

Exhibit No.:
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Witness: Maurice Brubaker
Type of Exhibit: Rebuttal Testimony
Sponsoring Parties: Missouri Industrial Energy Consumers
and Midwest Energy Consumers' Group
Case No.: ER-2014-0370
Date Testimony Prepared: May 7, 2015

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

_____)
In the Matter of Kansas City)
Power & Light Company's Request) **Case No. ER-2014-0370**
for Authority to Implement A General)
Rate Increase for Electric Service)
_____)

Rebuttal Testimony and Schedules of

Maurice Brubaker

On behalf of

**Missouri Industrial Energy Consumers
and
Midwest Energy Consumers' Group**

May 7, 2015



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_____)


Case No. ER-2014-0370

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Maurice Brubaker

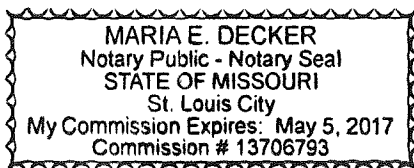
Maurice Brubaker, being first duly sworn, on his oath states:


1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers and Midwest Energy Consumers' Group in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes are my rebuttal testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0370.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



Maurice Brubaker

Subscribed and sworn to before me this 6th day of May, 2015.





Notary Public

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

)	
In the Matter of Kansas City)	
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)	

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

**In the Matter of Kansas City
Power & Light Company's Request
for Authority to Implement A General
Rate Increase for Electric Service**

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Case No. ER-2014-0370

Rebuttal Testimony of Maurice Brubaker

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Maurice Brubaker. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME MAURICE BRUBAKER WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes. I have previously filed direct testimony on both revenue requirement issues and
7 cost of service/rate design issues presented in this proceeding.

8 **Q ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**
9 **YOUR PRIOR TESTIMONY?**

10 A Yes. This information is included in Appendix A to my revenue requirement direct
11 testimony filed April 2, 2015.

12 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
14 ("MIEC") and Midwest Energy Consumers' Group ("MECG"). These organizations'
15 members purchase substantial amounts of electricity from Kansas City Power & Light

**Maurice Brubaker
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1 Company ("KCPL") and the outcome of this proceeding will have an impact on their
2 cost of electricity.

3 **Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

4 A The purpose of my rebuttal testimony is to address the cost of service and certain
5 rate design recommendations of KCPL, the Staff of the Missouri Public Service
6 Commission ("Staff") and the Office of Public Counsel ("OPC"). Although there are a
7 number of differences among the various studies, the largest difference is with
8 respect to the allocation of production plant investment and related fixed expenses. I
9 will respond to KCPL's proposal to use an Average & Peak ("A&P") allocation
10 method, as well as to Staff's allocation studies that utilize either a Detailed Base,
11 Intermediate and Peak ("BIP") method, or a non-detailed BIP method. OPC generally
12 endorses KCPL's cost study, so my response to KCPL will include my response to
13 OPC's cost of service study proposal.

14 **Q PLEASE SUMMARIZE YOUR PRIMARY FINDINGS AND RECOMMENDATIONS.**

15 A They may be summarized as follows:

- 16 1. KCPL's and OPC's preferred allocation of generation fixed, or demand-related,
17 costs is premised on the A&P allocation method that has been rejected by this
18 and other Commissions. It double-counts energy consumption and
19 over-allocates costs to high load factor customers, and should again be
20 rejected.
- 21 2. Staff's BIP allocation methods are outside the mainstream, in many ways
22 conflict with prior Commission rulings, and should not be adopted.
- 23 3. Staff's studies use an inappropriate allocation of production system non-fuel
24 O&M expense. That allocation is biased toward energy consumption and does
25 not reflect the fact that these expenses are incurred primarily as a function of
26 the existence of the assets, and that it is conventional to allocate these types of
27 costs using a production demand allocation factor.

- 1 4. Staff's studies are also flawed because the allocation of administrative and
2 general ("A&G") expense is on the basis of other previously allocated O&M
3 expense that includes fuel and purchased power expenses. It is conventional to
4 exclude fuel and purchased power expenses when developing the base used to
5 allocate A&G expense because fuel and purchased power expenses
6 themselves have little impact on A&G expense.
- 7 5. Staff's cost of service study results are not comparable to each other, and
8 certainly are not comparable to the results of studies that this Commission has
9 previously approved.
- 10 6. The recommendation of the Missouri Department of Economic Development,
11 Division of Energy ("DED") to require mandatory participation in
12 KCPL-administered energy efficiency programs as a requirement for
13 participation in economic development programs should be rejected as
14 unsupported and counter-productive.

