

Exhibit No.:
Issue: Rate Design
Witness: Keith A. Kraus
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City, Missouri
Case No.: HR-2014-0066
Date Testimony Prepared: May 15, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2014-0066

DIRECT TESTIMONY

OF

KEITH A. KRAUS

ON BEHALF OF

KANSAS CITY, MISSOURI

**St. Louis, Missouri
May 15, 2014**

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

In the Matter of Veolia Energy Kansas City, Inc.) File No. HR-2014-0066
for Authority to File Tariffs to Increase Rates) Tracking Nos. YH-2014-0240 and 0242

AFFIDAVIT OF KEITH A. KRAUS

STATE OF MISSOURI)
) **ss**
COUNTY OF ST. LOUIS)

KEITH A. KRAUS, being first duly sworn on his oath, states:

1. My name is Keith A. Kraus. I am the General Counsel of Talisen Technologies, Inc.


2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of the City of Kansas City having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



KEITH A. KRAUS

Subscribed and sworn before me this 15th day of May, 2014.



Notary Public

<p>DANIEL J. MCAFEE Notary Public - Notary Seal State of Missouri Commissioned for St. Louis County My Commission Expires: March 06, 2017 Commission Number: 13457115</p>

DIRECT TESTIMONY

OF

KEITH A. KRAUS

Case No. HR-2014-0066

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

2 A: My name is Keith A. Kraus. My business address is: Talisen Technologies, Inc., 12655
3 Olive Boulevard, Suite 500, St. Louis Missouri 63141.

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

5 A: I am currently employed by Talisen Technologies, Inc. (“Talisen”) as its General
6 Counsel. In addition to my legal responsibilities, and because of my background in the
7 energy and utility industries, I also provide executive-level consulting to some of
8 Talisen’s clients in the areas of energy usage and energy purchasing.

9 **Q: Please describe your education, experience and employment history.**

10 A: I earned a Bachelor of Science Degree in Electrical Engineering from Missouri
11 University of Science & Technology (f/k/a the University of Missouri-Rolla). I also
12 earned a Juris Doctorate in Law from Washington University in St. Louis, Missouri. I
13 am a Professional Engineer licensed in the State of Missouri and a licensed member of
14 the Missouri Bar. I am also a Business Energy Professional (BEP) as certified by the
15 Association of Energy Engineers (AEE).

16
17 After graduating from college, I worked as an engineer at Ameren’s (f/k/a Union
18 Electric) Osage Power Plant (a/k/a as Bagnell Dam and Lake of the Ozarks) performing
19 engineering duties related to operation and regulation of the plant. Following law school,

1 I worked for the St. Louis law firm of Greensfelder, Hemker & Gale. Following that, I
2 was a Senior Energy Consultant and later Manager of the Electricity Consulting practice
3 for Strategic Energy Ltd., a supply-side energy consulting firm located in Pittsburgh,
4 Pennsylvania. At Strategic Energy, I worked with large commercial and industrial
5 customers to assist them in purchasing energy more cost-effectively. Later, I returned to
6 Ameren to lead the effort to re-license the Osage Power Plant with the Federal Energy
7 Regulatory Commission (the “FERC”). I left Ameren to join CoreExpress, Inc., a
8 communications network company, initially as its Assistant General Counsel, and later
9 leaving as its General Counsel. Since 2003, I have been General Counsel at Talisen, a
10 technology company which provides energy management services.

11 **Q: Please describe the services Talisen provides the City?**

12 A: In 2009, Talisen implemented an Enterprise Sustainability Platform (“ESP”) for the City
13 of Kansas City to monitor, capture and display energy usage information and building
14 automation system data in a series of information dashboards. Periodically, the City
15 contacts Talisen for additional guidance or consultation concerning optimization of its
16 energy usage and has also asked Talisen from time to time to assist the City in
17 proceedings before this Commission.

18 **Q: Have you previously submitted testimony on behalf of the City before the Missouri
19 Public Service Commission?**

20 A: Yes, I submitted written testimony on behalf of the City in Veolia’s most recent rate case
21 in the fall of 2012.

22 **Q: What is the purpose of your testimony in this case?**

1 A: The primary purpose of my testimony is to recommend: 1) procedural safeguards related
2 to implementation of Veolia's proposed Production Adjustment Cost Clause ("PACC");
3 and 2) rejection of Veolia's requests to decrease the notice period and eliminate the
4 duration limitation currently contained in Veolia's Interruptible Heating Service (IHS)
5 Schedule.

6
7 Yet, I cannot overlook that this is Veolia's third rate increase request since 2008. In
8 particular, Veolia seeks a substantial (24%) increase in usage charges so quickly after it
9 received a thirty percent (30%) increase in usage charges just two and a half years ago.
10 Naturally, the City is concerned about the effect of these significant cost increases on
11 municipal operations. Veolia also proposes to offer discounts and incentives to new
12 customers at the expense of existing tariff customers, the fairness and reasonableness of
13 which should be examined carefully by the Commission.

14 **Q: Have you reviewed Veolia's proposed changes to its Schedule of Rates for Steam**
15 **Service?**

16 A: Yes, I reviewed Veolia's proposed changes to its Schedule of Rates for Steam Service
17 with particular attention to the proposed PACC and proposed changes to the IHS
18 Schedule.

19

20 *Production Adjustment Cost Clause ("PACC")*

21 **Q: Do you agree with the manner in which Veolia intends to implement its proposed**
22 **PACC?**

1 A: No, I do not. At the outset, I would like to confirm two aspects of the PACC I believe
2 are mentioned in the proposed changes to the Schedule of Rates for Steam Service: 1)
3 that Veolia must file regular rate adjustments (i.e., such filings are not at Veolia's
4 discretion); and 2) that the rate adjustments may be positive or negative (i.e., an
5 additional charge or a credit). The Commission should not approve the proposed PACC
6 without Veolia's assurance of these requirements. Second, Veolia's PACC as described
7 in its proposed tariff lacks several important protective measures.

