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<b>EXHIBIT NO.</b>	
<b>WITNESS:</b>	<b>DENNIS W. GOINS</b>
<b>TYPE OF EXHIBIT</b>	<b>REBUTTAL TESTIMONY</b>
<b>ISSUES:</b>	<b>COST OF SERVICE, REVENUE SPREAD</b>
<b>SPONSORING PARTY:</b>	<b>U.S. DEPT. OF ENERGY</b>
<b>CASE NO.</b>	<b>ER-2010-0355</b>

**MISSOURI PUBLIC SERVICE COMMISSION**

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**CASE NO. ER-2010-0355**

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**IN THE MATTER OF THE APPLICATION OF  
KANSAS CITY POWER & LIGHT COMPANY  
FOR APPROVAL TO MAKE CERTAIN CHANGES IN ITS  
CHARGES FOR ELECTRIC SERVICE TO CONTINUE THE  
IMPLEMENTATION OF THE REGULATORY PLAN**

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

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**December 10, 2010**

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**MISSOURI PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION OF KANSAS §  
CITY POWER & LIGHT COMPANY FOR APPROVAL TO §  
MAKE CERTAIN CHANGES TO ITS CHARGES FOR § CASE No. ER-2010-0355  
ELECTRIC SERVICE TO CONTINUE THE §  
IMPLEMENTATION OF ITS REGULATORY PLAN §**

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**REBUTTAL TESTIMONY OF  
DR. DENNIS W. GOINS  
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**INTRODUCTION**

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**Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

**A.** My name is Dennis W. Goins. I operate Potomac Management Group, an economics and management consulting firm. My business address is 5801 Westchester Street, Alexandria, Virginia 22310.

**Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?**

**A.** Yes. I filed direct testimony on November 24, 2010, on behalf of the U.S. Department of Energy (DOE) representing the Federal Executive Agencies (FEA), including the National Nuclear Security Administration (NNSA) facility in Kansas City that is served by Kansas City Power & Light Company (KCPL).

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

**A.** The purpose of my rebuttal testimony is to respond to the direct testimony of Staff witness Michael S. Schepeler and Office of Public Counsel (OPC)

1 witness Barbara A. Meisenheimer regarding cost-of-service and revenue  
2 spread issues. Witness Scheperle sponsors the Staff's class cost-of-service  
3 study (COSS) and *Rate Design and Cost-of-Service Report* (COS Report).  
4 He also presents Staff's proposed revenue spread. Witness Meisenheimer  
5 did not conduct a class COSS, but instead accepted results from the class  
6 COSS sponsored by KCPL witness Paul M. Normand "as a guide in  
7 setting rates." In particular, witness Meisenheimer used results from  
8 KCPL's class cost study to develop OPC's proposed revenue spread that  
9 produces significant interclass revenue shifts.

10 **Q. ON THE BASIS OF YOUR REVIEW OF THE DIRECT**  
11 **TESTIMONY OF WITNESSES SCHEPERLE AND**  
12 **MEISENHEIMER, HAVE YOU CHANGED ANY OF THE**  
13 **CONCLUSIONS AND RECOMMENDATIONS DELINEATED IN**  
14 **YOUR DIRECT TESTIMONY?**

15 **A.** No. I continue to recommend that the Commission:

- 16 1. Reject KCPL's Base-Intermediate-Peak (BIP) Method for  
17 allocating fixed production costs to rate classes. Instead, KCPL  
18 should be required to use the four coincident peak method (4CP  
19 Method).
- 20 2. Reject KCPL's proposed allocation of off-system sales margins.  
21 Instead, the energy component of such margins should be allocated  
22 using loss-adjusted kWh (energy) for each class.
- 23 3. Approve an across-the-board revenue spread of any rate increase  
24 granted to KCPL.

1 **COST OF SERVICE**

2 **Q. WHAT METHOD DID STAFF RECOMMEND TO ALLOCATE**  
3 **DEMAND-RELATED PRODUCTION COSTS TO RATE**  
4 **CLASSES?**

5 **A.** Staff recommended the BIP Method, and used this method in its class  
6 COSS.

