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Issue:	*Rate Design*
Witness:	*Robin Kliethermes*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2016-0023*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

OPERATIONAL ANALYSIS DEPARTMENT

SURREBUTTAL TESTIMONY

OF

ROBIN KLIETHERMES

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

Jefferson City, Missouri
May 2016

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Q. Please state your name and business address.

A. Robin Kliethermes, 200 Madison Street, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission ("Commission") as a Regulatory Economist III.

Q. Are you the same Robin Kliethermes who has previously filed testimony in Staff's *Revenue Requirement Cost of Service Report* and Staff's *Rate Design and Class Cost of Service Report* as well as rebuttal testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to Division of Energy's ("DE") witness Martin Hyman regarding customer impacts, to respond to Office of the Public Counsel's ("OPC") witness Geoff Marke regarding customer comments, and to respond to Missouri Energy Users Association's ("MEUA") witness Donald Johnstone regarding the allocation of distribution costs in Staff's Class Cost of Service Study ("CCOS").

RESPONSE TO DIVISION OF ENERGY REGARDING THE RESIDENTIAL CUSTOMER CHARGE

Q. Do you agree with Mr. Hyman that the customer charge is not the driver of the increase in the case?

A. In general yes, however, the customer charge was not increased in the last case and the value of Staff's calculated customer charge in this case, $18.62,[1] is approximately the same as Staff's calculated customer charge in Empire's last rate case, $18.42.

Q. Did Staff recommend an increase in the customer charge in Empire's last rate case?

A. Yes. Staff recommended that the customer charge increase by the same percentage as the overall residential class increase. At the time of rebuttal testimony in the last case, Staff's recommendation would have resulted in a $0.43 increase in the customer charge from $12.52 to $12.95. [2]

Q. Did Staff make a similar recommendation in this case?

A. No. Staff recommends the customer charge be set at $15.00.

Q. Did Staff receive guidance from the Commission in subsequent rate cases after the last Empire case[3] regarding the Residential customer charge?

A. Yes. In Case No. ER-2014-0370, the Commission approved an increase in the Residential customer charge from $9.00 to $11.88 for Kansas City Power & Light. Below is an excerpt from the Commission's Report and Order.

[1] Based on Staff's updated CCOS run supplied in the rebuttal workpapers of Robin Kliethermes.

[2] Page 2 of Robin Kliethermes' rebuttal testimony.

[3] Case No. ER-2014-0351.

> Determining an appropriate customer charge is a question of rate design, not a question of the company's revenue requirement. Any increase in the company's customer charge should be accompanied by a decrease in volumetric rates so that, in theory, the company recovers the same amount of revenue. The Commission considers that an important goal of rate design is to recover costs from those who cause the costs to be incurred. Therefore, the Commission concludes that the appropriate residential customer charge is $11.88 per month, based on Staff's cost of service study.[4]

Q. Is Staff recommending the Commission approve Staff's calculated Residential customer charge in this case?

A. No. Staff's calculated customer charge of $18.62 is based on the Residential class' fully-allocated, embedded cost of service. Although Staff's rate design recommendation makes adjustments to bring the Residential class closer to its fully-allocated, embedded cost of service, it does not go to the full level. Therefore, Staff is not recommending the Commission approve Staff's calculated customer charge of $18.62.

Q. Do you agree with Mr. Hyman that Staff's inclusion of customer deposits, uncollectible accounts, sales expense, and other billing expenses in Staff's calculation of the customer charge does not strictly follow NARUC's cost allocation methodology?

A. No. First, it is important to note that the section of the NARUC manual that Mr. Hyman quoted in his rebuttal testimony is addressing how costs in FERC Accounts 901-917 should be allocated to the rate classes, rather than directly stating that those costs should or should not be included in the calculation of the customer charge. Additionally, he emphasized in parts of the NARUC definition that several of these costs, such as uncollectible expense and sales expense, should be directly assigned to the customer class

[4] Pages 89 - 90 of Commission's Report and Order.

rather than allocated on the number of customers. Staff based its allocators for these costs on information from Empire that provided a direct assignment of these costs to the customer classes,[5] therefore following the NARUC cost allocation methodology that Mr. Hyman quoted in his rebuttal testimony.

