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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2016-0156**

**SURREBUTTAL TESTIMONY**

**OF**

**BRADLEY D. LUTZ**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
September 2016**

**SURREBUTTAL TESTIMONY**

**OF**

**BRADLEY D. LUTZ**

**Case No. ER-2016-0156**

1 **Q: Are you the same Bradley D. Lutz who pre-filed direct and rebuttal testimony in**  
2 **this matter on behalf of KCP&L Greater Missouri Operations Company (“GMO”**  
3 **or the “Company”)?**

4 A: Yes.

5 **Q: What is the purpose of your surrebuttal testimony?**

6 A: I will respond to the rebuttal testimony of Mr. Michael Stahlman and Ms. Sarah  
7 Kliethermes submitted in this proceeding on behalf of the Staff of the Missouri Public  
8 Service Commission (“Staff”), the rebuttal testimony of Mr. Martin Hyman submitted on  
9 behalf of the Missouri Department of Energy (“MODOE”), and the rebuttal testimony of  
10 Dr. Geoff Marke and Mr. Donald Johnstone submitted on behalf of the Office of the  
11 Public Counsel (“OPC”). These witnesses address multiple issues. As a result, I will  
12 group the comments by topic and respond to each witness accordingly. The topics to be  
13 covered are:

- 14 • Customer Communications;
- 15 • Rate Design;
  - 16 ○ Including general concepts, billing determinants, new testimony
  - 17 concerning impact mitigation, Facilities Extensions, the Special Contract
  - 18 Tariff, and Time of Use (TOU) rates;
- 19 • Pre-MEEIA Opt Out;

- Rules and Regulations; and
- Non-rate Tariff Revisions.

### **I. CUSTOMER COMMUNICATIONS**

**Q: Customer Communications (i.e. communication concerning the proposed rate design and its impacts) was an issue raised by Staff in their direct testimony. Are the rebuttal comments made by Sarah Kliethermes for Staff and Dr. Geoff Marke and Don Johnson for OPC related to the same concern?**

A: Yes.

**Q: Please describe their concern.**

A: Using various approaches, the witnesses assert the Company did not appropriately notify customers of the proposed changes to the rate design. I particularly focus on the claims of Staff witness Sarah Kliethermes who asserts the Company did not pursue all reasonable avenues of customer communication to inform customers of the proposed rate design changes. OPC witness Dr. Marke raises similar concerns. As I understand their testimony, they are concerned that customers have not been informed about the proposed changes to charges for facilities used to serve the customers. In particular, they are concerned that customers do not have information related to an element of the facility demand pricing that is based on the maximum demand measured in the previous twelve months to bill the rate.

**Q: Do you agree with these assertions.**

A: No. I disagree with any implication that the Company failed to act appropriately with regard to customer communications on this proposed change in the rate design.

1 **Q: Please explain the difficulty in informing customers about the proposed rate design**  
2 **in the context of this case.**

3 A: As I explained in my direct testimony, GMO is proposing consolidation of the MPS and  
4 L&P rates in this case. This consolidation is not mandated and is subject to opposition.  
5 In fact, the Company included an unconsolidated option within its direct filing as a  
6 contingency if the consolidated approach was rejected. Further, the changes are not  
7 simply changes to the rates being charged. The Company's proposal includes changes to  
8 the rate structure itself to make the rate structure uniform in both the MPS and L&P  
9 districts. Although all of the proposed rate elements have been used for many years in  
10 those GMO areas, they have been applied distinctly within the respective MPS or L&P  
11 areas and, in unifying these legacy elements under the consolidation, customers will see  
12 unfamiliar charges or elements on their billing statements. We discussed this concern  
13 with Staff, OPC and intervenors early in the meetings and Technical Conferences held  
14 with the Parties. In fact, we first discussed the proposed rate design with the parties on  
15 August 24, 2015. The proposal was refined before the case was filed on February 23,  
16 2016. The first explicit request for feedback from the Parties occurred on April 27,  
17 2016, in the first Technical Conference. We stated:

18 As the rate implementation associated with this case will require  
19 significant preparation and customer notification to ensure success, timely  
20 support of, or an indication of opposition of the consolidation proposal  
21 would be beneficial.

22 We needed to have a reasonable belief that the consolidation would be unopposed before  
23 we would begin customer notifications. GMO repeatedly asked for that feedback.

1 **Q: Why?**

2 A: We were concerned about providing a false warning to customers. GMO had at least two  
3 distinct options that could result from this case: (1) an unconsolidated version where the  
4 rate structures remain exactly as they have been in the past; or alternatively, (2) the  
5 Company's preferred consolidated version that included new or modified rate elements.  
6 If we were to notify customers that the rate structures were consolidating and then found  
7 the Parties would contest the consolidation, we would create significant customer  
8 confusion. Alerting customers to a change when the change is not likely to occur can do  
9 more harm than good. GMO believed that it must be judicious about managing the  
10 timing and content of any such customer communications.

