

Exhibit No.:
Issues: Rate Design
Revenue Allocation Method
Witness: Gary C. Price
Type of Exhibit: Surrebuttal and Cross
Surrebuttal Testimony
Sponsoring Party: DOE-NNSA
Case No.: ER-2006-0314
Testimony Date: October 6, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-0314

PUBLIC VERSION

SURREBUTTAL AND CROSS SURREBUTTAL TESTIMONY

OF

GARY C. PRICE

ON BEHALF OF

**THE DEPARTMENT OF ENERGY – NATIONAL
NUCLEAR SECURITY ADMINISTRATION**

**Kansas City, Missouri
October, 2006**

“** [REDACTED] **” Designates “Highly Confidential” or “Proprietary”
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Pursuant to the Standard Protective Order

1 **SURREBUTTAL AND CROSS SURREBUTTAL TESTIMONY**
2 **OF**
3 **GARY C. PRICE**
4 **KANSAS CITY POWER & LIGHT**
5 **CASE NO. ER-2006-0314**
6

7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is Gary C. Price. My business address is P.O. Box 23, Sun Prairie, Wisconsin
9 53590.

10 **Q. BY WHOM ARE YOU EMPLOYED?**

11 A. I am a principal consultant with Rhema Services Inc. and have worked in the utility industry
12 for more than 35 years.

13 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

14 A. Yes. On August 22, 2006 I filed direct testimony and on September 15, I filed rebuttal
15 testimony in this case on behalf of the United States Department of Energy that is
16 representing the interest of the National Nuclear Security Administration (“DOE-NNSA”)
17 and other affected Federal Executive Agencies.

18 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

19 A. The surrebuttal and cross surrebuttal testimony I am presenting herein is offered on behalf of
20 DOE-NNSA.

21 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL AND CROSS**
22 **SURREBUTTAL TESTIMONY?**

23 A. Several parties in this case filed rebuttal testimony proposing various approaches to revenue
24 allocation and rate design. In addition to commenting on the approaches offered by those
25 parties, I am proposing to update my Rebuttal Testimony filed on September 15, 2006. As I
26 mentioned in my rebuttal testimony, I was waiting at that time for additional information

1 from KCPL regarding the margins on off-system sales. I have now received that information
2 which has now been incorporated into the analysis presented in my Rebuttal Testimony.

3 **Q. BEFORE YOU DISCUSS WHAT OTHERS ARE PROPOSING FOR REVENUE**
4 **ALLOCATION AND RATE DESIGN, PLEASE EXPLAIN THE UPDATE AND**
5 **CLARIFICATIONS THAT YOU ARE MAKING TO YOUR DIRECT TESTIMONY.**

6 A. In my direct and rebuttal testimonies, using KCPL's filed class cost of service ("CCOS")
7 results, I recommended a gradualism approach to correcting class deficiencies that exist in
8 KCPL's current rates. My proposal was and continues to be that the deficiencies shown in
9 KCPL's CCOS be corrected over a period of four (4) rate cases starting with this case. I have
10 updated the numbers to reflect a modification to KCPL's CCOS to correct the allocation of
11 margins or profits from off-system sales that has been recommended by DOE Witness James
12 R. Dittmer in his rebuttal testimony filed on September 8, 2006.

13 **Q. PLEASE EXPLAIN THE MODIFICATION THAT HAS BEEN PROPOSED.**

14 A. In addressing KCPL's jurisdiction allocation of off-system sales margins or profits, Mr.
15 Dittmer gave several reasons why KCPL's allocation of the profits on off-system sales was
16 improper. He recommended that the "energy with losses" allocator be used to assign the
17 profits from off-system sales instead of KCPL's proposed "unused energy" allocator. I agree
18 with Mr. Dittmer and recommend that the "energy with losses" allocator be used for both the
19 jurisdictional and the class cost of service studies.

20 **Q. ARE YOU SAYING THAT KCPL ALSO RELIED UPON THE "UNUSED ENERGY"**
21 **ALLOCATOR IN ITS JURISDICTIONAL AND CLASS COST OF SERVICE**
22 **STUDIES?**

1 A. Yes and in my opinion, the “unused energy” allocator to allocate the Company’s profits on
2 off-system sales is inconsistent and inappropriate.