CLASS COST OF SERVICE ISSUES

15

16 **Q HAVE YOU REVIEWED THE TESTIMONY OF KCPL WITNESS TIM RUSH, OPC**
17 **WITNESS DR. DAVID DISMUKES AND THE STAFF RATE DESIGN AND CLASS**
18 **COST OF SERVICE REPORT ("STAFF REPORT") ON THE ISSUE OF CLASS**
19 **COST OF SERVICE?**

20 A Yes.

21 **Q DO YOU HAVE REBUTTAL TO THE POSITIONS OF THESE WITNESSES?**

22 A Yes, I do. I disagree with the methods that these witnesses have used for the
23 allocation of generation system fixed costs and with respect to the allocation of
24 certain other components of cost of service. In my rebuttal, I shall at times contrast
25 the proposals of these witnesses with the Average and Excess Four Non-Coincident
26 Peak ("A&E-4NCP") method that I supported in my direct testimony.

1 **KCPL's Study**

2 **Q WHAT METHOD HAS KCPL USED FOR THE ALLOCATION OF GENERATION**
3 **FIXED, OR DEMAND-RELATED, COSTS?**

4 A Generation fixed, or demand-related costs, are fixed costs that KCPL incurs to meet
5 the electricity demand of its customers and include the cost of power plants and
6 transmission facilities. KCPL's recommended method is an A&P allocation method.
7 In particular, KCPL uses the four monthly coincident peak demands of each customer
8 class along with each class's annual energy consumption. The energy component is
9 weighted equal to the system's annual load factor. The result is to give only about
10 44% weighting to the contributions of the four monthly coincident peaks, and 56%
11 weighting to annual energy consumption.

12 **Q IS KCPL'S USE OF THE A&P ALLOCATION METHOD UNIQUE AMONG**
13 **REGIONAL ELECTRIC UTILITIES?**

14 A Yes. In their most recent rate cases, Ameren (ER-2014-0258); Empire District
15 Electric Company (ER-2014-0351) and Westar (15-WSEE-115-RTS) have each relied
16 upon the Average and Excess method for allocating generation fixed costs.

17 **Q DOES KCPL EXPLAIN THE BASIS FOR SELECTING THIS ALLOCATION**
18 **METHODOLOGY?**

19 A No. While KCPL explains the basis for the use of the four peaks, it does not explain
20 or attempt to justify why the A&P method is appropriate for KCPL. It only notes that
21 this method is mentioned in the National Association of Regulatory Commissioners
22 ("NARUC") Cost Allocation Manual ("NARUC Manual").

1 **Q DOES THE FACT THAT A METHOD IS MENTIONED IN THE NARUC MANUAL**
2 **GIVE IT CREDIBILITY OR SUGGEST THAT IT IS ACCEPTED IN THE INDUSTRY?**

3 A No.

4 **Q PLEASE EXPLAIN.**

5 A The fact that a particular method is noted in the NARUC Manual simply means that
6 the individuals who prepared the NARUC Manual included it because it had been
7 recommended by participants in one or more rate cases at or near the time the
8 NARUC Manual was published – 1992. There are a number of allocation methods
9 that are described in the NARUC Manual that are not commonly used and that have
10 not found wide support in the industry. KCPL's A&P method clearly falls into that
11 category.