11 **Q: When did the Company believe it was reasonable to proceed with the customer  
12 communication efforts?**

13 A: We continued our appeal for feedback from the Parties in the second Technical  
14 Conference held on May 23, 2017. During that Technical Conference, we received the  
15 feedback we requested. The Company had begun developing an internal plan for  
16 communicating with customers. The Parties requested we share our communications  
17 plan with them in the Third Technical Conference on June 22, 2016. We provided the  
18 requested information to the Parties with supporting information. After those discussions  
19 with the Parties, we felt we could proceed with the communication plan efforts.

20 **Q: Describe the efforts made to communicate with customers.**

21 A: The communication plan shared with the Parties on June 22, 2016 included details  
22 concerning our objectives, identified the customers we intended to target, and explained  
23 the messaging we planned to share. I described the communication plan in my direct

1 testimony. In general, the intent of the plan was to expand on the basic information  
2 contained in the local hearing bill insert that was sent to customers in the month of June.  
3 That bill insert had been drafted to include language addressing the proposed rate  
4 consolidation. Specifically, the bill insert stated:

5 Presently, GMO has different rates in different parts of its service area.  
6 Rates in and about St. Joseph, Maryville, and Tarkio are different than  
7 rates in and about Lee's Summit, Liberty, Clinton and Sedalia. In this  
8 case, GMO is proposing one set of rates for its entire service area. If  
9 company-wide rates are approved, some of GMO's customers may have  
10 bill changes that exceed or are less than any overall increase.

11 By July 20, 2016 the additional communication was underway. Using a combination of  
12 letters, e-mail messages, and telephone calls, the Company notified non-residential  
13 customers with accounts estimated to have impacts greater than 12% and \$190 per month  
14 of the potential impact of the proposed rate design changes. The communications  
15 directed these customers as to how to get more information and how to contact the  
16 Company. Additionally, our website was updated to provide more rate design detail and  
17 encourage customers to contact the Company with questions.

18 I should also note that these customer communication efforts continue. Efforts  
19 are underway to craft communications that could be used near the time of rate  
20 implementation to continue to inform and educate customers concerning the rate design  
21 changes and the consolidation of the MPS and L&P districts. We are also responding to  
22 customer calls and questions as they are received.

23 **Q: Do you have any other thoughts concerning the communication effort?**

24 **A:** Yes. I must underscore how difficult it is to determine the appropriate time to contact  
25 customers concerning this proposed rate design change. In our experience, customers  
26 respond best to facts and known issues. Otherwise, customer confusion results from

1 trying to understand the potential outcomes of developing issues. During a rate case,  
2 parties are understandably reserved, seeking to understand all aspects of a proposal  
3 before taking or revealing their positions. It is often difficult to reach an overall  
4 consensus among the parties, even in a less complex rate case. In this case, the rate  
5 consolidation added another layer of complexity for the Parties. The time required for  
6 this step to be completed was not unexpected. Once a reasonable estimate of the  
7 respective positions was provided, the Company moved quickly to execute the  
8 communications plan.

9 **Q: Are you aware of any efforts taken by other parties to notify customers of the**  
10 **proposed GMO rate design?**

11 A: I am not aware of any effort taken by OPC or Staff to communicate the proposed rate  
12 design to GMO customers beyond that taken to establish the notification for the public  
13 hearings. I understand from our discussions that MIEC/MECG has communicated details  
14 of the proposal to their clients, based upon customer impact information provided by the  
15 Company to their counsel and technical experts.

16 **Q: Did GMO pursue all reasonable avenues of customer communication concerning the**  
17 **rate consolidation proposal?**

18 A: Yes.

## 19 **II. RATE DESIGN**

20 **Q: Multiple witnesses provided rebuttal testimony concerning rate design issues. Have**  
21 **you reviewed this testimony?**

22 A: Yes. I have reviewed the testimony of Robin Kliethermes, Sarah Kliethermes, and  
23 Michael Stahlman for Staff, Dr. Geoff Marke and Don Johnstone for OPC, and Martin

1 Hyman for the MODOE. As these witnesses address common issues, I will address them  
2 by topic. However, before I respond to their specific points raised in the testimony, I  
3 would like to express my thanks to these witnesses and the representatives of the other  
4 parties to this case who have been participating in the ongoing conversations concerning  
5 rate design. We have continued to meet regularly, seeking to understand the proposed  
6 rate design and considering alternatives. I appreciate the efforts of all involved and I  
7 believe the discussions have been helpful and productive.