3 **Q. WHY IS IT INCONSISTENT?**

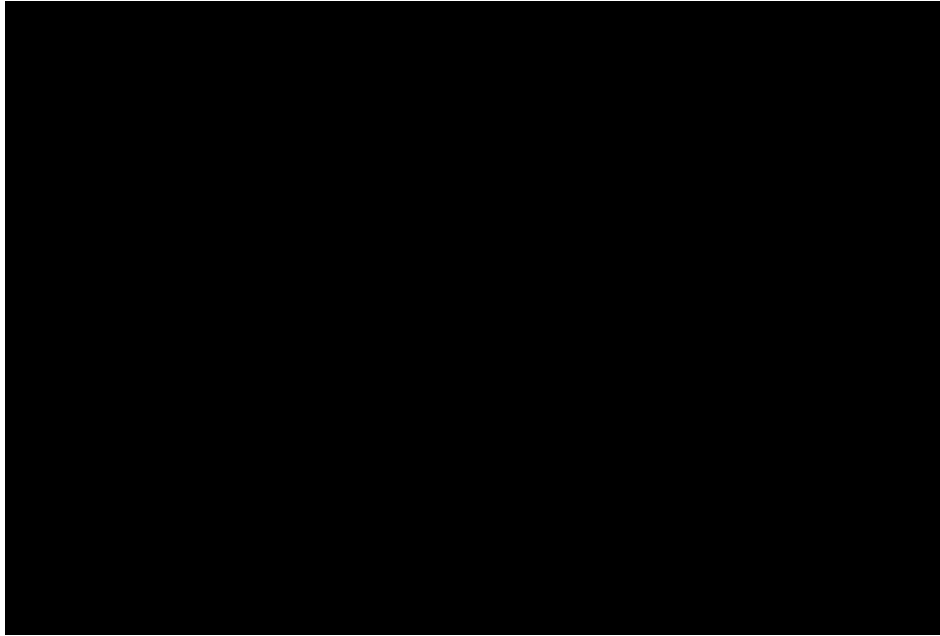
4 A. KCPL has assigned system average energy cost to all jurisdictions and customers on the basis
5 of “energy with losses.” In my opinion, since production energy related costs (fuel costs,
6 variable O&M costs and variable purchased power costs) are allocated on the basis of
7 “energy with losses” it would be inconsistent to allocate system energy benefits on a different
8 basis as KCPL has proposed.

9 **Q. IN YOUR UPDATE, ARE YOU PROPOSING TO REALLOCATE THE PROFITS**
10 **ON OFF-SYSTEM SALES BOTH ON A JURISDICTIONAL AND CLASS BASIS?**

11 A. Yes.

12 **Q. WHAT NUMBERS HAVE YOU USED IN THIS TESTIMONY FOR OFF-SYSTEM**
13 **SALES.**

14 A. I have used herein the data provided by KCPL in response to our Data Request – Set
15 DOE_20060912, Question No. 6-1, 6-2 and 6-3. Specifically, I used the Missouri
16 jurisdictional allocator of ** [REDACTED] ** shown in KCPL’s response to Question No. 6-2 and
17 the off-system sales margins of approximately ** [REDACTED] ** shown in KCPL’s
18 response to Question No. 6-1 and 6-3. The off-system sales margins included in KCPL’s
19 Mo. CCOS was about [REDACTED]. ** The updated amount that I have included herein is
20 about ** [REDACTED] **. ** The reallocations and
21 resulting impacts on KCPL’s COSS are shown on pages 1 through 3 of Schedule GCP-3. The
22 results are summarized in Tables 1B and 2B below. Tables 1B and 2B are the updated
23 versions of the tables included in my Rebuttal Testimony. **



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As discussed in my Rebuttal Testimony, Table 1B shows in Column (c) the floor or minimum relative return that DOE-NNSA recommends in this proceeding. The change in relative rates of return from Column (b) to Column (c) represents a 25% move toward the system average return. The change between the remaining columns also represents a 25% move toward the system average return until the system average is achieved in Column (f).

Q. HAVE YOU QUANTIFIED THE AMOUNT OF INCREASE THAT WOULD BE REQUIRED IN THIS PROCEEDING TO MOVE ALL RATE CLASSES TO THE LEVELS SHOWN IN COLUMN (C) OF TABLE 1B?