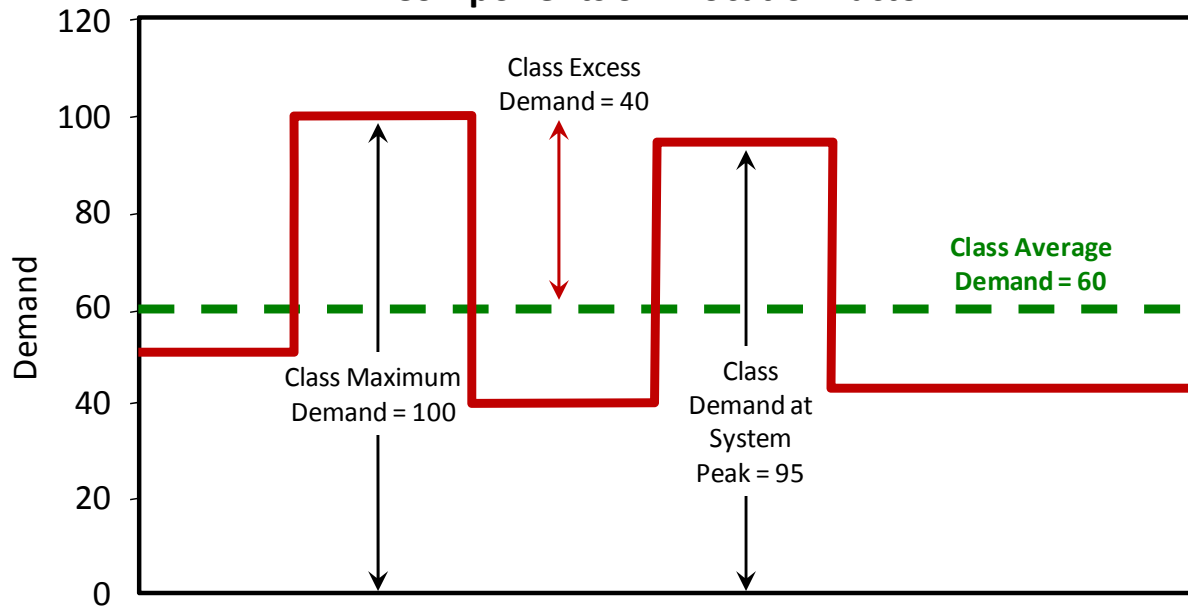
12 **Q HOW DOES THE A&P ALLOCATION METHOD DIFFER FROM THE A&E**
13 **METHODOLOGY THAT YOU USED IN YOUR CLASS COST OF SERVICE**
14 **STUDY?**

15 A KCPL's A&P allocator is constructed by multiplying each class's percentage energy
16 responsibility factor (average demand) times the system load factor, and adding that
17 result to each class's percentage contribution to the class peaks multiplied by the
18 quantity 1 minus the load factor.

19 Both the A&P and A&E methods are two-step processes. In both methods,
20 the first step is to weight the average demand by the system load factor. The second
21 step is where a major difference occurs. This is illustrated in Figure 1.

Figure 1

Components of Allocation Factor



1 Q PLEASE REFER TO FIGURE 1 AND EXPLAIN THE DIFFERENCES.

2 A Figure 1 is a simplified representation of a class load. The maximum demand of this
3 particular class is represented as 100. Its contribution at the time of the system peak
4 is 95, its average demand is 60, and the excess demand (the difference between its
5 peak demand and its average demand) is 40.

6 As explained in more detail beginning at page 17 of my direct testimony on
7 cost of service, the A&E method that I recommend, and that is accepted in the
8 mainstream, combines the class average demand with the class excess demand in
9 order to construct an allocation factor that reflects average use as well as the excess
10 of each class's maximum demand over its average demand. The A&E allocation
11 factor is developed using the average demand (60) and the excess demand (40) for
12 this class, along with the corresponding demands for all other classes. (This is shown
13 in detail on Schedule MEB-COS-3 attached to my direct testimony on cost of service.)

1 KCPL's A&P method, on the other hand, combines the average demand with
2 the class monthly peak demands. As is evident from Figure 1, the average demand
3 (60) is a component or sub-set of the class peak demand (100) and of the class load
4 coincident with the system peak (95). Accordingly, in the A&P method when roughly
5 equal weighting is given to the average demand and the contribution to system peak
6 demand, the average demand is double-counted. This is a serious error, and has the
7 effect of allocating significantly more costs to high load factor customers than is
8 appropriate.

