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Witness:	Donald Johnstone
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Kansas City Power & Light Company
ER-2012-0174

Rebuttal Testimony of

Donald E. Johnstone

on behalf of

Midwest Energy Users' Association

September 5, 2012

Competitive Energy
DYNAMICS

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Q PLEASE STATE YOUR NAME, ADDRESS, AND QUALIFICATIONS.

A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049. My qualifications are set forth in Appendix A.

Q ON WHOSE BEHALF ARE YOU APPEARING?

A I am appearing on behalf of the Midwest Energy Users' Association. MEUA participants in this intervention are Boulevard Brewing Company, Broadway Square Partners, LLC and DST Realty, Inc.

Q WHAT ARE THEIR INTERESTS IN THIS PROCEEDING?

A Participants receive service from KCPL at various locations under general service rates. In addition to a concern with the level of the general service rates, Broadway Square Partners, LLC and DST Realty, Inc. have a particular concern with proposals that would increase the rates for all electric/space heating disproportionately.

CLASS COST OF SERVICE

Q DOES MEUA SUPPORT THE COST OF SERVICE AS AN APPROPRIATE BASIS FOR RATES?

A Yes. The cost of service provides an appropriate basis for the revenues to be collected

from the customer classes and also for the design of rates within the customer classes.

Q HOW IS THE COST OF SERVICE DETERMINED?

A A class cost-of-service study, properly constructed, is an accepted basis for defining the cost of service. Studies have been submitted by several parties. In due course I will offer comments. Generally there is agreement on the framework for the studies, although there are important differences in the implementation.

Q WHAT ARE SOME OF THE CONSIDERATIONS THAT GO INTO THE USE OF A CLASS COST-OF-SERVICE STUDY?

A A proper study provides the primary basis for the spread of any revenue increase among the classes and, if there are to be rate design changes, for that purpose also. While a proper study is the primary basis for revenue responsibility and rate design, there are additional considerations. These are considerations such as customer impacts, understandability, customer acceptance, ease of administration and rate/revenue stability. Depending on the facts and the record, it is a matter of judgment to come to a just and reasonable rate based on the information available.

SPREAD OF THE INCREASE AMONG CUSTOMER CLASSES

Q WHAT IS YOUR RECOMMENDATION FOR THE SPREAD OF THE INCREASE AMONG CUSTOMER CLASSES?

A Based on my review of the studies and recommendations, I recommend a below average increase for the general service rates.

SPACE HEATING

Q WHY ARE THERE SEPARATE RATES FOR ALL ELECTRIC AND SPACE HEATING?

A Rates are designed for homogeneous groups of customers. The usage and cost characteristics should be similar within each such group, and distinct from those in other groups. Space heating is a marker for distinct usage and cost characteristics. Historically it has been accepted as the basis for a separate rate.

Q ARE THE KCPL SPACE HEATING RATES AVAILABLE TO ALL CUSTOMERS?

A No. The rates have not recently been available to new customers. They have, however, continued to be available to customers already receiving service on the rates.

Q ARE THERE ANY REASONS WHY THE SPACE HEATING RATES SHOULD BE CONTINUED?

A There are reasons why the rates, or their equivalent, should be continued. For example, space heat customers have a continuing interest in an economical rate. They have made investments in electric space heating equipment based on the rate and would face retrofit costs to install an alternative, or higher operating costs simply due to a higher rate.

For non-space heat customers, the reasons could vary.

Q WHY WOULD NON-SPACE HEAT CUSTOMERS CARE ABOUT THE LEVEL OF THE SPACE HEATING RATES?

A The most practical reason is for the effect on their rates. Space heating customers can provide a margin that lowers the revenues that need to be recovered from other customers. This was a matter of discussion at the August 30 settlement conference.

We may be shooting ourselves in the foot if the rates are raised and the service is no longer purchased.

While the group did not attempt to reach a consensus on any topic, KCPL opined that their base, intermediate, peaking (KCPL BIP) allocation method for generation capacity costs, should not be followed. I agree. It could lead to rates that would drive the space heating load off-system, thereby eliminating the space heating margin contribution, and thereby increasing the rates for the current non-space heating customers. In fact, KCPL expressed reluctance to shooting themselves and their customers in the foot.