A. Schedule GCP-3, Page 1 of 3, Line 40, quantifies the Total Revenue Adjustment that would be required to move all classes to the system average rate of return based on my proposed modification to KCPL's COSS. My proposal is to adjust the present rates for each rate class in a manner that would either increase or decrease the class revenues as shown in Table 2B.

**

1 A. If a COSS is filed in the next rate case the present rate revenue for that test year would need
2 to be adjusted to at least achieve the relative rates of return shown in Column (d) of Table
3 1B. If, for example, the relative rate of return derived from that CCOS study in the next rate
4 case was shown for the Residential class to be between ** [REDACTED] **, then no
5 adjustment to the then present rates for that class would be required for purposes of moving
6 the class toward the system average rate of return. Similarly, if the relative rate of return
7 derived from that CCOS study was shown for the Large Power class to be between ** [REDACTED]
8 [REDACTED] **, then no adjustment to the then present rates for that class would be required for
9 purposes of moving the class toward the system average rate of return in the next rate case.

10 **Q. HOW WOULD YOU APPLY YOUR PROPOSAL IN THE NEXT RATE CASE IF**
11 **THERE IS NO CCOS STUDY FILED?**

12 A. In the event a CCOS study is not filed in the next three rate cases, then present rate revenue
13 for each rate class would need to be adjusted on a dollar per mWh hour basis in each of the
14 next three rate cases. The dollar per mWh amount would be as shown on Line 42, Page 1 of
15 Schedule GCP-3.

16 **Q. HAVE YOU REVIEWED THE PROPOSALS BY OTHER PARTIES WITH**
17 **REGARDS TO REVENUE ALLOCATION AND RATE DESIGN?**

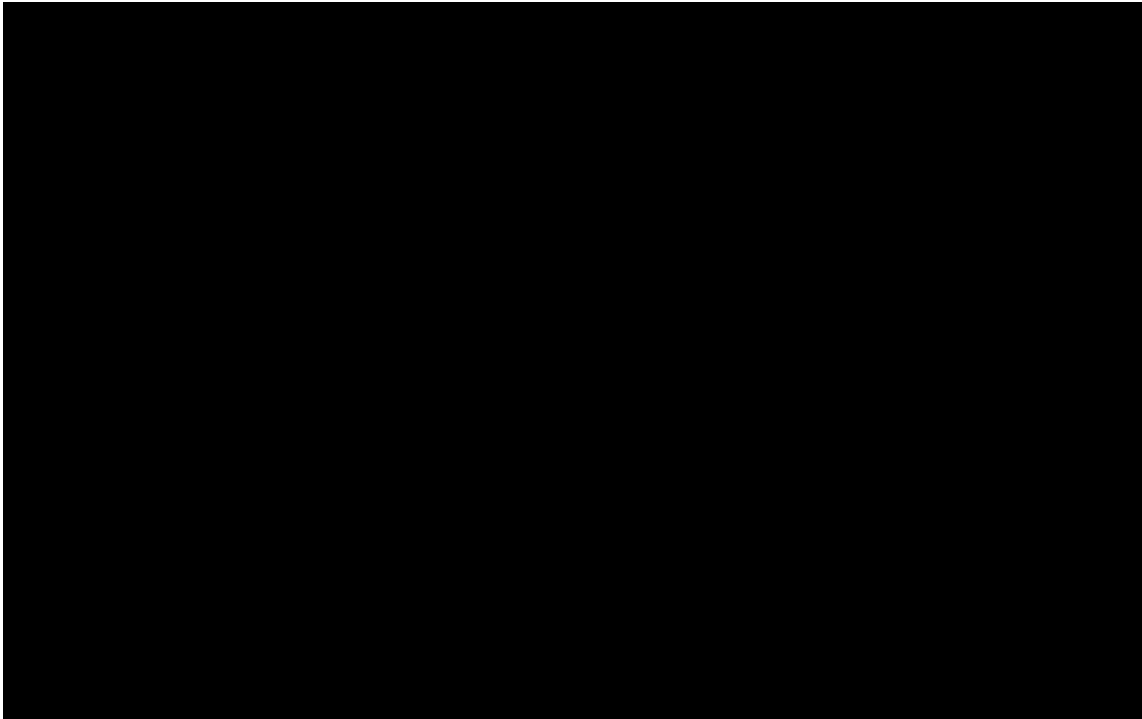
18 A. Yes. I have reviewed the testimonies of Mo. PSC Staff (“Staff”) Witness, James A. Busch;
19 Staff Witness, Janice Pyatte; Maurice Brubaker on behalf of Ford Motor Company, Praxair,
20 Inc. and Missouri Industrial Energy Consumers (“Praxair”); and, Barbara A. Meisenheimer
21 on behalf of the Office of the Public Counsel (“OPC”).