#### 8 **A. Rate Design Concepts**

9 **Q: Within the respective testimonies concerning rate design, the witnesses provide a**  
10 **number of comments concerning rate design principles and concepts. Would you**  
11 **please provide a brief overview of the GMO perspective toward rate design?**

12 A: Rate design, even in its simplest form, represents a confluence of choices. As the  
13 Company develops its proposed rate design, it must balance competing and often  
14 mutually exclusive drivers. Traditionally, these drivers are summarized by the Bonbright  
15 principles that I included on page 24 of my direct testimony. In this case, where the  
16 primary objective is to combine two rate jurisdictions into one, the balancing is even  
17 more difficult as the rates are being designed from two different starting points. In  
18 developing this rate design, we attempted to pick the best elements of existing GMO and  
19 KCP&L rate designs, combining them in a new way, forming a new structure while not  
20 introducing wholly new concepts. We attempted to set rates that were reflective of cost  
21 but had consideration for customer impacts. We looked at the relationship between our  
22 fixed and variable costs and tried to identify rates that provide some modest improvement  
23 to the revenue recovery between those cost groups. We identified rate mechanisms that



1 would provide better equity between customers, ensuring the rates were reflective of cost  
2 causation. We utilized rate designs that would attempt to provide a lower rate to  
3 customers who utilize demand and energy in a more consistent way and during off-peak  
4 seasons. Finally, we designed rates that were more consistent in structure with our other  
5 jurisdictions, making it easier for customers to understand and for the Company to  
6 administer. As a result of these efforts, we proposed a few rate elements that have been  
7 mentioned by the other parties that I believe are worthy of some further explanation. In  
8 particular I would like to offer some detail concerning the facilities demand charge, the  
9 Annual Base Demand (“ABD”) mechanism, and how the proposed energy charges relate  
10 to our energy efficiency efforts.

11 **Q: What is a facilities charge?**

12 A: The facilities charge, as proposed in this case, is a monthly demand-based charge  
13 designed to recover the cost of facilities required to provide service to the customer. The  
14 facilities charge is intended to recover the operation, maintenance, and capital costs of  
15 our distribution system which includes poles, wires, and transformers. The facilities  
16 charge is calculated using a twelve (12) month “ratchet”. This charge only applies to  
17 customers who are served on a demand rate. The cost of facilities for non-demand rates  
18 are embedded in the energy charges.

19 **Q: What is the purpose of the “ratchet”?**

20 A: The “ratchet” describes the mechanism used to determine the demand level to be billed.  
21 The mechanism identifies the highest kW demand measured in the past, rolling twelve  
22 months to set the level of the demand to be billed at the facilities charge rate for that  
23 month. As the facilities charge is intended to recover the cost of facilities required to

1 provide service to the customer, we believe the highest annual demand imposed by the  
2 customer on the energy grid is representative of the facilities required by that customer.  
3 This measure ensures the facilities charge is proportionate to the cost of infrastructure  
4 required to serve the individual customer. As the ratchet considers the past, rolling  
5 twelve months, it captures any usage, including short term or seasonal usage, for the  
6 facilities charge. The demand use for the facilities charge can be reduced, but only after  
7 the customer has exhibited consistent reduction of demand throughout the rolling twelve  
8 month period. As this is a broad measure, there are protections within the process so that  
9 if the customer experiences an unexpected or uncharacteristic demand level, say in start-  
10 up following an unplanned outage, that demand could be adjusted pending confirmation  
11 by the Company. Without the ratchet it is possible that a customer could impose high  
12 levels of demand in one or two months of the year and then suspend usage for the  
13 remainder of the year, paying little toward the operations and maintenance of the  
14 facilities installed to serve the customer demand. In some ways, the facilities charge is a  
15 complement to the Commission's concern about Infrastructure Efficiency. The facilities  
16 charge helps ensure that those customers causing the infrastructure cost to be deployed  
17 are responsible for its cost recovery.

18 **Q: Now, would you please describe the function of Annual Base Demand?**

19 A: The ABD is applied to non-residential rates and is used to provide additional seasonal  
20 demand and energy pricing, based on the individual customer's past seasonal usage. As  
21 proposed, the ABD is set annually at 100% of the previous summer demand. Any  
22 monthly demand in that customer's subsequent winter demand that is above this  
23 threshold is provided at no charge. Energy usage for those months is apportioned at the

1 ABD percentage and any usage above that level is provided at a reduced per kWh rate.  
2 The ABD is intended to reward customers who tend to use power in the non-summer  
3 (*i.e.*, non-peak) season. Conversely, the ABD can increase the amount paid by customers  
4 who tend to use power mainly in the summer (*i.e.*, peak) season. The ABD currently  
5 exists in the MPS jurisdiction and uses three measures to annually establish the ABD  
6 threshold: the lesser of (1) 100% of the customer's billing demand during the preceding  
7 May billing month, or (2) 100% of the customer's billing demand during the preceding  
8 October billing month, or (3) 65% of the maximum billing demand established during the  
9 preceding four summer billing months.

10 **Q: Why did you choose to include the ABD in the proposed consolidated rates?**

11 A: In reviewing the existing rate structures, we observed the ABD provided a strong  
12 seasonal price signal to customers. As described earlier, customers able to establish  
13 winter season demands in excess of the ABD threshold receive that demand at no charge.  
14 This pricing helps support better utilization of company facilities, tending to improve the  
15 system load factors and helping to reduce the average cost paid by customers.