9 **Q HAS THE COMMISSION PREVIOUSLY RULED ON KCPL'S PROPOSED**
10 **METHOD?**

11 A Yes. The Commission has previously rejected the use of the A&P method on
12 numerous occasions. The most recent rejection was at page 70 and 71 of the
13 Commission's April 29, 2015 Order in an Ameren Missouri electric rate case, MoPSC
14 Case No. ER-2014-0258, which reads:

15 "The weakness with the P&A methodology is that after dividing the
16 average and excess components, instead of allocating just the
17 excess average demand to the cost-causing classes, it allocates
18 the entire peak demand to the various classes. That has the effect
19 of double counting the average demand and allocates more costs
20 to large industrials that have a steady but high average demand
21 that does not contribute as much to the system peaks. That method
22 works to the benefit of the residential class whose usage varies
23 more by time of day and time of year."¹⁷⁵

24 (Report and Order, pages 70-71, paragraph 6, April 29, 2015, footnote omitted)

25 **Q IS THE A&P METHOD USED BY KCPL A REASONABLE ONE TO USE?**

26 A No, it is not. As noted above, this allocation gives more weighting to annual energy
27 consumption than to the class peaks used in the allocation of the investment in

1 generation facilities. Since generation facilities must be designed to carry the peak
2 loads imposed on them, the heavy weighting given to energy consumption (56%) in
3 the allocation factor is not related to cost of service at all.

4 Unlike the A&E method, which considers class individual peaks and class load
5 factors, as well as diversity between class peaks and system peak, the A&P method
6 arbitrarily allocates over half of these costs on annual energy consumption.

7 **Symmetry of Fuel and Capital Cost Allocation**

8 **Q DO YOU HAVE ANY DISAGREEMENT WITH THE ALLOCATION OF FUEL AND**
9 **VARIABLE PURCHASED POWER COSTS ON THE BASIS OF CLASS ENERGY**
10 **REQUIREMENTS, ADJUSTED FOR LOSSES?**

11 A In the context of traditional studies like coincident peak and A&E, I do not. However,
12 in the context of the non-traditional studies like A&P and others, which heavily weight
13 energy in the allocation of fixed or demand-related generation costs, it is not
14 appropriate.

15 **Q PLEASE EXPLAIN WHY IT IS NOT APPROPRIATE TO ALLOCATE ENERGY**
16 **COSTS IN THIS FASHION WHEN USING NON-TRADITIONAL STUDIES SUCH AS**
17 **A&P AND OTHERS.**

18 A These studies allocate significantly more generation fixed costs to high load factor
19 customers than do the traditional studies. In other words, the higher the load factor of
20 a class, the larger the share of the generation fixed costs that gets allocated to the
21 class. If the costs allocated to classes under these methods were divided by the
22 contribution of these classes to the system peak demand, or by the A&E demand, the
23 result is a higher capital cost per kW for the higher load factor classes, and a lower

1 capital cost per kW for the low load factor classes. Effectively, this means that the
2 high load factor classes have been allocated an above-average share of capital costs
3 for generation, and the low load factor customer classes have been allocated a below
4 average share of capital costs.

5 Given these allocations of capital costs, it would not be appropriate to use the
6 same fuel costs for all classes. Rather, the fuel cost allocation should recognize that
7 the higher load factor customer classes should receive below average fuel costs to
8 correspond to the above-average capital costs (similar to base load units) allocated to
9 them, and the lower load factor classes should get an allocation of fuel costs that is
10 above the average, corresponding to the lower than average capital costs (i.e.,
11 peaking units) allocated to them.

12 **Q WHY WOULD IT BE APPROPRIATE TO RECOGNIZE A LOWER FUEL COST**
13 **ALLOCATION TO THOSE CLASSES THAT ARE ALLOCATED A HIGHER**
14 **CAPITAL COST?**

15 A It is not only appropriate, but it is essential if heavily energy-weighted allocations of
16 generation costs are employed. Failure to make this kind of distinction would charge
17 high load factor customers above-average capital costs, but not allow them to have
18 the related below-average energy costs; and charge the low load factor customers
19 below-average capital costs, yet still allow them to enjoy average fuel costs.

20 **Q HAVE YOU PERFORMED ANY CALCULATIONS AND DEVELOPED A**
21 **SCHEDULE TO ILLUSTRATE THIS?**

22 A Yes, I have. Please refer to page 1 of Schedule MEB-COS-R-1 attached to this
23 testimony. This schedule compares the capacity costs per kW and the energy costs
24 per kilowatthour ("kWh") across classes for the traditional A&E allocation method and

1 the A&P method. To establish a common framework of costs for the analysis, so as
2 to isolate the impacts just of allocation methodology, I used the total generation
3 capacity costs and total generation energy costs from KCPL's cost of service study
4 and applied my allocation factors (traditional) as well as KCPL's demand and energy
5 allocators to these total amounts. I then divided the results by the A&E capacity kW
6 and by the class megawatthours ("MWh").