22 I have addressed KCPL’s proposal in my Direct and Rebuttal Testimonies. Each of the
23 parties presented a CCOS as the basis for their recommendation. My recommendation, on the

1 other hand, continues to be based on KCPL's filed CCOS with the modification for the
2 allocation of profits on off-system sales which was discussed in my Rebuttal Testimony as
3 updated herein.

4 In all cases, the parties continue to agree, based on the results of their CCOS, that the present
5 rates of the Residential Rate Class produce revenues that are below (in some cases far below)
6 its cost of service. Additionally, all parties are showing that the present rates for the Small
7 GS, Medium GS and the Large GS classes produce revenues that are above the cost of
8 service. Except for OPC, the parties are also showing that the present rates for the Large
9 Power class produce revenues that are significantly above the cost of service.

10 Table 3A compares the recommendations of the various parties assuming that there is no
11 overall increase granted in this case. **



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12
13 **Q. WHAT IS YOUR POSITION REGARDING THE RECOMMENDATIONS OF THE**
14 **PARTIES AS SHOWN IN YOUR TABLE 3?**

1 A. The results of all CCOS (KCPL, Mo. PSC Staff, OPC, and Praxair) presented in this case
2 relative to the residential class rate of return versus the system rate of return are fairly
3 consistent. They all continue to agree that the residential class is significantly deficient.
4 However, although the results of three of the CCOS studies (KCPL, Mo. PSC Staff, and
5 Praxair) are also fairly consistent in that all commercial and industrial classes rates of return
6 are much higher than the system average, the results of the remaining CCOS studies
7 presented by OPC are very inconsistent with any of the other cost of services presented in
8 this case for these classes. As stated in my Rebuttal Testimony, those inconsistencies make
9 me question OPC's results. OPC's CCOS studies show a much larger decrease for all
10 commercial and industrial classes, except Large Power. For the Large Power class, OPC
11 shows a large increase is required. Except for OPC's CCOS, all other studies show the Large
12 Power class relative rate of return to be much higher than the system average rate of return
13 which would justify a decrease.

14 While the parties continue to criticize KCPL's COSS, no one, in my opinion, has shown it to
15 be unreliable for purposes of determining the relative rates of return for each rate class.

16 **Q. AT PAGE 19 OF MR. BRUBAKER'S REBUTTAL TESTIMONY, HE CRITICIZES**
17 **BOTH STAFF AND OPC FOR AN INCONSISTENT ALLOCATION OF REVENUES**
18 **FROM OFF-SYSTEM SALES. DO YOU AGREE WITH MR. BRUBAKER'S**
19 **CRITICISM?**

20 A. Yes. Mr. Brubaker states beginning on line 3 of page 19 as follows:

21 "Both Staff and OPC allocate 100% of the fuel and variable purchased power expenses that
22 support these sales on an energy basis. However, they then allocate 100% of the revenue
23 from these sales (the identified fuel and variable purchased power component plus margin)

1 on a demand basis. This is fundamentally inconsistent. If Staff and OPC desire to allocate the
2 profit component, they should at least allocate the identified fuel and purchased power
3 component of the sales revenue on an energy basis to offset the cost of fuel and variable
4 purchased power that was allocated to classes on an energy basis. Failure to do so will clearly
5 over-allocate costs to high load factor customers such as those served on the Large Power
6 rate.”