16 **Q: Finally, please describe how the proposed rate design relates to energy efficiency.**

17 A: Several comments have been made in testimony suggesting this proposed rate design will  
18 inhibit a customer's ability to benefit from energy efficiency. I believe these comments  
19 are rooted in the premise that any reduction of energy charges with a comparable increase  
20 in customer or demand charges will reduce the benefit received by an energy efficiency  
21 investment. Mathematically that can be true, but only if no other considerations are  
22 included. As I initially described in my rebuttal testimony, the proposed shifts are  
23 modest, between 3% and 11% depending on class. The shift is supported by our analysis

1 of the class cost of service studies. Finally, there are riders outside of the base rates that  
2 are charged on a per kWh basis, setting aside a portion of the cost to be recovered  
3 through the volumetric charge, directly impacted by energy efficiency efforts.

4 **Q: With those considerations, are the proposed consolidated rates complementary to**  
5 **energy efficiency goals?**

6 A: Yes. Noting the calculation of Staff witness Sarah Kliethermes on page 18 of her direct  
7 testimony, between 68% and 88% of the customer annual revenue is recovered through  
8 the energy components under the proposed consolidated rates. There is plenty of  
9 opportunity within that level to allow for customers to realize energy efficiency benefits.

#### 10 **B. Billing Determinants**

11 **Q: Robin Kliethermes, in her rebuttal testimony on behalf of Staff, describes the basis**  
12 **for the billing determinants used in this case. Do you agree with her representation**  
13 **of that data?**

14 A: Yes, I generally agree with her testimony on the billing determinants. I only wish to  
15 respond to her comments concerning the timing of the data. This case has presented a  
16 number of challenges with regard to the billing determinants.

17 **Q: How has this case been different?**

18 A: The difference lies exclusively with the proposal to consolidate rates. In a traditional  
19 case where the existing rate design is largely utilized, the bulk of the case preparation is  
20 focused on identifying and supporting the revenue requirement. With rate consolidation,  
21 significant time was needed to take that revenue requirement and define a suitable rate  
22 design. Prior to the filing of the case, we used a test year approximately three months  
23 earlier than typical to allow time for the rate design. After filing and as the case

1 progressed, Ms. Kliethermes noted the blocks of time required to process the load  
2 research, weather normalization, and determinant processing. I would offer that as a  
3 result it would be nearly impossible within our current capabilities to utilize a test year  
4 time frame that is more current.

5 **Q: Do you believe the age of the data impacts the Commissions ability to set just and**  
6 **reasonable rates?**

7 A: No. The determinants are linked to the revenue requirement and once processed to  
8 achieve the consolidation, can be used to prove the revenues to be produced by the  
9 approved rates.

### 10 C. Impact Mitigation

11 **Q: Rebuttal testimony concerning the impact of the proposed consolidated rate design**  
12 **was offered by Sarah Kliethermes on behalf of Staff, Dr. Geoff Marke and Don**  
13 **Johnstone on behalf of OPC, and Martin Hyman on behalf of MODOE. Have you**  
14 **reviewed that testimony?**

15 A: Yes.

16 **Q: How do you respond to that testimony?**

17 A: I would like to offer additional observations about the impacts and how mitigation should  
18 be approached. Ms. Kliethermes offers useful comments exploring the impacts on MPS  
19 and L&P non-residential customers, identifying the role of the ABD and Facilities  
20 Charge on those impacts. In her rebuttal testimony, she proposes mitigation terms for  
21 those components. I appreciate the intent, but have reservations about those alternatives  
22 which I will address later. Mr. Johnstone reiterates the impacts identified in earlier  
23 testimony and describes the efforts to analyze and consider mitigation options.

1           Ultimately, he recommends the use of a demand credit to mitigate impacts to customers.  
2           Again, I appreciate the intent, but have reservations about that alternative as well. Mr.  
3           Hyman explores the expected impacts to residential customers and concludes by  
4           supporting the Staff rate design proposal. To begin I would like to offer more context  
5           around the impacts.

6   **Q:    What have you noticed about the impacts of the proposed consolidated rates?**

7   A:    I have noted two aspects of the impacts, particularly for non-residential customers. First,  
8           as has been discussed in the various testimonies in this case, there are impacts resulting  
9           from the rate design itself. There are mechanisms such as the ABD, the facilities charge,  
10          or the minimum demands that will change the way customers are billed for their service.  
11          Second, and not as obvious, are the impacts resulting from pre-existing conditions. For  
12          instance, there are conditions that exist within the current rates, independent of the  
13          proposed rate design, that are driving many of the observed impacts.