7 **Q. ARE THE BIP CLASS COST STUDIES THAT STAFF AND KCPL**  
8 **CONDUCTED IDENTICAL?**

9 **A.** No. The cost studies reflect different revenue requirements for the  
10 Missouri retail jurisdiction. In addition, although Staff and KCPL used the  
11 same BIP Method, Staff developed certain BIP allocation factors  
12 differently than KCPL. For example, the energy-based factor that Staff  
13 used to allocate fixed baseload plant costs in its class COSS reflects total  
14 test-year, loss-adjusted kWh by rate class. In contrast, KCPL used an  
15 energy-based factor that reflects annualized kWh by class based on a  
16 minimum-use month. While Staff used different approaches to develop  
17 certain BIP allocation factors, Staff's different approaches do not cure the  
18 fundament flaw in the BIP Method. Specifically, the BIP Method  
19 inappropriately allocates all baseload plant costs and the vast majority of  
20 KCPL's total fixed production costs on the basis of customer energy use  
21 with almost no regard for the demands that customers impose on KCPL's  
22 system. This costing is counter to fundamental utility planning practices  
23 that emphasize the need for sufficient production capacity to meet peak  
24 demands and provide adequate reserve capacity for reliability.

25 **Q. IN ITS CLASS COST STUDY, DID STAFF ADDRESS THIS**  
26 **MAJOR FLAW IN THE BIP METHOD?**

27 **A.** No. The BIP Method used in both the Staff and KCPL class cost studies  
28 allocates all baseload capacity costs on the basis of energy use. This

1 approach fails to recognize any meaningful capacity value of baseload  
2 capacity.<sup>1</sup>

3 **Q. IS THE ASSIGNMENT OF KCPL’S GENERATING PLANTS TO**  
4 **BASE, INTERMEDIATE, AND PEAKING CATEGORIES**  
5 **CONSISTENT IN THE KCPL AND STAFF BIP CLASS COST**  
6 **STUDIES?**

7 **A.** No. There are large and significant differences in how Staff and KCPL  
8 assigned production capacity to BIP categories. For example, as shown in  
9 Schedule DWG-R-1 and summarized in Table 1 below, Staff categorized  
10 approximately 2,800 MW of KCPL’s generating plants as Base capacity—  
11 about 700 MW (34 percent) more than KCPL assigned to the Base  
12 category.<sup>2</sup> Similarly, Staff assigned 266 MW (28 percent) more capacity  
13 to the Peak category and 975 MW (66 percent) less capacity to the  
14 Intermediate category than did KCPL.

**Table 1. BIP Capacity Categories**

<b>Category</b>	<b>Capacity (MW)</b>		<b>Difference</b>	
	<b>KCPL</b>	<b>Staff</b>	<b>MW</b>	<b>Percent</b>
Peak	947	1,213	266	28%
Intermediate	1,485	510	(975)	-66%
Base	2,082	2,791	709	34%
Total	4,514	4,514	0	0%

15 Source: Schedule DWG-R-1.

16 These inconsistencies point out another serious flaw in the BIP  
17 Method—the arbitrary assignment of generating plants to the BIP  
18 categories. Even KCPL and Staff cannot agree on which plants should be

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<sup>1</sup> See Staff’s COS Report at 19:17-18. My review of Staff’s class COSS workpapers indicates that Staff’s Production-Energy allocation factor is based on test-year, loss-adjusted kWh by class. I should note that Staff did correct KCPL’s improper allocation of off-system sales margins by allocating these margins on the basis of energy—which follows Commission precedent.

1 assigned to a specific category. Staff apparently believes that fixed costs  
2 associated with an additional 700 MW of KCPL’s baseload generating  
3 capacity should be allocated to classes on the basis of energy. In contrast,  
4 KCPL allocates fixed costs associated with this capacity on the basis of an  
5 adjusted 12CP allocator. Both Staff and KCPL cannot be right about how  
6 these particular capacity costs should be allocated. And nobody can prove  
7 that either party is correct, since the assignment of plants to BIP categories  
8 depends not on readily observable load measures, but rather on arbitrary  
9 and untested analyses of plant operating characteristics and costs. Without  
10 an objective standard for assigning plants to capacity categories, the BIP  
11 Method is subject to manipulation.

