

EXECUTIVE SUMMARY  
SURREBUTTAL TESTIMONY OF J. MATT TRACY  
DOCKET NO. EO-2002-384

Section I: Introduction

The recommendations to the Commission include the following: that the Commission considers the impact of **not** moving to COS results; that the Commission gives no weight to Staff's contention that rate restructuring was added to this case on a "whim," or to OPC's implication that the COS data is stale; and that the Commission considers an option for implementing rate changes.

Section II: Implementation Factors

This section notes several locations in testimony where factors for the Commission to consider when implementing changes in rates may be found. It adds to Staff's list a need to consider the impact on all stakeholders of **not** moving to the results of Aquila's COS, keeping in mind the efforts expended by the parties in this case.

Section III: Rate Restructuring

This section responds to Staff's contention that Aquila has proposed rate restructuring on a "whim," and to OPC's implication that the COS data is stale. Surrebuttal Schedule JMT-1 and Surrebuttal Schedule JMT-2 are introduced in support of Aquila's contention that all parties have known of Aquila's intention to restructure the rates for L&P and MPS for over three years, that all parties have had adequate time to analyze this case, and that it is inappropriate for parties that caused delays to complain that the process has taken too long, while also asking for more time.

Section IV: Implementation Methods

This section reviews the three events needed to occur to implement the results of this case in view of Aquila's pending revenue requirements case, Case No. ER-2005-0436. An option is offered that takes into account the abilities of Aquila's billing system, the historical preference of the Commission, and the expectations of Aquila's customers.

Exhibit No.:  
Issues: Policy,  
Implementation,  
Rate Restructuring  
Witness: J. Matt Tracy  
Sponsoring Party: Aquila Networks – L&P  
Aquila Networks – MPS  
Case No.: EO-2002-384

Before the Public Service Commission  
Of the State of Missouri

Surrebuttal Testimony

Of

J. Matt Tracy

## TABLE OF CONTENTS

SECTION I – Introduction .....	1
SECTION II – Implementation Factors .....	2
SECTION III – Rate Restructuring .....	3
SECTION IV – Implementation Methods .....	7

DOCKET NO. EO-2002-384

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2 Q. Please state your name and business address.

3     A.     My name is J. Matt Tracy and my business address is 10700 East 350 Highway, Kansas  
4     City, Missouri, 64138.

5 Q. Are you the same J. Matt Tracy who provided direct and rebuttal testimony in this case  
6 on behalf of Aquila, Inc. (“Aquila” or “Company”)?

7 A. Yes.

8 Q. What is the purpose of your surrebuttal testimony in this case before the Missouri Public  
9 Service Commission (“Commission”)?

10 A. My surrebuttal testimony will respond to the rebuttal testimony of the Commission Staff  
11 (“Staff”) regarding implementation. I also respond to the rebuttal testimony of the Office  
12 of the Public Counsel (“OPC”).

13 Q. By way of background and in summary what are Aquila's recommendations in this  
14 case?

15 A. Aquila recommends that the Commission:

- 16           • Include in its considerations the impact on all stakeholders of **not** moving to  
17           the results of Aquila’s Class Cost-of-Service (“COS”), keeping in mind the  
18           efforts expended by the parties in this case.

- 1 • Give no weight to Staff’s contention that Aquila’s proposed rate structure
- 2 changes in this case are based on a “whim.”
- 3 • Give no weight to OPC’s implication that the cost data in this case is stale.
- 4 • Consider another option for implementing rate changes that accounts for the
- 5 three events that need to occur in consideration of this case and Case No. ER-
- 6 2005-0436, Aquila’s pending electric rate case.

7 SECTION II – Implementation Factors

8 Q. What factors, beyond those listed in Staff witness James Watkins’ rebuttal testimony,  
9 should the Commission consider in implementing changes in rates based on COS?<sup>1</sup>

10 A. At a minimum the Commission should also consider the impact on all stakeholders of  
11 **not** moving to the results of Aquila’s COS. Sending incorrect price signals to  
12 customers has widespread negative impacts. A more complete listing of factors is  
13 available on page 7 of Aquila witness Charles Gray’s direct testimony.<sup>2</sup> Additional  
14 discussion of the negative impacts is in my direct testimony, beginning at page 6.<sup>3</sup>  
15 Also see my rebuttal testimony, section III generally, and pages 6 and 7 specifically.<sup>4</sup>  
16 I particularly ask the Commission to note that the results of each of the COS studies  
17 show that the Small General Service (“SGS”) class deserves a reduction in rates. It  
18 has been my observation over the years that SGS gets less attention than is warranted,  
19 given their value in job creation, and the relatively greater value a reduction in  
20 operating costs has for small commercial customers.

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<sup>1</sup> Rebuttal testimony of James C. Watkins, pg. 7, lines 12-16.

<sup>2</sup> Direct testimony of Charles R. Gray, pg. 7, lines 1-22.