7 **Q PLEASE EXPLAIN WHAT THIS SCHEDULE SHOWS.**

8 A The top part of Schedule MEB-COS-R-1 shows that under traditional allocation
9 methods the capacity costs per kW and the energy costs per kWh allocated to each
10 class are the same.

11 The bottom part shows the allocation results under KCPL's A&P method.
12 Note from line 13 that the impact is to allocate significantly more capital costs, in fact,
13 24% more per kW to the Large Power class than under the traditional approaches,
14 which allocate average capacity costs to all classes. Note also that fuel costs per
15 kWh are essentially the same for all classes.

16 Page 2 of Schedule MEB-COS-R-1 graphically shows the skewing under the
17 A&P method.

18 **Q YOU INDICATED THAT THE ENERGY COSTS PER KWH ARE SHOWN TO BE**
19 **THE SAME UNDER THESE ALLOCATIONS. HOW DIFFERENT ARE THE**
20 **ACTUAL ENERGY COSTS OF THE DIFFERENT GENERATING FACILITIES?**

21 A They are quite diverse. For example, the fuel cost for the Wolf Creek nuclear unit is
22 about 0.7¢ per kWh, the base load coal plants have fuel costs in the range of 1.6¢ to
23 2.2¢ per kWh, the combined cycle units have fuel costs of about 6¢ per kWh, and
24 peakers have costs that are 6¢ per kWh to 12¢ per kWh. (Note: These fuel costs are

1 taken from KCPL's 2014 FERC Form 1 report.) Obviously, if some classes are
2 allocated higher capacity costs than others, they should be entitled to at least an
3 above-average share of the energy output from the higher capital cost, more fuel
4 efficient, base load type generating units, which would make their fuel cost per kWh
5 lower than average. The A&P allocation method advanced by KCPL does not
6 recognize this correspondence, and as a result over-allocates energy costs to high
7 load factor customers for this reason as well.

8 **Q WHAT SHOULD BE CONCLUDED FROM SCHEDULE MEB-COS-R-1?**

9 A This schedule clearly demonstrates that the non-traditional methods like A&P are
10 highly non-symmetrical. They burden high load factor classes with above-average
11 capacity costs, but do not allow them to benefit from the lower cost of energy that
12 goes with the higher capacity costs. No theory supports this result and these types of
13 studies should be rejected.

14 **Staff's Studies**

15 **Q WHAT COST OF SERVICE STUDIES DID STAFF PROVIDE?**

16 A Staff provided three different studies. It characterizes them as a Detailed BIP study,
17 a non-detailed BIP study and an A&E study. Staff prefers the Detailed BIP study and
18 that is the primary basis for its recommendations.

19 **Q WHAT SEEMS TO BE THE FUNDAMENTAL TENET OF THE BIP METHOD?**

20 A Staff does not say explicitly, but on page 15 the Staff Report discusses assigning
21 generation assets (deemed to be base load, intermediate or peaking) to BIP
22 demands that are deemed to represent the components of each class's load curve

1 that reflect the intended use of specific plant investments. By effectively choosing to
2 allocate 100% of the investment (fixed costs) associated with base load plants
3 essentially on the basis of class energy, Staff effectively is assuming that investment
4 in base load plants is not driven by total system demands but rather by a component
5 of class load profiles. We all know that this is not the basis for system planning. It
6 appears from Staff's studies that about 50% of total generation fixed costs are
7 allocated on the basis of class energy consumption rather than on the generally
8 accepted basis of a measure of maximum demand.

9 **Q PLEASE DESCRIBE GENERALLY THE DETAILED BIP STUDY.**

10 A With this study, generation plants are identified as base, intermediate or peaking.
11 Then, Staff looks at class load curves and attempts to associate class demand levels
12 with different plants, on the assumption that each class uses a different combination
13 of base, intermediate and peaking facilities. The demands for each class for each
14 type of plant assumed in Staff's study appear on page 18 of the Staff Report, and the
15 development of the production system fixed cost allocation factor appears at the top
16 of page 23 of the Staff Report.