12 **Q. IN YOUR OPINION, IS STAFF’S CLASSIFICATION OF**  
13 **PRODUCTION PLANT OUTSIDE THE MAINSTREAM OF**  
14 **EMBEDDED COST ANALYSIS?**

15 **A.** Yes. The three primary steps in a class COSS are functionalization,  
16 classification, and allocation. In embedded cost studies, fixed production  
17 plant costs are typically classified as demand-related costs, and then  
18 allocated to classes using factors that reflect only customer demands or a  
19 combination of demand and energy measures. In its BIP class COSS, Staff  
20 classified Peak and Intermediate production plant as demand-related, and  
21 allocated these costs to rate classes on the basis of adjusted 12CP  
22 (Intermediate) and 4CP (Peak) demands. This classification of production  
23 plant costs is standard in embedded cost-of-service studies.

24 In contrast, Staff classified 100-percent of the fixed costs of baseload  
25 capacity assigned to the Base category as *energy-related* costs, and  
26 allocated these fixed costs on the basis of energy—not demand. This 100-  
27 percent energy cost classification is not standard, and is outside the

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<sup>2</sup> The capacity values shown in Table 1 and Schedule DWG-R-1 reflect total KCPL capacity—not just capacity assigned to the Missouri retail jurisdiction.

1 mainstream of embedded cost analysis. Energy-related costs vary with  
2 energy (kWh) production and consumption. The fixed costs of baseload  
3 units do not vary with plant output. As a result, costs associated with  
4 these plants should be classified as demand-related costs. In my opinion,  
5 all of the demand-related costs should then be allocated on the basis of  
6 class demands. (I prefer the use of coincident peak demands.) Even cost  
7 analysts that believe some fixed production costs should be classified as  
8 energy-related (for example, advocates of peak and average allocation  
9 methods) at least recognize that production plant has some capacity  
10 value—thereby justifying classifying at least some part of fixed baseload  
11 plant costs as demand-related. But Staff’s BIP Method rests on the  
12 implicit assumptions that baseload capacity has no capacity value and is  
13 built solely to provide low-cost energy. As a result, Staff classified all  
14 fixed production costs assigned to the Base category as energy-related  
15 costs.<sup>3</sup>

16 **Q. UNDER STAFF’S BIP CLASS COSS, WHAT PERCENTAGE OF**  
17 **KCPL’S FIXED PRODUCTION COSTS IS ALLOCATED ON THE**  
18 **BASIS OF ENERGY?**

19 **A.** As I noted, Staff classified 100-percent of fixed baseload plant costs as  
20 energy-related costs. Moreover, in reviewing Staff COSS workpapers, I  
21 found that Staff allocated almost 87 percent of KCPL’s total fixed  
22 production plant costs (gross) on the basis of energy in its BIP class  
23 COSS.<sup>4</sup> This percentage is extraordinarily high, and essentially means that  
24 Staff is allocating almost all of KCPL’s fixed production costs on the basis  
25 of energy. In my career, I have participated in rate cases in approximately  
26 30 regulatory jurisdictions, and reviewed and analyzed dozens of cost

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<sup>3</sup> See Staff’s COS Report at 12:1-2.

<sup>4</sup> In KCPL’s BIP class COSS, around 72 percent of KCPL’s total production plant costs (gross) were allocated on an energy basis (allocation factor DEM1A). Since Staff assigned more capacity



1 studies presented in these cases. I have never encountered another cost  
2 study with an energy-based fixed production cost allocation percentage  
3 this high.