<sup>3</sup> Direct testimony of J. Matt Tracy, Section IV, pg. 6, line 14 through pg. 8, line 19.

<sup>4</sup> Rebuttal testimony of J. Matt Tracy, pg. 6, line 4 through page 7, line 9.

## SECTION III – Rate Restructuring

Q. What is the issue with respect to rate restructuring?

A. Aquila has proposed rate restructuring. The Staff recommends that no rate restructuring be approved in this case, not because rate restructuring is inappropriate, but rather because of an allegation that Aquila’s rate restructuring proposals were prepared on a “whim” and apparently because Staff did not have sufficient time, information and resources to validate Aquila’s proposals.

Q. What is your response?

A. Aquila witness Charles R. Gray provides details on what Aquila proposed to the parties regarding rate restructuring in this case. Moreover, as shown on the attached Surrebuttal Schedule JMT-1, and Surrebuttal Schedule JMT-2, information was provided showing Aquila's restructuring proposals with sufficient lead time for comment by and input from other parties.

Q. What is shown in Surrebuttal Schedule JMT-1 and Surrebuttal Schedule JMT-2?

A. Surrebuttal Schedule JMT-1 is a handout I created and provided to all the parties at our November 12, 2003 Class Load Conference. It is the result of a February 24, 2003 meeting among Aquila regulatory, operational, financial, billing and account executive personnel reviewing the electric rates in all three states that Aquila serves. The input document to the February meeting was itself largely the result of a previous document prepared by Aquila and provided to Staff, OPC, and SIEUA at a May 22, 2002 meeting that included discussions about rate restructuring for L&P and MPS. Surrebuttal Schedule JMT-1 consists of nine pages of side-by-side listings of the L&P and MPS rates grouped by customer class; one page of residential, and two pages

1 each for SGS, LGS, LPS, and other rates. It includes our recommendations as of that  
2 date regarding changes. Of particular note are the comments at the top of the first  
3 page of the SGS class, "Use a blocked hours of use rate....base / seasonal hours use  
4 structure is too complex." The LGS class has similar comments. Obviously,  
5 information supporting Aquila's recommendation for rate restructuring has been  
6 available for review for a considerable period of time. Surrebuttal Schedule JMT-2 is  
7 another document prepared by me and provided to the parties to this case at our June  
8 29, 2005 meeting. It presents the information in a prose format, rather than tabular,  
9 and so may make the tabular information more accessible.

10 Q. Has the Staff questioned the results of Aquila's rate restructuring proposal due to the  
11 lack of customer surveys or focus groups regarding the need for rate restructuring?

12 A. Yes.

13 Q. Did any party request surveys or focus groups of Aquila customers or personnel  
14 regarding rate restructuring?

15 A. No such request was made prior to the filing of Staff's rebuttal testimony. There was  
16 no call by Staff or any other party at the November 12, 2003 meeting, or the earlier  
17 May 22, 2002 meeting for surveys or focus groups to confirm what we presented.  
18 We could have collected that information had there been such a request. There was  
19 certainly time for such studies in the years since those meetings.

20 Q. How can you be certain that your restructuring proposals are addressing customer  
21 needs?

22 A. We rely on a number of sources: customer contact with our field and regulatory  
23 personnel, feedback from participants during internal rate training, and direct field

1       communications. Since the 1993 implementation of the base / seasonal rates, these  
2       sources all reflect that a more understandable rate structure would be appreciated. In  
3       view of this, the Staff characterization of our rate restructuring proposals as a  
4       “whim,” is inappropriate and incorrect. The Staff request for studies and focus  
5       groups ignores the discussions and handouts at the technical conferences.<sup>5</sup>

6       Q.     Have the parties faced resource constraints in completing their work in this case?

7       A.     All parties have faced similar constraints during the three plus years this docket has  
8       been open. Both Staff and OPC, though the OPC in particular, have repeatedly  
9       expressed a desire for more time to do their work.

10      Q.     Is there value in constraining resources?

11      A.     Yes. On page 5 of my direct testimony I state that customers would receive less  
12      value than it is worth if one tried to provide a cost study for each customer  
13      individually.<sup>6</sup> There is a need to limit the resources committed to a task to a level less  
14      than the benefits expected to be achieved by completing the task. There is also the  
15      need to set deadlines. OPC and Staff have both expressed the desire for more time,  
16      but extending a deadline indefinitely removes the incentive to work on a project.  
17      Finally, there is the maxim that justice delayed is justice denied. Aquila has  
18      expended significant efforts in designing the new rate structures, and has  
19      communicated with the other parties regarding rate restructuring for over three years.  
20      The first year and a half was spent collecting and analyzing sample data for MPS  
21      Schools & Churches at the request of Staff. To further extend this rate design effort,

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<sup>5</sup> Rebuttal testimony of James C. Watkins, pg. 2, line 15, and pg. 6, line 23.

<sup>6</sup> Direct testimony of J. Matt Tracy, pg. 5, lines 12-13.