The point is that both space heating and non-space heating customers would end up worse off if the space heating rates are raised to push the existing space heating loads off the system.

Q IS KCPL GOING TO CHANGE FROM ITS SUPPORT FOR THE BIP METHOD IT HAS SUBMITTED IN ITS TESTIMONY?

A That is for them to say. However, at the recent technical conference in this case KCPL (Mr. Rush) opined that the KCPL BIP cost-of-service study should not be used to spread the increase or to design the space heating rates.

Q SHOULD THE RESULTS DICTATE THE STUDY METHOD?

A No, but a result that is detrimental to customers and/or illogical should certainly cause a review and consideration of alternatives.

Q PLEASE EXPLAIN.

A In this case, it is the allocation of capacity costs to off-peak loads that is primarily

suspect. KCPL's concern with the use of the results of its BIP study is on point.

Q WHY IS THE KCPL BIP METHOD SUSPECT?

There is no doubt that peak demand is the primary determinant of how 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. In reality it is a little more complicated, because there are multiple types of capacity. However, the ability of any type capacity to serve peak demand is always important for planning and reliability purposes, and in turn, for cost causation.

Q IS THE PROFILE OF THE KCPL NATIVE SYSTEM LOAD A CONSIDERATION?

A Yes, necessarily so. KCPL load demonstrates a strong summer seasonal characteristic. Consequently, much of the capacity that is needed to ensure reliable service during peak demand periods could remain idle much of the time -- if it could not be used for generation sold into the off-system market.

Q PLEASE EXPLAIN WHY THIS IS AN IMPORTANT CONSIDERATION FOR THE SPACE HEATING RATES.

A First, the off-peak capacity is available for use. In an important sense it is a byproduct of the on-peak production. To the extent that it is used to generate energy it will improve load factor and lower the average costs. On the other hand, if it goes unused, there will be no contribution to the fixed costs (no margin) and the average costs will go up. (Of course, KCPL endeavors to ensure that it is used, even for small profit, and I will return to this point.)

The fact that it could go unused illustrates that it would be unneeded and that

it would impose no capacity costs on the system. In other words, the capacity costs are incurred because they are necessary to serve the on-peak loads, not the space heating loads. This should help illustrate that the on-peak loads, not the off-peak loads, give rise to capacity costs. As such, adherence to the principle of cost causation requires generation capacity costs to be allocated to the on-peak periods that necessitate the costs. Conversely, KCPL's BIP method, which 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. Therefore the KCPL BIP study should not be relied upon for the determination of a cost-based general service space heating rate.

Q IN REALITY, WILL THE GENERATION CAPACITY BE UNUSED IN THE OFF-PEAK PERIODS?

A Perhaps some will, but KCPL will endeavor to sell as much as possible into the off-system market. This is a competitive market and the price is not determined by an allocation of costs according to any of the class cost-of-service studies.

However, another possibility is to make efficient use of the system with a rate that would continue to facilitate the sale of the off-peak energy to retail customers. In fact, it is entirely appropriate to make the energy available to retail customers and to give a preference to retail customers, for whom there is an obligation to provide service. Of course, the price is a key factor. A price for space heating energy that is too high is tantamount to making the energy unavailable for retail.

Q ARE THERE ANY GOOD REASONS TO PROVIDE THE OFF-PEAK ENERGY TO OFF-SYSTEM SALES CUSTOMERS INSTEAD OF RETAIL CUSTOMERS?

A None of which I am aware. The system was not built for off-system sales, but for the convenience and use of KCPL retail customers. Retail customers should not be priced out of the market or otherwise precluded from the use of economical space heating rates. The benefits of off-peak energy should not be sent elsewhere on the grid, but rather to KCPL's Missouri customers at economical prices.

Q DOES THE STAFF VERSION OF THE BIP METHOD SOLVE THE PROBLEM?

A Not with respect to space heat. Staff's reliance on the 12 Coincident Peak (12 CP) method as part of its version of the BIP method would only be appropriate if all 12 peaks equally caused the costs. They do not. Consequently costs are in part allocated based on periods that do not create the costs and are therefore somewhat overstated.