17 **Q WITH THIS METHOD, HOW WAS THE COMPONENT OF THE ALLOCATION**
18 **FACTOR REPRESENTING BASE CAPACITY ASSIGNED TO CLASSES?**

19 A Although Staff goes through a very data-intensive analysis that entails looking at the
20 load of each customer class in each hour, the end result is that with this method, the
21 fixed costs associated with base load generation essentially are allocated on a
22 measure of class energy consumption as demonstrated below. The intermediate
23 plants are allocated as a function of class 12 monthly coincident peaks minus base

1 demands, and facilities identified as peaking facilities are allocated on class four
2 summer coincident peak demands reduced by the base and intermediate demands.

3 Since 100% of the fixed costs associated with plants designated as base load
4 are allocated to customer classes using the customer class energy requirement factor
5 as the basis for the allocation, Staff does not include any consideration of the times
6 that energy is consumed (i.e., when demands occur), and would therefore attribute
7 the same base load capacity cost to a customer that takes all of its load at the system
8 peak hour as it would to a class with the same amount of energy consumption taken
9 steadily at the same amount every hour throughout the year. (Please see the
10 discussion of demand versus energy costs at pages 12-14 of my direct testimony,
11 including Figure 3 on page 13 of that testimony.)

12 **Q HAVE YOU DEVELOPED A COMPARISON BETWEEN STAFF'S BASE**
13 **CAPACITY BY CLASS AND CLASS ENERGY CONSUMPTION?**

14 **A** Yes. That comparison appears in Table 1. Note that the relative percentages of
15 base load costs for each class in Staff's detailed BIP allocation factor development is
16 exactly equal to the relative responsibility of each class for energy.

TABLE 1

Comparison of Allocation of Base Load Plant Investment in Staff's Detailed BIP Study to an Allocation Based on Class Energy Usage

Line	Class	Staff's Base Capacity by Class ¹		Energy by Class	
		Costs (1)	Relative Percent (2)	MWh at Generation ² (3)	Percent (4)
1	Residential	\$ 278,623,348	30.69%	2,776,424	30.69%
2	Small General Service	\$ 44,557,864	4.91%	444,011	4.91%
3	Medium General Service	\$ 118,917,964	13.10%	1,184,993	13.10%
4	Large General Service	\$ 234,179,767	25.79%	2,333,546	25.79%
5	Large Power Service	\$ 222,537,018	24.51%	2,217,533	24.51%
6	Lighting	\$ 9,177,763	1.01%	91,456	1.01%
7	Missouri Retail	\$ 907,993,723	100.00%	9,047,963	100.00%

¹ Staff's Rate Design and Class Cost-of-Service Report, page 23.

² Workpaper of R Kliethermes - Staff CCOS allocators_KCPL.xlsx, Production Energy Allocator, tab AF.2&3.

1 Q DOES THE CONCEPT OF ALLOCATING BASE LOAD PLANT ON A MEASURE
2 OF CLASS ENERGY MAKE SENSE IN LIGHT OF SYSTEM PLANNING
3 CONSIDERATIONS?

4 A No. The BIP approach effectively attempts to assign only one purpose for each class
5 of plant. In reality, when systems are planned, the utility attempts to install that
6 combination of generation facilities which, giving consideration to fixed costs and
7 variable costs, as well as to all other relevant factors, is expected to serve the needs
8 of all customers, collectively, on a least-cost basis. All plants contribute to meeting
9 peak demands, and the failure to allocate the fixed costs associated with base load
10 plants on a measure of peak demand produces a biased result that over-allocates
11 costs to high load factor customers and under-allocates costs to low load factor
12 customers.

1 Q HAS THIS COMMISSION RULED ON THE USE OF DEMAND ALLOCATION
2 METHODS THAT ARE HEAVILY DEPENDENT UPON THE ENERGY USAGE BY
3 THE VARIOUS CUSTOMER CLASSES?

4 A Yes, numerous times. In an Ameren Missouri electric rate case, Case
5 No. ER-2010-0036, cost of service studies were offered wherein the allocation basis
6 for fixed generation cost was a weighted average of class energy consumption and
7 class contribution to peak demands. In ruling on the case, the Commission rejected
8 these heavily energy-weighted methods, stating:

9 "The Peak and Average method, in contrast, initially allocates average
10 costs to each class, but then, instead of allocating just the excess of
11 the peak usage period to the various classes to the cost causing
12 classes, the method reallocates the entire peak usage to the classes
13 that contribute to the peak. Thus, the classes that contribute a large
14 amount to the average usage of the system but add little to the peak,
15 have their average usage allocated to them a second time. Thus, the
16 Peak and Average method double counts the average system usage,
17 and for that reason is unreliable."²⁷⁸

18 (Final Order, page 85, paragraph 14, May 28, 2010, footnote omitted)

19 Q IN THE REFERENCED AMEREN MISSOURI CASE, WHAT PERCENTAGE OF
20 GENERATION FIXED COSTS WAS ALLOCATED ON ENERGY UNDER THOSE
21 PROPOSALS?