8 Q. **Please describe those protective measures.**

9 A. If the Commission decides to approve the PACC, I recommend that the Commission
10 implement the following safeguards:

- 11 1) Require Veolia, with its rate adjustment requests, to identify the actual costs of
12 those fuels and consumables described in Section III DETAIL CALCULATION
13 TERMS (p.42 of the proposed tariff);
- 14 2) The Commission should perform a prudence review of each Veolia rate
15 adjustment to ensure it conforms with the methodology contained in Veolia's
16 tariff, that only prudently incurred costs are considered for rate adjustments, and
17 that Veolia's fuels and consumables purchase arrangements are not structured in a
18 way that allows Veolia to subsidize its unregulated businesses (process steam and
19 chilled water) with rate increases in its regulated steam service business;
- 20 3) The Commission and all parties to this rate case shall have the right to audit
21 Veolia's records regarding the costs submitted in its PACC filings;
- 22 4) Require Veolia to bargain prudently and aggressively with its non-utility suppliers
23 to obtain the best pricing possible for fuels and consumables; and

1 5) Any rate adjustment, resulting from a PACC filing, shall be limited to plus or
2 minus two and a half percent (+/-2½%) of the FCPQ (as defined in Veolia’s
3 proposed tariff changes).

4 **Q. Veolia proposes to file quarterly rate adjustments pursuant to the PACC. Do you**
5 **recommend this frequency for the filings.**

6 A. No, I do not. In addition to the procedural or substantive safeguards I mentioned already,
7 I recommend Veolia file rate adjustments annually rather than quarterly (similar to the
8 “true-up” process for electrical corporations described in §386.266, RSMo). A quarterly
9 rate adjustment process is unnecessarily burdensome; and, given that rate adjustments are
10 spread over customers’ bills for twelve months, “layering” multiple quarterly adjustments
11 on a single monthly bill will create confusion.

12 **Q. Veolia proposes that there will be no prudence review rate adjustment unless the**
13 **rate adjustment exceeds 10% of the total fuels and consumables costs incurred**
14 **during the period under review. Should this be approved by the Commission?**

15 A. No, I recommend that the Commission reject that qualification. It is more likely, and the
16 City hopes and expects, that most, if not all, rate adjustments will be less than 10%.
17 Including Veolia’s proposed language effectively eviscerates the prudence review
18 safeguard.

19

20 *Interruptible Heating Service (IHS)*

21 **Q: Do you have any concerns regarding Veolia’s proposed changes to its IHS**
22 **Schedule?**

1 A: Yes, I do. Even though the City does not currently take service under Veolia's IHS
2 Schedule, the City has taken service under the IHS Schedule in the past and would like to
3 preserve the option to take service under the IHS Schedule, as it currently exists, in the
4 future. Specifically, Veolia proposes two changes to its IHS Schedule that concern me.
5 First, Veolia proposes to reduce the notice period for steam service interruptions from
6 twelve hours to six hours. If the City were to transfer a portion of its load to the IHS
7 Schedule, this change would put an operational hardship on the City. To respond to a
8 potential interruption of steam service, the City would have to make significant changes
9 to its operations. Because the City's operations and maintenance staff predominately
10 work daytime, week day hours, it would be difficult, if not impossible, to call in staff and
11 make the operational changes necessary to replace the steam service interrupted by
12 Veolia within six hours. I found no justification in Veolia's testimony for reducing the
13 interruption notice period. In fact, Veolia describes the "ample" spare capacity (current
14 capacity is 250% of peak demand) it has to serve additional customers. That spare
15 capacity should minimize Veolia's need to interrupt IHS customers on shorter notice.
16 Perhaps Veolia desires to shrink the notice period because it expects to consume its spare
17 capacity by adding new customers. In which case, it does not seem equitable to reduce
18 the notice of interruption to existing customers because of new customers (which bring
19 additional revenues to Veolia), especially when those new customers are receiving
20 substantial discounts on their steam service that existing customers do not receive. Also,
21 I oppose Veolia's insertion of the adjective "normally", regarding its notice obligation, in
22 Paragraph 1F of the IHS Schedule. Veolia's notice of its intent to interrupt steam service
23 to its customers should not be optional.

1 **Q. As part of its modifications to the IHS Schedule does Veolia propose a change to the**
2 **allowed duration of the interruption in service?**

3 A. Yes, and this is the second of my concerns. Veolia proposes to eliminate completely the
4 maximum interruption duration limitation (currently forty-eight (48) hours). If the City
5 were to transfer a portion of its load to the IHS Schedule, having interruptions of
6 unlimited duration would place a hardship on the City by increasing the City's operating
7 costs and decreasing reliability of its heating supply. I found no justification in Veolia's
8 testimony for eliminating the maximum interruption duration limitation. Importantly,
9 Veolia proposes to raise IHS Schedule rates by an additional 16.6% in this current rate
10 case according to the testimony of Veolia witness Joseph Herz¹. This increase is on top
11 of a 75% increase in IHS Schedule capacity rates received just two and a half years ago.
12 Ironically, Veolia proposes to decrease the reliability of its IHS Schedule service while at
13 the same time continuing to substantially increase the cost of that service. Therefore, the
14 proposed change to allow interruptions of unlimited duration is inconsistent with the
15 substantial increases in the cost of that service and not justified.

16 **Q: Does this conclude your direct testimony?**

17 A: Yes, it does.

18

¹ Joseph A Herz Direct, at page 11, line 14.