SPACE HEATING RATE RECOMMENDATION

Q WHAT IS YOUR RECOMMENDATION FOR THE GENERAL SERVICE SPACE HEATING RATE?

A There should be no change in the relative rate level as compared to the other general service rates. Both should go up by the same percentage.

Q IS YOUR RECOMMENDATION CONSISTENT WITH THE COST OF SERVICE?

A Yes. The Staff class cost-of-service study indicates a below average increase is needed for the space heating rates. This result is obtained notwithstanding the limited consideration of the off-peak nature of space heating load.

I reject the use of the KCPL study for the several reasons set forth above.

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.

Q WOULD IT BE POSSIBLE TO REDESIGN THE GENERAL SERVICE RATES IN A WAY THAT WOULD PRESERVE SUBSTANTIALLY THE SAME COST FOR PRESENT SPACE HEATING CUSTOMERS WHILE DOING AWAY WITH THE SEPARATE SPACE HEATING RATE?

A Perhaps. However, there is no such proposal. Thus the best and most appropriate course of action in this case is to simply preserve the existing rate and rate structure.

SUMMARY AND CONCLUSIONS

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AT THIS TIME.

A My conclusions are as follows:

- The general service rates should receive a below average increase.
- Appropriate general service space heating rates will better ensure efficient use of system resources.
- Appropriate general service space heating rates will contribute to lower rates for all customers.
- The general service space heating 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.

Q SHOULD YOUR SILENCE ON ANY ISSUE BE CONSTRUED AS AGREEMENT?

A No. Silence does not indicate agreement. Other issues may be addressed in due course.

Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A Yes it does.

Appendix A

Qualifications of Donald E. Johnstone

Q PLEASE STATE YOUR NAME AND ADDRESS.

A Donald E. Johnstone. My address is 384 Black Hawk Drive, Lake Ozark, MO 65049.

Q PLEASE STATE YOUR OCCUPATION.

A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the field of public utility regulation.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the University of Missouri at Rolla. After graduation, I worked in the customer engineering division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air Force, where most of my work was related to the Aircraft Structural Integrity Program in the areas of data processing, data base design and economic cost analysis. Also in 1973, I received a Master of Business Administration Degree from Oklahoma City University.

From 1973 through 1981, I was employed by a large Midwestern utility and worked in the Power Operations and Corporate Planning Functions. While in the Power Operations Function, I had assignments relating to the peak demand and net output forecasts and load behavior studies which included such factors as weather,

conservation and seasonality. I also analyzed the cost of replacement energy associated with forced outages of generation facilities. In the Corporate Planning Function, my assignments included developmental work on a generation expansion planning program and work on the peak demand and sales forecasts. From 1977 through 1981, I was Supervisor of the Load Forecasting Group where my responsibilities included the Company's sales and peak demand forecasts and the weather normalization of sales.

In 1981, I began consulting, and in 2000, I created the firm Competitive Energy Dynamics, L.L.C. As a part of my thirty-one years of consulting practice, I have participated in the analysis of various electric, gas, water, and sewer utility matters, including the analysis and preparation of cost-of-service studies and rate analyses. In addition to general rate cases, I have participated in electric fuel and gas cost reviews and planning proceedings, policy proceedings, market price surveys, generation capacity evaluations, and assorted matters related to the restructuring of the electric and gas industries. I have also assisted companies in the negotiation of power contracts representing over $1 billion of electricity.

I have testified before the state regulatory commissions of Delaware, Hawaii, Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the Rate Commission of the Metropolitan St. Louis Sewer District.

BEFORE THE

PUBLIC SERVICE COMMISSION OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Authority to Implement A General Rate Increase for Electric Service	))))	ER-2012-0174

Affidavit of Donald E. Johnstone

State of Missouri)
) SS
County of Camden)

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I reside at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by MEUA.

2. Attached hereto and made a part hereof for all purposes are my testimony and schedules in written form for introduction into evidence in the above captioned proceeding.

3. I hereby swear and affirm that my testimony is true and correct and show the matters and things they purport to show.

Donald E. Johnstone

Subscribed and sworn to this 4th day of September, 2012.

Carolyn Neporadny
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

CAROLYN NEPORADNY
My Commission Expires
August 30, 2013
Camden County
Commission #09452654