuel annualization on forecast or estimated fuel costs. Instead, we annualized fuel expense based on prices for gas and delivered price for coal in late 2013.

Q. Is Veolia proposing any type of fuel clause or fuel tracking mechanism be implemented for the Company's retail tariff customers?

A. Yes. Veolia's cost of fuel, and consumables, can be somewhat volatile and tends to increase over time. As discussed previously, Veolia has proposed a PACC as part of its filing in this rate case.

Q. Does this conclude your direct testimony?

A. Yes.

VEOLIA ENERGY KANSAS CITY
CASE HR-2014-0066

NAMES OF COUNTIES AND COMMUNITIES AFFECTED

JACKSON COUNTY, MISSOURI

CITY OF KANSAS CITY, MISSOURI

Schedule CPM-1

VEOLIA ENERGY KANSAS CITY
CASE NO. HR-2014-0066
AGGREGATE ANNUAL INCREASE, INCREASE BY RATE CLASSIFICATION,
NUMBER OF CUSTOMERS AND AVERAGE INCREASE BY RATE CLASSIFICATION

Line No.	Current		Proposed		Proposed Change		Number of Customers	Average Monthy Increase	
	Tariff/Class	Tariff Revenues	Tariff/Class	Tariff Revenues	Amount	Percent		Amount	Percent
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	Standard Commercial Service (a)	$ 524,088	Standard Commercial Service (a)	$ 579,819	$ 55,732	10.6%	22	$ 211.10	10.6%
2	Large Commercial Service (a)	5,400,522	Large Commercial Service (a)	6,176,943	776,421	14.4%	18	$ 3,594.54	14.4%
3	Interruptible Heating Service (a)	1,011,396	Interruptible Heating Service (a)	1,179,316	167,920	16.6%	10	$ 1,399.34	16.6%
4	Total	$ 6,936,005	Total	$ 7,936,078	$ 1,000,073	14.4%	50		

VEOLIA ENERGY KANSAS CITY
CASE NO. HR-2014-0066
SUMMARY COMPARISON OF CURRENT AND PROPOSED RATES

Current Tariff Rates			Proposed Tariff Rates		
Standard Commercial Service			**Standard Commercial Service**		
Steam Charge (per Mlb)			Steam Charge (per Mlb)		
First 5 Mlbs (a)	$	22.42	First 5 Mlbs (a)	$	24.43
Next 20 Mlbs (a)	$	21.19	Next 20 Mlbs (a)	$	23.20
Next 75 Mlbs (a)	$	18.50	Next 75 Mlbs (a)	$	20.51
Over 100 Mlbs (a)	$	16.84	Over 100 Mlbs (a)	$	18.85
Meter Charge (monthly)			Meter Charge (monthly)		
First Meter	$	75	First Meter	$	75
Each Additional Meter	$	50	Each Additional Meter	$	50
Large Commercial Service			**Large Commercial Service**		
Usage Charge (per Mlb)	$	8.45	Usage Charge (per Mlb)	$	10.46
Annual Demand Charge (b)			Annual Demand Charge (c)		
First 3 Mlbs/Hour	$	13,693.22	First 3 Mlbs/Hour	$	13,693.22
Next 2 Mlbs/Hour	$	11,654.13	Next 3 Mlbs/Hour	$	11,639.24
Next 3 Mlbs/Hour	$	11,362.97	Next 3 Mlbs/Hour	$	11,348.26
Over 8 Mlbs/Hour	$	10,955.54	Next 3 Mlbs/Hour	$	11,064.55
			Next 3 Mlbs/Hour	$	10,787.94
			Over 15 Mlbs/Hour	$	10,518.24
Meter Charge (monthly)			Meter Charge (monthly)		
First Meter	$	100	First Meter	$	100
Each Additional Meter	$	50	Each Additional Meter	$	50

(a) Steam charge rates, billed monthly, includes all customer usage charges.

(b) Annual demand charge rates, billed monthly, based on higest peak-hour demand during the two preceding, completed December - March time frames.

(c) Annual demand charge rates, billed monthly, based on higest peak-hour demand during the two preceding, completed November - March time frames.