However, customer deposits are not included in FERC Accounts 901 – 917, and therefore are not included in this section of the NARUC manual. In fact, Staff could not find customer deposits mentioned in the NARUC manual.

Q. Do you agree with Mr. Hyman that if all customers do not call customer service than some customer service costs should be removed from the customer charge calculation?

A. No. Whether or not all customers call customer service or spend an equal amount of time with customer service personnel, the service still needs to be in place to serve all of the utility's customers. Additionally, to remove the costs from the customer charge and place those costs in the energy charge would assert that it is more appropriate that customer service expenses vary with a kWh of energy sold rather than the number of customers a utility serves. This is not an appropriate assumption, since every new customer is an additional account to manage and an additional bill to mail.

Q. What costs does Staff include in the calculation of the customer charge?

A. Staff includes costs associated with distribution service lines (investment and expenses), distribution meters (investment and expenses), FERC accounts 901-917[6] (relating

[5] Please see Staff Rate Design and Class Cost of Service Report page 27 for a more detailed explanation of how these costs were allocated to customer classes.

[6] It is important to note that not all costs that are booked in these accounts are included in the calculation of the customer charge. In some cases there are several sub-accounts that get included, such as amortizations for solar rebates or DSM programs. These costs should be removed from the calculation of the residential customer charge.

to customer installations, customer meter reading, other customer billing expenses, uncollectible accounts, customer service and information expenses, and sales expense), customer deposits, and a portion of income taxes.

Q. Mr. Hyman addresses concerns regarding the costs of uncollectible expense in the calculation of the customer charge, did Staff address these concerns?

A. Yes, at page 38, footnote 40, of Staff's *Rate Design and Class Cost of Service Report,* Staff explains that it ran a CCOS example including only 10%[7] of the uncollectible expense in the Residential customer charge calculation and reduced the customer charge to approximately $17.00 per month per customer.

Q. Is Staff's recommended customer charge below the calculated customer charge with the energy portion of uncollectible expense removed?

A. Yes.

Q. Do you agree with Mr. Hyman that that Staff's customer charge recommendation does not consider public policy regarding energy efficiency?

A. No. Staff's recommended customer charge of $15.00 does not cover the total revenue responsibility of the Residential class, causing the energy charges to increase to pick up the remaining residential revenue responsibility. Therefore, Staff did not ignore the public policy regarding energy efficiency because customers will experience savings by participating in energy efficiency. The increase in the energy charges will just not increase as much as they would with no increase in the customer charge. For example, Table 1 shows Empire's current Residential rates and Table 2 shows the approximate rates for the Residential class given

[7] 10% was derived from the amount of revenue that the Residential class receives from its Customer Charge; the other 90% of class revenue is received through the energy charge.

Staff's overall rate design recommendation. The energy charge will still increase by approximately 5.8%, which will still allow for customers to experience savings from energy efficiency.

Table 1: Current Rates

Empire Rates	Summer	Winter
Customer Charge	$ 12.52	$ 12.52
First 600	$ 0.12254	$ 0.12254
Over 600	$ 0.12254	$ 0.09961

Table 2: Staff's Rate Design

Empire Rates	Summer	Winter
Customer Charge	$ 15.00	$ 15.00
First 600	$ 0.12960	$ 0.12960
Over 600	$ 0.12960	$ 0.10535

Table 3 provides the approximate rates given Staff's rate increase recommendation, without the changed customer charge. The energy charge will increase by approximately 7.8%, just two percent more than the energy charges under Staff's rate design proposal.

