

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

In the matter of)		
Kansas City Power & Light Company's)		
Request for Authority to Implement)	File No.	ER-2012-0174
A General Rate Increase for Electric)		
Service)		

POST-HEARING BRIEF MIDWEST ENERGY USERS ASSOCIATION-KANSAS CITY

Midwest Energy Users' Association-Kansas City ("MEUA"), pursuant to the Date Order Setting Procedural Schedule, hereby submits its Post-Hearing Brief in the Missouri Public Service Commission Case No. ER-2012-0174. As a prefatory matter, we will leave the recitation of the procedural history to KCPL and Staff.

MEUA BASIC POSITION

1. MEUA-KC supports the Stipulation Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service/Rate Design in Case No. ER.-2012-0174, now a joint position statement under Commission rules. We will refer to this document herein as the Stipulation. MEUA-KC'S primary focus is the all electric small, medium and large general service rates. MEUA-KC interests are addressed by the joint position statement as to the LGS class and subclasses and we remain in full support, support that is buttressed by an abundant record. However, the joint position statement left for full litigation the Staff's proposal for the all electric subclass rates for small and medium general service customer classes. Staff's proposal should be rejected and the general service all electric rates should continue in their current relationship to the general service non space heating rates. The same percentage increase should be applied to space heating as to the corresponding general service rate. The general service rates should receive an average increase modestly below average as provided in the joint position

statement.¹ Rather than accept the changes to the all electric rate proposed and supported by Staff alone, the commission must decide the case based on the record.

2. The record is void of anything to suggest there is something wrong with electric heat rates. Staff's analysis of all electric heat is incomplete and as a result KCPL, and in turn all other customers, would be asked to engage in the proverbial shooting themselves in the foot, if rates are raised and the service is no longer purchased both customers would end up worse off if the space heating rates are raised to push the existing space heating loads off the system.² Appropriate general service all electric rates better ensure efficient use of system resources.³ While it is the off-peak usage that brings benefits to the system, the class cost-of service study evidence, using the A&E 4NCP fully supports continuation even on a fully allocated cost basis for current electric heat rates.⁴

Cost Studies Flawed

3. Mr. Normand's methodology for assigning production or generating plant costs is hypothetical and does not reflect the actual operation of the KCPL system. Mr. Normand classifies generating units by a hypothetical economic dispatch model and considers factors such as the hours each unit is used to derive a distinction between the various units as base, intermediate or peak. While the approach has general appeal, it operates to classify units like LaCygne as intermediate while classifying wind turbines as base. The LaCygne plant operates continuously while the Wind Turbines are subject to the intermittence of the wind. There is no doubt that peak demand is the primary determinant of how

¹ Johnstone Rebuttal p. 8.

² Johnstone Rebuttal p. 5.

³ Johnstone Rebuttal p. 8.

⁴ Brubaker Direct p. 21 and Schedule MEB-COS-4.

much capacity is needed. If there were only one type of capacity, then a good measure of the peak would without question provide a good measure for cost causation.⁵

4. MEUA-KC witness Johnstone explained that KCPL native system load has a strong summer seasonal characteristic. Consequently, much of the capacity that is needed to ensure reliable service during peak demand would remain idle much of the time, i.e. during winter months, if it could not be used for energy generation sold into the off-system market.⁶ While generation capacity costs are incurred in the provision of reliable service, there is no doubt that a primary driver of the costs being incurred is the on-peak summer loads, not the winter space heating loads. If less electric heating load is served, there will be no less need for capacity.⁷ That is because the electric heating loads did not create the need for capacity in the first place. As such, purported adherence to the principle of cost causation cannot be reconciled or directly applied to the electric heating subclass. Instead adherence to the principle of cost causation requires careful consideration of studies in which generation capacity costs are allocated to the on-peak periods that, without dispute, are a primary determinant of generation capacity costs.

5. Conversely, KCPL's BIP method allocates generation capacity costs based on off-peak usage, does not reflect cost causation and does not provide a cost-based rationale for the design of rates.⁸ The Staff BIP, while different than KCPL's suffers the same affliction. Consequently, these studies, regardless of other attributes have limitations as to their application to the electric heating subclasses.

⁵ Johnstone Rebuttal p. 5.

⁶ Id.

⁷ Id.