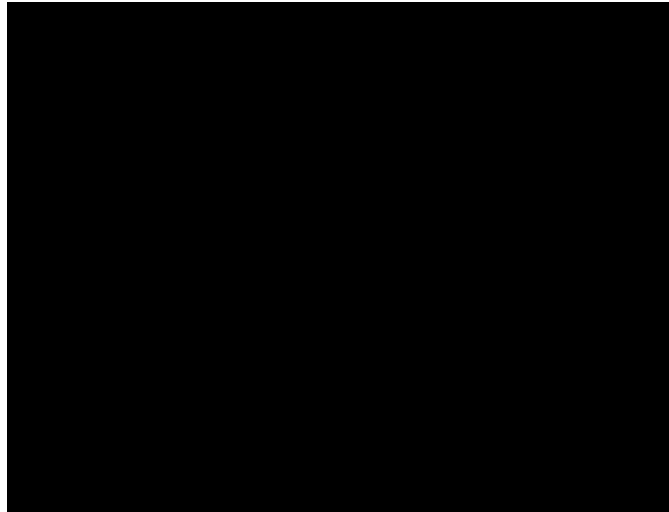
7 However, I would go a step further than Mr. Brubaker has suggested and say that the “profit
8 component” (or margin on off-system sales) of the off-system revenue sales should be
9 allocated on an energy basis as well. Staff, in its jurisdictional study, correctly allocated both
10 the revenue from off-system sales revenue and the off-system sales profit margin on an
11 energy basis. However, as pointed out in the quote above from Mr. Brubaker’s Rebuttal
12 Testimony, Staff, in its CCOS, allocated all off system profit margins using the production
13 demand allocator. This is inconsistent. The same arguments made by Staff why it is
14 appropriate to allocate off system sales margin between jurisdictions on an energy basis only
15 are also applicable when allocating among the various classes of service. Both the
16 jurisdictional and the CCOS should treat these items in a consistent manner.

17 **Q. HAVE YOU QUANTIFIED THE IMPACT ON STAFF’S CCOS OF ALLOCATING**
18 **BOTH THE OFF-SYSTEM SALES REVENUE AND PROFIT MARGINS ON AN**
19 **ENERGY BASIS?**

20 A. Yes. Mr. Brubaker quantified the impact on Staff’s CCOS of allocating the revenue from
21 energy sales on an energy basis in his Rebuttal Testimony in Schedule 3.1 COS-R. I have
22 recomputed Staff’s CCOS allocating both the revenue from off-system energy sales and off-

1 system profit margins on an energy basis in Schedule GCP-5. Table 4 summarizes those
2 results.

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8 For purposes of this case, I continue to believe the Commission can rely on the Company's
9 CCOS study, as modified herein, to correct the significant under- and over-recovery of costs
10 by the rate classes. It is my opinion that the corrections are significant and must begin with
11 this rate case. The corrective action should be gradual, over the next four (4) rate cases
12 (which includes this rate case), as I have discussed above.

13 **Q. STAFF WITNESS PYATTE COMMENTED ON THE PHASE-IN APPROACH THAT**
14 **YOU ARE PROPOSING ON BEHALF OF DOE-NNSA. DO YOU HAVE A**
15 **RESPONSE TO THOSE COMMENTS?**

16 A. Yes. Staff Witness Pyatte on page 13 of her Rebuttal Testimony states as follows beginning
17 at line 12:

1 “Mr. Price’s testimony seems to imply that there really is a single, unambiguous
2 quantification of the cost to serve each class and, once it is known, reaching it is the sole
3 objective of ratemaking.”

4 Her Rebuttal Testimony continues on line 16 of page 13 as follows:

5 “In addition, the idea that revenue-neutral changes to class revenues can be predetermined in
6 this case and then set on automatic pilot over the next four years does not seem very
7 practical.”

8 With those statements, it is clear that Staff Witness Pyatte does not understand my proposal.

9 In the first instance, the DOE-NNSA proposal assumes a CCOS will be done over four (4)
10 rate cases (starting with this one). In that event, the rates will be adjusted to move the class
11 relative rates of return within the parameters discussed above (see Table 1B).

12 In the event a CCOS is not filed, DOE-NNSA proposes that adjustments to class rates would
13 be made to reflect a change in class revenue based on the \$ per mWh amounts shown on Line
14 42 of Page 1 of Schedule GCP-3. The parties to that case would have to decide, at that time,
15 whether a CCOS would be needed to justify the change.

16 The DOE-NNSA proposal is to gradually correct the substantial disparities that exist in
17 KCPL’s present rate structure.

18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes, it does.