14 **Q:    What are these conditions?**

15 A:    The conditions can vary, nearly from customer to customer, but for the sake of clarity I  
16          will group them into the following:

17                Lower average cost under current rates – whether by design or accident, some  
18                customers are currently paying below average rates for the service they receive.  
19                For example, the current average rate for the non-residential class is about \$0.077  
20                per kWh. In reviewing the customers with higher impacts, we noticed hundreds  
21                that are below that average, with some as low as \$0.04 per kWh. When  
22                comparing the revenues produced by this lower than typical current average per  
23                kWh rate to the proposed rate, it produces a higher percentage impact.

1           Unique customer loads – these are customers that by the nature of their load are  
2 observing the higher impacts. Not all customers are typical. There are many  
3 customer accounts that have less than a full year’s data. There are accounts that  
4 are used for special purposes (i.e. back-up service, seasonal loads) or have very  
5 small loads. When designing the rates, we have attempted to identify a design  
6 that can be applied across the entire jurisdiction. We have observed that there are  
7 some customer loads that do not fit the typical concept of customer load and result  
8 in impacts outside of the typical range. An example is a redundant feed to a data  
9 center. The additional feed is considered a separate account but is only used once  
10 a year, in the summer, for testing. Under the proposed rate design, a design that  
11 seeks to reward balanced, non-summer peak usage, this account would be  
12 impacted more than average. With this example, if the customer would consider  
13 moving their testing to a non-summer period, the impact of the proposed rate  
14 design can be significantly reduced.

15           Billing data sensitivity – we have identified elements within the billing data used  
16 to analyze these impacts that are contributing to the observed impact. The current  
17 rate design does not rely on some of these elements. Further the elements do not  
18 impact the revenue calculation for the current rates. However, when these  
19 elements are applied to the new rate design, it causes an incorrect result. For  
20 example, using a current MPS customer, let’s say there is a demand reading in the  
21 winter that for some reason is higher than reasonable. Currently, in billing that  
22 customer the high reading would be effectively ignored under the mechanics of  
23 the ABD as the customer would pay \$0.00 for that seasonal demand. When we

1 process that same Customer data under the new rate design, the higher demand  
2 value is picked up by the proposed facilities charge, producing a higher bill. In  
3 practice, the unreasonable value could be investigated and corrected as part of the  
4 billing process.

5 **Q: Should steps be taken to mitigate the impacts from these pre-existing conditions?**

6 A: Not categorically. I fear many of the alternatives offered provide a broad brush to  
7 mitigate impacts. Due to these many variables, the mitigation can produce unexpected  
8 results.

9 **Q: Have you observed these unexpected results?**

10 A: Yes. During the Technical Conferences we explored alternatives to mitigate non-  
11 residential impacts. In particular we varied the customer charges, ABD design, and the  
12 minimum demands. In those efforts we observed only minor change to the overall  
13 impacts. In most, we observed the reduction in one area simply increased the impact in  
14 other areas of the rate, negatively impacting the rate as a whole.

15 **Q: Turning back to the mitigation proposals offered by the other parties. Do you  
16 consider any of these options suitable to correct the impacts observed?**

17 A: Not as proposed. Although each is a reasonable attempt to address the impacts, none will  
18 eliminate the impacts altogether. Impacts are not new but they are different for this case.  
19 In previous rate cases, when impacts are determined, we grouped customers by class or  
20 by rate and expressed the impact as an average impact. As an average, these aligned  
21 more closely with the overall increase amounts approved for that group, giving the  
22 impression that impacts are consistent for all customers. However, this is not the case.  
23 Customer level impacts are always unique. Within our proposed rate design, we have



1 highlighted this issue. Since we are determining the best rate placement for each  
2 customer, these individual impacts are revealed. Efforts to then address these individual  
3 customer impacts introduce a multitude of variables that will confound those efforts to  
4 eliminate those impacts.

5 **Q: Do you have a recommendation on how these mitigation concerns can be addressed?**

6 A: My recommendation is a hybrid approach using, in part, recommendations offered by the  
7 other parties. I believe we will not be able to formulate a single solution for all non-  
8 residential customers. For the smaller non-residential customers, the impacts are of  
9 higher percentage but lower dollar amounts. Although lower, these dollar amounts could  
10 be significant to the respective customers. For this group, I believe a payment  
11 arrangement approach where the customer is required to pay the new amount but is  
12 allowed to spread that payment over time would provide a suitable transition. This  
13 approach was suggested in the post Technical Conference discussion and based on early  
14 investigation seems plausible. We have considered a voluntary payment arrangement for  
15 customers in the Small General Service Class exceeding 50% or more and \$100 for a  
16 given month, as compared to their prior twelve month usage before the implementation of  
17 new rates. The payment arrangement would allow for the payment of these excess  
18 amounts over the subsequent twelve months. Many other implementation details are still  
19 being explored at the time of this testimony, but the option appears plausible. For larger  
20 non-residential customers the alternate demand credit proposed by Maurice Brubaker  
21 seems most favorable. Significant detail would need to be defined to ensure the demand  
22 credit is applied fairly and that proper consideration is made for the transitions away from  
23 the demand credit once the transition is complete, believed to be a year later.