22 A About 55%.

23 Q HOW DOES THE ALLOCATION OF GENERATION CAPACITY COSTS ON CLASS
24 ENERGY CONSUMPTION UNDER THE BIP METHOD IN THIS CASE COMPARE
25 TO THE WEIGHTING IN AMEREN MISSOURI CASE ER-2010-0036 WHERE THE
26 ENERGY BASED ALLOCATION WAS REJECTED?

27 A It is similar: about 50% with BIP in this case as compared to 55% in the Ameren
28 case.

1 **Q WHAT IS THE BASIS FOR YOUR STATEMENT THAT THE WEIGHTING OF BASE**
2 **LOAD COST IN THIS CASE IS ABOUT 50%?**

3 A This is easily derived from the first table on the top of page 23 of the Staff Report, by
4 dividing \$908 million of base capacity cost by the total generation capacity cost of
5 \$1.811 billion.

6 **Q YOU WERE CRITICAL OF OPC'S STUDY BECAUSE IT LACKS SYMMETRY IN**
7 **THE ALLOCATION OF FIXED COSTS AND FUEL COSTS. IS THERE A SIMILAR**
8 **ISSUE WITH STAFF'S DETAILED BIP METHOD?**

9 A Yes. Staff's detailed BIP method clearly allocates above average capital cost to high
10 load factor customers, such as those on the LPS rate, and below average capital cost
11 to low load factor customers such as the residential class. Staff does perform a
12 separate allocation of fuel costs for each of its three categories of plant. However,
13 this differential allocation of fuel cost produces an insignificantly different result as
14 compared to allocating fuel costs on class kWhs, and in some cases is just
15 counterintuitive.

16 **Q PLEASE EXPLAIN.**

17 A The end result of Staff's fuel cost allocation for the LPS class is an average fuel cost
18 that is only slightly less than the overall average fuel cost. In particular, as compared
19 to an allocation of fuel cost on a kWh basis, Staff allocates to the LPS class only
20 0.05¢ per kWh, or 1.8%, less than the average. This is quite small, and nowhere
21 near the magnitude of the difference in the allocation of capital costs under Staff's
22 detailed BIP method.

23 Surprisingly, Staff's detailed BIP fuel cost allocation also produces a slightly
24 below average cost per kWh for the low load factor residential class. For the

1 residential class, the detailed BIP fuel allocation is less than the average fuel cost by
2 0.04¢ per kWh, or by about 1.4%. As noted above, it is counterproductive that this
3 low load factor class would have not only below average capital costs but also below
4 average fuel costs.

5 These kinds of anomalies are another reason why the BIP methodology and
6 its results must be regarded with skepticism, and also helps to explain why the
7 method has not received support in the industry.

8 **Q AT PAGE 16 OF THE REPORT, STAFF INDICATES THAT THE BIP METHOD IS**
9 **DISCUSSED IN THE NARUC MANUAL. DOES THE FACT THAT A GENERATION**
10 **ALLOCATION METHOD IS MENTIONED IN THE NARUC MANUAL GIVE IT**
11 **CREDIBILITY OR SUGGEST THAT IT IS ACCEPTED IN THE INDUSTRY?**

12 A No, for the reasons I have previously noted (pages 3 and 4 of this testimony) in
13 connection with my review of KCPL's proposed A&P method.

14 **Q IS THE BIP STUDY METHODOLOGY ACCEPTED IN THE INDUSTRY?**

15 A No, it is not. The BIP method first surfaced circa 1980 as an approach that some
16 thought might be useful when trying to develop time-differentiated rates. However,
17 the BIP method never caught on and is only infrequently seen in regulatory
18 proceedings. The BIP method is certainly not among the frequently used mainstream
19 cost allocation methodologies, and lacks meaningful precedent for its use.