4 **Q. IS STAFF'S COST CLASSIFICATION A PROBLEM?**

5 **A.** Yes. Staff not only improperly classified baseload plant costs as 100-  
6 percent energy-related costs, it compounded its error by adding more than  
7 700 MW of capacity to the Base category compared to KCPL. (See Table  
8 1.) Because Base capacity costs are allocated using an energy-based factor  
9 in Staff's BIP class COSS versus a demand-based allocation factor for  
10 Intermediate and Peaking capacity costs, Staff's classification of baseload  
11 capacity unjustly shifts cost responsibility to higher load factor rate classes  
12 (in particular, the Large Power Service (LPS) class). In other words,  
13 Staff's baseload classification error and arbitrary assignment of generating  
14 units to the Base category produce results in its BIP class COSS that  
15 indicate the LPS class is currently paying rates below KCPL's cost of  
16 service. As I discuss in more detail later, Staff relied on these COSS  
17 results in recommending a disproportionate rate increase for LPS  
18 customers.

19 **Q. IF THE COMMISSION DECIDES THAT KCPL'S PRODUCTION**  
20 **COSTS SHOULD BE ALLOCATED USING A METHOD THAT**  
21 **REFLECTS CLASS ENERGY USE AS WELL AS PEAK**  
22 **DEMANDS, WHAT METHOD WOULD YOU RECOMMEND IN**  
23 **THIS CASE?**

24 **A.** I would recommend using the average and excess, four noncoincident peak  
25 allocation methodology (AED-4NCP Method) proposed in this case by

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to the Base category than KCPL, the percentage of production plant allocated on the basis of energy in Staff's class COSS was much greater.

1 witness Maurice Brubaker.<sup>5</sup> Unlike the BIP Method, the AED-4NCP  
2 Method:

- 3 ■ Requires no arbitrary classification of production capacity.
- 4 ■ Recognizes the capacity value of baseload generating units.
- 5 ■ Relies on readily observable load data to develop allocation  
6 factors.

7 While I prefer the 4CP Method that I used in the DOE class COSS  
8 described in my direct testimony, the next best alternative presented in this  
9 case is the AED-4NCP method proposed by witness Brubaker.

10 **Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE AED-4NCP ALLOCATION METHOD?**  
11

12 **A.** Yes. In a recent AmerenUE rate proceeding (Case No. ER-2010-0036),  
13 the Commission approved this method to allocate AmerenUE's demand-  
14 related production costs.<sup>6</sup>

#### 15 REVENUE SPREAD

16 **Q. DID KCPL PROPOSE ANY MAJOR INTERCLASS REVENUE SHIFTS ON THE BASIS OF RESULTS FROM ITS CLASS COSS?**  
17

18 **A.** No. KCPL proposed spreading its proposed \$92.1 million (13.8 percent)  
19 rate increase on a uniform, across-the-board percentage basis to each class.  
20 As I noted in my direct testimony, this proposal is reasonable given the  
21 unreliability of results from KCPL's class COSS and the need to temper  
22 class rate increases during tough economic times.

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<sup>5</sup> See the direct testimony of Maurice Brubaker at 20:3-21:16.

<sup>6</sup> See the Commission's *Report and Order* in Case No. ER-2010-0036 at 86-87.

1 **Q. DID WITNESSES SCHEPERLE AND MEISENHEIMER ALSO**  
2 **PROPOSE AN ACROSS-THE-BOARD REVENUE SPREAD?**

3 **A.** No. Both Staff and OPC proposed shifting revenues to the higher load  
4 factor LPS class. More specifically, witness Scheperle proposed:

- 5 ■ Allocating the first \$13 million of any approved revenue  
6 increase on an across-the-board basis to each class whose  
7 current rates are below cost of service.
- 8 ■ Allocating any approved increase above \$13 million on an  
9 equal percentage across-the-board basis to all rate classes.
- 10 ■ Allocating any approved rate decrease on an across-the-board  
11 basis to each class whose current rates are above cost of  
12 service.<sup>7</sup>

13 Witness Meisenheimer did not identify how any approved revenue  
14 increase should be spread across rate classes. Instead, witness  
15 Meisenheimer simply proposed *revenue neutral shifts*<sup>8</sup> under current rates  
16 that would:

- 17 ■ Shift approximately \$4.4 million in additional revenue to the  
18 LPS class.
- 19 ■ Reduce revenues from the Small General Service class by  
20 about \$3.8 million.
- 21 ■ Reduce revenues from the Medium General Service class by  
22 about \$0.5 million.<sup>9</sup>

23 **Q. DO YOU AGREE WITH THE REVENUE SPREADS PROPOSED**  
24 **BY WITNESSES SCHEPERLE AND MEISENHEIMER?**

25 **A.** No. Their proposed revenue spreads (or revenue neutral shifts) are based  
26 on results from flawed BIP class cost studies. As I showed in my direct

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<sup>7</sup> See the direct testimony of Staff witness Michael S. Scheperle at 2:16-26.