1 intended and have little customer adoption. The Company has similarly proposed  
2 freezing these rates in its other jurisdictions and received approval to freeze these rates to  
3 new customers. I agree that an appropriately designed TOU rate should be part of our  
4 portfolio of rates offered to customers however, the time is not right for offering a rate.  
5 There are three projects underway, including the implementation of a new billing system  
6 scheduled to roll-out in 2018, the Automated Metering Infrastructure, and the Meter Data  
7 Management system, that need to be in place as they would fundamentally impact a TOU  
8 design and we need to understand more about the capabilities of these systems so we may  
9 design a rate that is effective to manage and delivers the results expected from a TOU  
10 rate. I believe the best approach to this issue is to incorporate a study of TOU rates for  
11 GMO as part of the study already ordered by the Commission for our KCP&L-Missouri  
12 jurisdiction in ER-2014-0370.

13 **Q: Mr. Hyman suggests that these prerequisites are not needed and the Company**  
14 **should “adequately market” the programs instead. Do you agree?**

15 A: No. The rate designs are not meaningful to today’s needs. The rate designs currently in  
16 place were designed as far back as 2004. To rely only on marketing to promote the rate  
17 would be akin to marketing the sale of VHS or Betamax video equipment to customers  
18 today. Although the existing TOU rate design could be used by customers, it is not  
19 suitable for current use. I agree with the spirit of Mr. Hyman’s suggestion that  
20 marketing, or alternatively, education, should be part of the roll-out of a new TOU rate. I  
21 believe that in the near term TOU and other time differentiated rates could become the  
22 default rate for residential customers. As we begin to explore that transition, it will be

1 important to better educate customers concerning the rate. I just disagree with promoting  
2 these current, ineffective rate designs.

### 3 III. PRE-MEEIA OPT-OUT

4 **Q: Staff witness Michael Stahlman points out the Staff did not include an increase in**  
5 **revenue requirement to account for customers opting out of demand side programs.**  
6 **Do you agree with this approach?**

7 A: No. When certain non-residential customers opt-out of the demand side programs,  
8 recovery of those costs, which would have been collected from those customers, is lost  
9 and this adjustment is a means to keep the Company whole. This adjustment does not  
10 represent a revenue increase.

11 **Q: What is the pre-MEEIA opt-out?**

12 A: 4 CSR 240-20.094(6) Provisions for Customers to Opt-out of Participation in Utility  
13 Demand-Side Programs, established as a result of the Missouri Energy Efficiency  
14 Investment Act (“MEEIA”)( Mo. Rev. Stat. § 393.1075), provides criteria and terms for  
15 customers to avoid participation and associated cost recovery for MEEIA programs. At  
16 the time the new regulation went into effect, some parties interpreted this provision more  
17 broadly, believing it applied to all demand side program, including those that existed  
18 prior to MEEIA. In negotiations around the MEEIA effort, KCP&L did agree to the  
19 broad interpretation and memorialized the fact in a Stipulation in the EO-2014-0029 case.  
20 This established a “non-MEEIA” amount that would be removed from the billing of  
21 qualified customers. Current terms of the bill adjustment are defined in the KCP&L-  
22 Missouri tariffs on Sheet No. 1.28:

1 Customers who have satisfied the opt-out provisions of 4 CSR 240-  
2 20.094(6) to opt-out of the Non-MEEIA rate will receive an offset of the  
3 Non-MEEIA rate amount on the same bill, based on their actual usage.  
4 The Non-MEEIA rate is \$0.00167 per Kwh.

5 For GMO, consistent processes were defined, establishing a “pre-MEEIA” charge.  
6 Current terms of the bill adjustment are defined in the GMO tariffs on Sheet No. R-  
7 63.01.1:

8 Customers who have satisfied the opt-out provisions of 4 CSR 240-20.094(6) to  
9 opt-out of both the DSIM Charge and the Pre-MEEIA rate will not be charged the  
10 DSIM Charge and receive an offset of the Pre-MEEIA rate amount on the same  
11 bill, based on their actual usage. The pre-MEEIA rate for the L&P rate  
12 jurisdiction is \$0.00047 per Kwh and the annual amount contained in base rates is  
13 \$986, 148. The pre-MEEIA rate for the MPS rate jurisdiction is \$0.00081 per  
14 Kwh and the annual amount contained in base rates is \$4,794,996.

15  
16 **Q: Are you aware of a similar Stipulation memorializing GMO’s acceptance of these**  
17 **broad opt-out terms?**

18 A: No.

19 **Q: Are the opt-out customers of GMO treated similarly to those of KCP&L-Missouri?**

20 A: Yes. They are treated identically.

21 **Q: Has a similar adjustment been used for KCP&L-Missouri to account for opt-out**  
22 **customers?**

23 A: Yes.

24 **Q: Should an adjustment be applied to GMO to account for opt-out customers?**

25 A: Yes. This adjustment is required to simply keep the Company whole with respect to its  
26 approved revenue requirement, part of which includes recovery of demand side  
27 management costs incurred previous to the MEEIA programs and not covered by the  
28 Demand Side Investment Mechanism. It is not an increase in revenues. I am not aware  
29 of any other method to account for this lost cost recovery.