Table 3: Staff's Rate Design (No Change in Cust. Charge)

Empire Rates	Summer	Winter
Customer Charge	$ 12.52	$ 12.52
First 600	$ 0.13205	$ 0.13205
Over 600	$ 0.13205	$ 0.10734

Q. Did Mr. Hyman provide a cost basis for his recommended customer charge of $12.52?

A. No. Mr. Hyman provides varying definitions of customer-related costs and general policy perspectives regarding what costs should or should not be in the calculation of the customer charge but he does not list specific dollar values or FERC accounts that should be included in the calculation of the customer charge. He further states that Staff inappropriately assigned as much as 40.12% of the costs Staff calculated to be recovered through the customer charge, but does not state exactly what level of costs are inappropriately

assigned.[8] In fact, Mr. Hyman did not perform a CCoS study in this case or develop any allocators in this case.

RESPONSE TO OPC REGARDING CUSTOMER COMMENTS

Q. Did you review the rebuttal testimony of OPC witness Geoff Marke?

A. Yes. As an attachment to his testimony Dr. Marke included four customer comments. Three of the four comments addressed high utility bills.

Q. How does Staff's rate design proposal impact these customers?

A. In two of the comments, customers complained about having a $400 electric bill and a $250 electric bill respectively. Although the customers do not specifically state how many kWhs they are using each month in their comments, if a customer has a $400 electric bill and a $250 dollar electric bill, only $12.52 of these bills are from the customer charge. Therefore, these two customers are using well above the average use per customer of 1,086 kWh a month. Under Staff's rate design proposal, these customers would receive a slightly lower percentage increase than if the customer charge was held constant.

For the third customer, unfortunately, she does not provide the bill's amount; only that it is going up even though they have tried to reduce their energy consumption by hanging clothes outside, unplugging appliances, and purchasing energy-saving light bulbs. Again, because Staff is putting a lower percentage increase on the energy charges, Staff's rate design proposal could provide a slightly lower percentage increase.

[8] Page 13 of Mr. Hyman's Rebuttal testimony.

RESPONSE TO MEUA REGARDING STAFF'S ALLOCATION OF DISTRIBUTION COSTS

Q. Have you reviewed Mr. Johnstone's testimony regarding system diversity at distribution facilities levels and Staff's choice of allocation for distribution facilities?

A. Yes, I have reviewed it. Mr. Johnstone appears to assume that Staff's allocation of distribution facilities was either based on the relative contribution of each class to a single system coincident peak ("CP"), or perhaps the average relative contribution of each class to up to four system coincident peaks.

Q. Are either of those approaches how Staff developed the allocators for distribution facilities?

A. No. Staff's allocator for these distribution facilities is a mild variation on the non-coincident peak method that Mr. Johnstone advocates. As I will illustrate in the examples below, to recognize that some level of system diversity exists at the distribution level, I utilized the peak of each class that was coincident with the system peak in one of the twelve months.

Q. Is system diversity relatively high at substation?

A. Yes, since most, if not all, of the customer are taking service at this level there is diversity among customer classes and customers within the class, especially rate classes such as Large Power ("LP") and General Power ("GP"), who serve customers at different voltage levels all within the same class.

Q. Is system diversity relatively high at primary?

A. In general yes, however, there is less system diversity at the primary level than at the substation level, since some customers are only served at substation and are no longer taking service at the primary voltage level.

Q. Is system diversity relatively high at secondary?

A. No. Only customers served at secondary are accounted for at secondary and therefore there is less diversity among classes at the secondary voltage level.

Q. Does use of the CP's accurately reflect that distribution facilities must be sized to serve all customers?

A. Yes. Since Staff used each class's highest peak at one of the twelve system peaks, the CPs appropriately reflect the diversity among the classes by capturing the highest demand that a class required of the system while the system as a whole was peaking in one of the twelve months. If Staff would have used NCPs rather than CPs, the allocator would have reflected each class's highest demand regardless of the system peak and would not have captured the diversity that classes peak at different times and distribution facilities can therefore be shared.