VEOLIA ENERGY KANSAS CITY
CASE NO. HR-2014-0066
SUMMARY COMPARISON OF CURRENT AND PROPOSED RATES

Current Tariff Rates

Interruptible Heating Service

Usage Charge (per Mlb)	$ 8.45			
Annual Capacity Charge (a)	Base		Per Add'l Mlb/hr	
First 3 Mlbs/Hour	n/a		$ 7,506.27	
Over 3 & Less than 5 Mlbs/Hour	$ 22,518.81	plus	$ 8,062.29	
Over 5 & Less than 8 Mlbs/Hour	$ 36,002.30	plus	$ 6,741.75	
Over 8 & Less than 10 Mlbs/Hour	$ 51,640.37	plus	$ 5,212.69	
Over 10 & Less than 12 Mlbs/Hour	$ 59,563.66	plus	$ 3,961.65	
Over 12 & Less than 15 Mlbs/Hour	$ 67,069.93	plus	$ 3,753.14	
Over 15 Mlbs/Hour	$ 77,912.32	plus	$ 3,614.14	
Meter Charge (monthly)				
First Meter	$ 100			
Each Additional Meter	$ 50			

Proposed Tariff Rates

Interruptible Heating Service

Usage Charge (per Mlb)	$ 10.46			
Annual Demand Charge (b)	Base		Per Add'l Mlb/hr	
First 3 Mlbs/Hour	n/a		$ 7,506.27	
Over 3 & not Over 6 Mlbs/Hour	$ 22,518.81	plus	$ 6,755.64	
Over 6 & not Over 9 Mlbs/Hour	$ 42,785.73	plus	$ 6,080.08	
Over 9 & not Over 12 Mlbs/Hour	$ 61,025.97	plus	$ 5,472.07	
Over 12 & not Over 15 Mlbs/Hour	$ 77,442.18	plus	$ 4,924.86	
Over 15 Mlbs/Hour	$ 92,216.76	plus	$ 4,432.37	
Meter Charge (monthly)				
First Meter	$ 100			
Each Additional Meter	$ 50			

(a) Annual capacity charge rates, billed monthly, based on peak-hour use during immediately preceding, completed December-March heating period.

(b) Annual demand charge rates, billed monthly, based on peak-hour use during immediately preceding, completed December-March heating period.

High Level Overview of Rate Case

Veolia is requesting to increase over all rates, rebalance demand charges to ensure equality among classes and introduce additional tariff offerings.

1. Veolia is proposing to increase the usage charge billed to customers by $1 million per year, for an average overall increase of about 14.4%.
2. Veolia is proposing to add several new tariffs:
    a. Economic Development Rate ("EDR") tariff to enable customers to transition to our system while recognizing some the initial start-up or conversion costs may be incurred and competing with other utilities that offer a similar Economic Development Rate;
    b. Capacity Reserve / Emergency Service ("CR/ES") tariff to serve customers with back-up or emergency energy needs but which draw their energy primarily from other sources;
    c. Residential High-Rise ("RHR") tariff to enable us to serve an additional customer class; and
    d. Special Contract Steam Service ("SCSS") tariff to expand our ability to address unique circumstances that cannot be met by other tariff schedules.

2. Additionally, Veolia is proposing to alter existing tariffs:
    a. Reopen our IHS rate to serve additional customers with aging equipment;
    b. Expand our Tariff Zone to adjust to the use and scope of the expanding downtown area of Kansas City not envisioned when the current Tariff Zone was established; and

c. Rebalance our IHS and LCS demand charges to make them more logical, easy for customers to understand and budget for.

3. Lastly, Veolia is proposing to provide similar options to other utilities in the area by introducing Production Adjustment Cost Clause ("PACC") to account for the increasing costs of production over time, budget more effectively and provide better service to our customers.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter Of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No.HR-2014-0066

AFFIDAVIT OF CHARLES P. MELCHER

STATE OF MISSOURI	)
	) ss
COUNTY OF JACKSON	)

I, Charles P Melcher, being of lawful age, on my oath states as follows:

I participated in the preparation of the foregoing Direct Testimony in question and answer form to be presented in the above case;

I provided the answers in this Direct Testimony;

I have knowledge of the matters set forth in such answers; and

The information presented in this Direct Testimony is true and correct to the best of my knowledge and belief.

Charles P Melcher

Subscribed and sworn to before me this 26 day of November, 2013.

"OFFICIAL SEAL"
VALERIE BURRELLE
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12/30/2014

Notary Public in and for the State of Illinois

[Notary Seal/Stamp]

My commission expires: 12/30/2014