1 **IV. RULES AND REGULATIONS**

2 **Q: In her rebuttal testimony, Staff witness Sarah Kliethermes offers new**  
3 **recommendations concerning the Company’s proposed changes to the Facilities**  
4 **Extensions and the Special Contract Tariffs. What is your response to these**  
5 **recommendations?**

6 A: In her rebuttal Ms. Kliethermes expresses Staff’s opposition to four facilities extension-  
7 related changes proposed by the Company:

- 8 • 7.04(A) Permanent Service, to remove reference to Construction Allowance,
- 9 • 7.10(B) Applicability Limitation, which is only occasioned by the requested  
10 changes to section 7.04,
- 11 • 7.11(B)(2)(b) Subdivision Projects, to redefine the Construction Allowance,  
12 Refundable Charge, and non-Refundable charges associated with subdivision  
13 development.
- 14 • 7.11(C) Residential Multi-Family, to make the Feasibility model applicable to  
15 commercial customers only.

16 Further, she also expresses Staff’s opposition to GMO’s request to expand the availability  
17 of its Special Contract Rate schedule, currently tariffed on P.S.C. MO. No. 1 Original  
18 Sheet No. 78 and recommends the Special Contract Rate schedules be removed from  
19 GMO’s tariff. As these are distinctly different tariffs, I will address them separately.

20 **Q: Beginning with the Facilities Extension proposal, how do you respond to Staff’s**  
21 **opposition?**

22 A: To begin, I can appreciate Staff’s position, particularly in light of the Working docket to  
23 Consider Mechanisms to Encourage Infrastructure Efficiency, File No. EW-2016-0041.

1 As communicated there, facility extension processes should seek to balance cost-  
2 causation with providing new growth. These concepts were in mind as we approached  
3 the proposed revisions to the tariffs. Our proposal has maintained the existing GMO  
4 mechanisms for the bulk of our facility extension evaluation but focuses revision on those  
5 areas that are more standard. Beyond seeking cost and growth balance, GMO is seeking  
6 to employ processes that are functional, taking into account operational efficiencies, and  
7 improving the customer experience.

8 **Q: Please describe how the Company proposal achieves these goals?**

9 A: First, as I just mentioned, the existing GMO revenue justification mechanism has been  
10 retained and would be applied to commercial and industrial projects. The GMO revenue  
11 justification mechanism is well suited for work in this area as projects generally have  
12 detailed information concerning the project's energy profile and are supported by  
13 technical personnel able to provide the data needed for the model to function. Within the  
14 residential space projects are more basic and in the case of subdivision and multi-family  
15 projects, are similar efforts repeated over and over again. It is in the residential space we  
16 seek to revise the tariff, utilizing a more simple approach.

17 **Q: Please describe this approach?**

18 A: For residential customers we have proposed to revise the Free of charge – Basic Service  
19 Request terms. This basic service is used to address single home extensions. For  
20 individual residential Non-Basic Service Extensions the customer pays all costs above the  
21 basic service extension. These changes have not been contested up to this point. For  
22 residential Non-Basic Service Extensions within subdivision projects, the Company is  
23 proposing to use a revenue allowance instead of the construction allowance determined

1 by the GMO revenue justification mechanism. The current GMO revenue justification  
2 mechanism works adequately, but in our opinion the facility extension process could be  
3 improved with targeted simplification. This change will continue to ensure facilities  
4 extensions are covered by the revenue expected from the project but will simplify the  
5 application for customers and the Company. I disagree that these changes would expose  
6 existing customers to increased rates. In fact, the revenue allowance method is based on  
7 one year of revenue instead of five years of margin under the current GMO revenue  
8 justification mechanism. As such, the customer allowance is expected to be relatively  
9 smaller than it would be otherwise, requiring the customer causing the facility extension  
10 to bear more of the cost.

11 **Q: Has there been a particular driver behind this proposed change?**

12 A: Yes. As noted in my direct testimony, the primary driver is to provide consistent facility  
13 extension terms in our jurisdictions. The magnitude of this driver should not be  
14 underestimated. The Company performs numerous facility extensions in a year. For  
15 many new customers this is the first contact with the Company. For others, particularly  
16 developers or builders, they often construct homes in all of our jurisdictions. Having  
17 different processes for GMO versus the KCP&L area, causes a level of uncertainty for  
18 these customers. This consistency will also benefit the Company. Having a consistent  
19 process for all areas will allow the Company to develop common methods, streamlining  
20 the facility extension process benefitting customers and developers.