<sup>8</sup> Witness Meisenheimer defines a *revenue neutral shift* (direct testimony at 4:17-19) as a change in class revenues under current rates holding total KCPL revenues constant.

<sup>9</sup> *Ibid.* at 4:13-5:23.

1 testimony, correcting key flaws in KCPL's class COSS produces results  
2 that simply do not support significantly increasing the revenue requirement  
3 of the LPS class relative to other classes. For example, the DOE 4CP cost  
4 study presented in my direct testimony showed that only a system average  
5 increase is necessary for the LPS class, but a well-above average increase  
6 is necessary to move the Residential class closer to cost of service.  
7 Witnesses Scheperle and Meisenheimer relied on a fatally flawed cost-of-  
8 service methodology to support their revenue spreads. As a result, their  
9 revenue spreads are also fatally flawed and should be rejected. The  
10 Commission should approve an equal percentage across-the-board revenue  
11 spread.

12 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

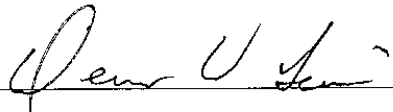
13 **A.** Yes.

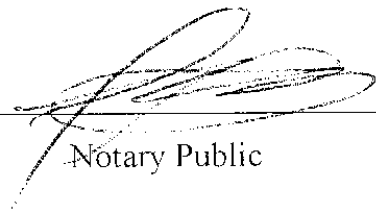
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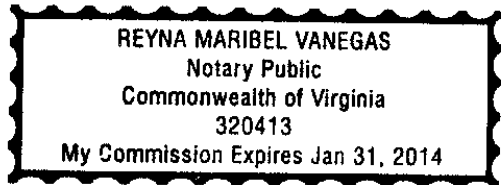
Commonwealth of Virginia    )  
County of Fairfax                )            SS

Before me this day appeared DENNIS W. GOINS of Potomac Management Group, who stated under oath that the foregoing testimony was prepared by him or under his direct supervision and control; that he has knowledge of the matters set forth in said testimony; and that such matters are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to me this   9<sup>th</sup>   day of December 2010.

  
\_\_\_\_\_  
Dennis W. Goins

  
\_\_\_\_\_  
Notary Public



My Commission Expires: \_\_\_\_\_

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**MISSOURI PUBLIC SERVICE COMMISSION**

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**December 10, 2010**

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**SCHEDULE DWG-R-1**

**PRODUCTION CAPACITY BY BIP CATEGORY**

**Production Capacity by BIP Category**

<b>Unit</b>	<b>MW</b>	<b>KCPL</b>	<b>STAFF</b>
Wolf Creek	545	Base	Base
Iatan 1	494	Base	Base
Iatan 2	465	Base	Base
Hawthorn 5	563	Base	Base
Spearville 1	15	Base	Base
La Cygne 1	368	Intermediate	Base
La Cygne 2	341	Intermediate	Base
Montrose 1	170	Intermediate	Intermediate
Montrose 2	164	Intermediate	Intermediate
Montrose 3	176	Intermediate	Intermediate
Hawthorn 6 + 9	266	Intermediate	Peak
Hawthorn 7	75	Peak	Peak
Hawthorn 8	76	Peak	Peak
Northeast 11	412	Peak	Peak
Northeast 12			
Northeast 13			
Northeast 14			
Northeast 15			
Northeast 16			
Northeast 17			
Northeast 18			
West Gardener 1	308	Peak	Peak
West Gardener 2			
West Gardener 3			
West Gardener 4			
Osawatomie	76	Peak	Peak

Source: Paul Normand direct at 9:Table 2; Staff COSS workpapers; Staff capacity categories adjusted to eliminate 48 MW not included in Normand Table 2.