⁸ Johnstone Rebuttal p. 5-6

6. Although KCPL sponsored Mr. Normand, KCPL itself rebutted the use of Mr. Normand 's study. Mr. Rush advised against any reliance on Mr. Normands's class cost of service study that increased space heating customers an above average increase, and instead recommended that KCPL :

We've recommended that we not do that. We think that there is some fallout that would harm other customers, both non-heating customers and other classes, particularly because of the margin contributions that would come from this and the fallout that would come from potentially losing customers and reducing load. So we are very concerned with increasing the space heating rate at a higher rate than the typical increase that we're looking at, the average of that increase, and we think that that is the wrong policy decision to go after.⁹

SPREAD OF THE INCREASE

7. The Stipulation/position statement is consistent with class cost-of-service studies of Staff and MIEC/MIECG. The stipulation implemented gradualism to allow for revenue increases. The KCPL BIP study should not be relied upon. OPC relies on the KCPL BIP study which Tim Rush has referred to as a study that allows rates to be raised and the service is no longer purchased.¹⁰ Staff's deleterious recommendation to raise the all electric rate disproportionately for small and medium service is needless and unjustified. Mr. Johnstone has the only unrebutted testimony in the record regarding the all electric return per the class cost of service study:

While the MIEC study results are presented only in summary form, the workpapers reveal returns for the general service space heating rates that are well above average, Thus in consideration of the information available, I conclude, that my recommendation is consistent with the cost of service.¹¹

8. Electric heat is largely off peak load, anything sold off peak at a price above incremental cost produces a margin. That is beyond debate. But there is nothing to be gained by anyone with a

⁹ Rush Tr. Vol. 19, p. 1013-1014.

¹⁰ Johnstone Rebuttal p.4.

¹¹ Johnstone Rebuttal p. 8.

disproportionate increase in the all electric rates. Mr. Rush commented on how increasing electric heat or unfreezing programs may impact KCPL:

Well, one of the things that we need to look at long-term is contribution margin. That is, what are pricing schedules that contribute to the overall reduction in other costs and other customers' rates? And try to say that space heating rates should be at an equal level return is not really a policy that makes a lot of sense if it's hurting the other customers themselves. So we don't want to hurt general businesses, we don't want to hurt anybody by taking away sales that would end up resulting increasing rates higher than they are today.¹²

9. The Stipulation agreement is a modest move, appropriate in the circumstances of this case and the tough economic climate and facts such as unemployment rates and previous rate increases. Other relevant factors to consider in setting rates include the value of service, the affordability of service, rate impacts and rate continuity¹³ of which justify the more modest approach of the Stipulation.

10. Market forces and price signals influence consumer choice; therefore one has to conclude that space heating was installed by current KCPL customers in large part for the price of electric heating. Is a methodology that penalizes a market-based decision reasonable? KCPL has had recent experience with customer complaints and other problems related to freezing a space heating rate. Tim Rush expressed why KCPL has so much concern with customer impacts in the October 29th hearing:

The company has gone through a huge construction cycle since the implementation of the regulatory plan back in 2005 and customers' rates have gone up. To exaggerate that increase further by changing rates at this time when we're looking at doing studies, we've done evaluations I do not think is appropriate, and I think it will cause a lot of stresses on customers at a time when the economy is not in the best of shape.¹⁴

¹² Rush Tr. Vol. 19 p.1014-1015.

¹³ Menenhiemer Direct p. 37.

¹⁴ Rush Tr. Vol. 19 p. 1032.

11. Mr. Rush spoke of the difficulty managing the premises of frozen electric rates with customers; there has been a lot of customer complaints with regard to our commercial side freezing of service.¹⁵ The Briarcliff complaint Mr. Rush spoke of in his November 29th testimony is a common issue where a building's possible change of ownership or designation of name change for tax reasons triggers the loss of an all electric rate.¹⁶ This situation creates increased volatility and uncertainty in an already struggling real estate market and creates additional uncertainty of rate stability. The record leaves open the question for the commission having no evidence to base a decision that may have unintended consequences on real estate prices and business for all electric commercial building owners and tenants, should the commission allow an above average rate increase effect the all electric customer.

MEUA-KC Position Revenue Requirements

12. It is of primary importance to hold the total cost of electricity to the lowest reasonable level consistent with reliable service. It is appropriate to make the energy available to retail customers and to give preference to retail customers, for whom there is an obligation to provide service. We request the commission grant what is necessary, but nothing more. The general service space heating rates should continue in their current relationship to the general service non space heating rates.¹⁷ KCPL has continued with positive earnings throughout the recent difficult economic times. KCPL has not made a request to increase the all-electric rates disproportionately to the general rate nor has KCPL made a request for emergency relief; the current request is for the increased benefit of stockholders.

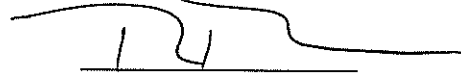
¹⁵ Rush Tr. Vol. 19 p. 1021.

¹⁶ Id.

¹⁷ Johnstone Rebuttal p. 8.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was served by the Public Service Commission e-service on this 28th, day of November 2012 to counsel for parties of record.



Reed J. Bartels