Q. Does Staff oppose changing the distribution plant allocations back to peak NCPs rather than peak CPs?

A. By using each class's peak CP, Staff was trying to more appropriately capture the diversity among the classes by reflecting the highest demand that a class required of the system while the system was peaking in one of the twelve months, rather than just reflecting each class's highest peak usage without any regard to what that class was using during a system peak. However, the percentage difference between using each class's peak NCP or each class's peak CP in this case is insignificant and the overall difference these allocations have on the overall outcome of Staff's CCOS study is minimal, so Staff does not oppose using NCPs. If Staff would change the allocators in Staff's CCOS study, it would not change

any of Staff's analysis or rate design proposal. Table 4 below shows the percentages that would result from using either each class' peak CP or each class's peak NCP.

Table 4: Allocation Percentages

	Residential	Commercial	Small Heating	Total Eletric Building	General Power	Large Power	Praxair	Feed Mills	Lighting
%Peak CP @Substation	52.716%	7.686%	2.892%	9.917%	16.099%	9.533%	0.761%	0.025%	0.372%
%Peak CP @Primary	53.120%	7.745%	2.914%	9.993%	16.222%	9.606%	0.000%	0.025%	0.375%
%Peak CP@Secondary	59.212%	8.633%	3.249%	11.139%	15.683%	1.638%	0.000%	0.028%	0.417%
%Peak NCP @Substation	51.718%	8.275%	2.823%	9.681%	16.079%	9.545%	0.749%	0.029%	1.101%
%Peak NCP @Primary	52.108%	8.338%	2.845%	9.754%	16.200%	9.617%	0.000%	0.029%	1.110%
%Peak NCP@Secondary	58.478%	9.357%	3.192%	10.947%	15.202%	1.546%	0.000%	0.032%	1.245%

Q. What month's peak did you use for each class?

A. Table 5 below shows each class's peak CP. For the Residential, Total Electric Building ("TEB"), and Small Heating ("SH") rate classes, their highest CP fell in the month of January. For the Commercial and GP rate classes, their highest CP fell in the month of August, and for the Large Power and Praxair rate classes, their highest CP fell in the month of October. Feed Mills and Lighting classes had their highest CPs in September and November, respectively.

Table 5: Class Peak CP

	Residential	Commercial	Small Heating	Total Eletric Building	General Power	Large Power	Praxair	Feed Mills	Lighting
Peak CP @Substation	557,041	81,216	30,560	104,793	170,116	100,729	8,040	267	3,928
Peak CP @Primary	545,584	79,545	29,932	102,637	166,617	98,658	-	261	3,847
Peak CP@Secondary	537,257	78,331	29,475	101,071	142,299	14,861	-	257	3,788

Q. What was the non-coincident peak of each class?

A. Table 6 below shows each class's peak NCP.[9]

Table 6: Class Peak NCP

	Residential	Commercial	Small Heating	Total Eletric Building	General Power	Large Power	Prasair	Feed Mills	Lighting
Peak NCP @Substation	559,811	89,577	30,560	104,793	174,040	103,317	8,106	311	11,922
Peak NCP @Primary	548,297	87,734	29,932	102,637	170,461	101,192	-	304	11,677
Peak NCP@Secondary	539,928	86,395	29,475	101,071	140,357	14,278	-	300	11,499

Q. Does this conclude your testimony?

A. Yes.

[9] Staff would note that typically a class's CP is less than or equal to its NCP. For example, the Total Electric Building rate class and Small Heating rate class peaked at the same time the system was peaking so they have the same demands for NCP and CP. However, since the Large Power class serves customers at Secondary, Primary and Transmission, the class as a whole will set the peak at the generation level and then as you move down voltage levels, customers drop out. The secondary customers had a higher demand at the class's peak CP than they did at the class's highest peak regardless of system peak.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company's Request for Authority to Implement a General Rate Increase for Electric Service	)))	Case No. ER-2016-0023

AFFIDAVIT OF ROBIN KLIETHERMES

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW ROBIN KLIETHERMES and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing SURREBUTTAL TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

ROBIN KLIETHERMES

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 13th day of May, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

Notary Public