1 or to abort it entirely because Staff and OPC have not fully devoted their resources to  
2 this case or this issue is not appropriate.

3 Q. Has the OPC implied that the entire COS process has taken too long, and that the  
4 COS results should be discounted because of the delay?

5 A. Yes.

6 Q. How do you respond?

7 A. This is an especially inappropriate complaint, given the OPC's role in delaying the  
8 progress of this case.

9 Q. Please explain.

10 A. As evidenced by the timeline of this case provided in my direct testimony, beginning  
11 on page 3,<sup>7</sup> Aquila's initial COS was provided to all parties on June 18, 2004. No  
12 other party provided a COS in reply. Eleven months later, on May 6, 2005, Aquila  
13 provided an updated COS study at the first of three technical conferences **jointly**  
14 proposed by the parties to the case.<sup>8</sup> On June 17, 2005, the second jointly proposed  
15 conference was held with the express purpose of receiving COS studies from the  
16 other parties. COS were provided by Staff and jointly by industrial users. OPC did  
17 not provide a COS. At the third jointly proposed conference on June 29, 2005, in  
18 response to inquiries about OPC's COS, the reply was that it was not ready, and no  
19 estimate of when it would be ready was available. OPC finally provided a COS to the  
20 other parties in OPC's direct testimony, on September 19, 2005.

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<sup>7</sup> Direct testimony of J. Matt Tracy, pg. 3, line 9 through pg. 4, line 8.

<sup>8</sup> Joint Response to Order Directing Filing, 4/18/05, item 56 in EFIS Docket Sheet.

SECTION IV – Implementation Methods

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- Q. What events need to occur to implement the results of this case in view of Aquila's pending revenue requirements case, Case No. ER-2005-0436?
- A. There are three events that need to occur to implement the combined changes: one, the revenue requirement change, if any, ordered in Case No. ER-2005-0436; two, rate restructuring ordered in this case; and three, revenue neutral shifts between classes to move to COS ordered in this case.
- Q. Are there any limitations to implementing all three events at the same time?
- A. Yes. It is the usual practice in Missouri to implement changes in revenue requirements resulting from a rate case on a pro-rated basis from the effective date of the tariff. Aquila's billing system is capable of pro-rating bills based on changes in levels, but is not able to pro-rate a bill when the fundamental structure of a customer's rate changes.
- Q. Given that limitation, how do you propose to implement the three changes?
- A. I propose implementing any revenue requirement change ordered in Case No. ER-2005-0436 as an across-the-board change on the effective date of the compliance tariffs so that it can be implemented on the customary pro-rated basis. The rate restructuring and revenue neutral shifts would then be implemented with the June 2006 billing cycle.
- Q. Why pick the June billing cycle?
- A. It is particularly appropriate for this change.
- Q. Please explain.

1 A. Aquila's current and proposed rates are seasonally differentiated, with higher rates  
2 during a four-month period from June through September. Customers are already  
3 accustomed to changes in rates occurring with their June bills, so rolling in the  
4 changes over the June billing cycle will coincide with their existing expectations.

5 Q. What alternative exists if the Commission determines that the combination of the  
6 revenue change from Case No. ER-2005-0436 and the revenue neutral change from  
7 this case is greater than the Commission wants to implement within three months?

8 A. In that circumstance, the June 2006 bill cycle could include the rate restructuring and  
9 half of the movement of the revenue neutral shifts. The October 2006 bill cycle,  
10 when the higher seasonal rates end, could then implement the other half of the  
11 movement of the revenue neutral shifts. Again, the changes would occur at times  
12 when customers already have some expectation of changes in rates. The impact on  
13 those customers for which the greatest increases in revenue have been demonstrated  
14 would be mitigated over the first summer, when usage is highest for most customers,  
15 and implement the full changes at a time when usage is generally the lowest of the  
16 year, and rates have fallen to the lower seasonal level.

17 Q. Are there other issues to note?

18 A. I found that Staff's transmission TOU demand allocator spreadsheets had an error.  
19 The dates were miss-aligned. Data for August was shifted to December, moving the  
20 peak out of the summer. I pointed the problem out to Staff witness James Watkins.  
21 On October 25, 2005 he provided corrected information to the parties.

22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes it does.

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

In the matter of an Examination of Class Cost of Service ) Case No. EO-2002-384  
And Rate Design in the Missouri Jurisdictional Electric )  
Service Operations of Aquila, Inc., formerly known as )  
UtiliCorp United Inc. )

[illegible]


AFFIDAVIT OF J. MATT TRACY

J. Matt Tracy, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of J. Matt Tracy;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

  
J. Matt Tracy

Subscribed and sworn to before me this 27th day of October, 2005.

61 November, 2005.

  
\_\_\_\_\_  
Notary Public  
Terry D. Lutes

My Commission expires:

8-20-2008



**TERRY D. LUTES**  
Jackson County  
My Commission Expires  
August 20, 2008