21 **Q: Are there any other aspects of Staff's recommendation you wish to address?**

22 A: Yes. On line 25 of page 19 of Ms. Kliethermes' testimony she expresses concerns about  
23 7.04(C), a provision providing discretion to the Company concerning extensions where



1 growth is anticipated. I must point out that this section is not new, contrary to Ms.  
2 Kliethermes' claim, and has been part of the facilities extension tariff since April 2004.  
3 Beyond that, there is no evidence that the provision has resulted in imprudent extensions  
4 and thus it should not be limited due to speculative concerns. Ms. Kliethermes also  
5 alludes to concerns about linking construction refunds to meter installation instead of  
6 occupancy. Again, if I interpret her comments correctly, this is also related to an existing  
7 provision that has been part of the facilities extension tariff since April 2004. Again,  
8 there is no evidence that the provision has resulted in imprudent extensions and thus it  
9 should not be limited due to speculative concerns.

10 **Q: Turning to the recommendation concerning the Special Contract Rate, how do you**  
11 **respond to Staff's opposition?**

12 A: My primary concern is with Staff's characterization that the GMO Economic  
13 Development Rider (EDR), Sheet 123.1 through 123.6 supersedes the Special Contract  
14 Rate and that the Special Contract Rate lacks customer safeguards. I believe both  
15 statements are incorrect. I agree that the recent revision to the EDR tariff has increased  
16 the flexibility of the tariff and provides the Company a valuable tool to attract customers,  
17 diversify the customer base, and improve utilization of company facilities. However, the  
18 Special Contract Rate is distinct. Language in the EDR tariff expressly states that the  
19 EDR cannot be used in conjunction with the Special Contract Rate. Further, comparisons  
20 to the Special Contract Rate would reveal some key areas where the Special Contract  
21 Rate is distinct. Those include:

- 22 • The Special Contract Rate can be used to provide serve to customers who require  
23 service structures not found within the standard Company rates.

- 1           • The Special Contract Rate provides for a rate that is design to retain some  
2           contribution toward margin costs where the EDR is designed to provide a  
3           temporary discount to the customer.
- 4           • The Special Contract Rate can provide a rate alternative for time periods longer  
5           than the five year limit associated with the EDR.
- 6           • The Special Contract Rate does not require the offer of local, regional, and state  
7           economic development incentives as the EDR does.
- 8           • The Special Contract Rate is open to any customer with an annual peak demand  
9           of greater than 1MW where the EDR is limited to customers not in the business of  
10          selling or providing goods and/or services directly to the general public.

11          Concerning safeguards, the Special Contract Rate includes provisions where Contract  
12          Documentation must be provided to Commission Staff prior to the effective date of any  
13          Special Contract. This documentation is defined in the tariff and includes support for  
14          customer need, customer alternatives, incremental and assignable costs, profitability,  
15          revenue change, other ratepayer benefits, and other economic benefit to the area. This  
16          provision of documentation affords the Staff visibility to any special Contract and the  
17          opportunity to respond if there are concerns.

18                 For these reasons I believe the Special contract Rate is distinct and should be  
19          made available to all GMO customers.

1 **Q: The Company proposed a number of changes to its Rules & Regulations. Other**  
2 **than the comments and recommendations noted previously, was there any testimony**  
3 **from the other Parties concerning the changes?**

4 A: No. The Company maintains its proposed changes detailed in Schedule BDL-8 filed with  
5 my direct testimony in this case.

6 **V. NON-RATE TARIFF REVISIONS**

7 **Q: The Company proposed a number of non-rate changes to its tariffs. Other than the**  
8 **comments and recommendations noted previously, was there any testimony from**  
9 **the other Parties concerning these changes?**

10 A: No. The Company maintains its proposed changes detailed in Schedule BDL-5 filed with  
11 my direct testimony in this case.

12 **Q: Does that conclude your testimony?**

13 A: Yes, it does.

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

In the Matter of KCP&L Greater Missouri Operations            )  
Company's Request for Authority to Implement                )  
A General Rate Increase for Electric Service                 )            Case No. ER-2016-0156

**AFFIDAVIT OF BRADLEY D. LUTZ**

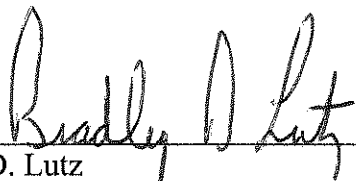
STATE OF MISSOURI    )  
  ) ss  
COUNTY OF JACKSON )

Bradley D. Lutz, being first duly sworn on his oath, states:

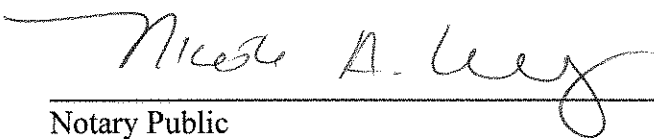
1. My name is Bradley D. Lutz. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Manager – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of twenty-six ( 26 ) pages, 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.

  
\_\_\_\_\_  
Bradley D. Lutz

Subscribed and sworn before me this 2<sup>nd</sup> day of ~~August~~ <sup>September</sup>, 2016.

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

My commission expires: Feb. 4, 2019