1 Q YOU HAVE NOTED THAT THE STAFF'S BIP METHOD PROPOSED IN THIS
2 PROCEEDING IS NOT USED IN OTHER JURISDICTIONS AND IS NOT
3 SUPPORTED BY PRECEDENT OR ACCEPTED IN THE INDUSTRY. WHAT IS
4 THE SIGNIFICANCE OF THIS?

5 A Cost of service studies for electric systems have been performed for well over
6 50 years. This means that a significant amount of analysis has gone into the
7 question of determining how best to ascertain cost-causation on electric systems,
8 across a broad spectrum of utility circumstances. Methods that have not had the
9 benefit of that analysis and withstood the test of time must be viewed with skepticism.
10 Proponents of such methods bear a special burden of proving that they do a more
11 accurate job of identifying cost-causation than do recognized methods. Here, it
12 should be clear that the BIP method does a less accurate job of identifying
13 cost-causation than the recognized method that I advocate.

14 **Other Problems With Staff's Cost of Service Studies**

15 Q ARE THERE ANY ADDITIONAL ISSUES WITH STAFF'S COST OF SERVICE
16 STUDIES THAT SHOULD BE NOTED?

17 A Yes. There are some problems with other allocations that impact Staff's cost of
18 service studies. They are the allocation of production non-fuel O&M expense and the
19 allocation of A&G expense.

20 Q WHAT IS THE ISSUE WITH RESPECT TO THE ALLOCATION OF PRODUCTION
21 SYSTEM NON-FUEL O&M EXPENSE?

22 A Staff develops something that it calls BIP O&M Allocator, which it then parenthetically
23 describes on page 24 of the Staff Report as "energy."

1 **Q HOW ARE THESE COSTS TYPICALLY ALLOCATED?**

2 A They typically are treated as demand-related costs because they “follow plant,”
3 meaning that expenses are closely related to the existence of the plant facilities.
4 KCPL and OPC both used the demand allocator, as I advocate, for these costs, and,
5 in fact, the Staff’s accounting witnesses used a demand allocation factor when
6 allocating these costs between Kansas and Missouri.

7 **Q WHAT IS THE ISSUE WITH RESPECT TO THE ALLOCATION OF A&G**
8 **EXPENSE?**

9 A A significant portion of A&G expense is allocated to classes on the basis of other
10 O&M expenses, which include significant amounts of fuel and purchased power
11 expense. Fuel and purchased power expense do not give rise to the incurrence of
12 A&G expense in proportion to the level of fuel and purchased power expense
13 because these costs are largely generated externally, as opposed to the labor and
14 other costs of maintaining the generation, transmission, distribution and other
15 functions of the utility, which are internally incurred and do give rise to the occurrence
16 of A&G expense.

17 **Q STAFF HAS REFERRED TO THE NARUC MANUAL FOR CERTAIN**
18 **ALLOCATIONS. DOES THE NARUC MANUAL CONTAIN A DISCUSSION OF THE**
19 **ALLOCATION OF GENERAL PLANT AND A&G EXPENSES?**

20 A Yes. Pages 105-107 of the January 1992 NARUC Manual discusses A&G expenses.
21 I have attached these pages as Schedule MEB-COS-R-2. Note that the majority of
22 A&G expenses are allocated on labor. Wherever the Manual refers to a more general
23 category of expenses, note that the phrase “less fuel and purchased power” appears.
24 This means that fuel and purchased power should be excluded from the allocations.

1 From a cost causation point of view, most expenses do not vary with energy
2 consumption. This is why it is traditional to exclude fuel and purchased power from
3 any allocation of A&G expenses and focus on the cost-causative nature for these
4 expenses. That is what I have done; it clearly is not what Staff has done.

5 **Q HAVE YOU DETERMINED HOW CHANGING THE ALLOCATION OF**
6 **PRODUCTION NON-FUEL O&M EXPENSE AND A&G EXPENSE WOULD IMPACT**
7 **THE CLASS REVENUE REQUIREMENTS?**

8 A Yes. I have set this forth on Schedule MEB-COS-R-3. Page 1 shows the impact of
9 changing the allocation of production non-fuel O&M expense coupled with changing
10 the allocation of A&G expense, where the O&M expenses less A&G expenses
11 allocator is replaced with the Payroll factor. Page 2 shows the combined effect of
12 changing the allocation of production non-fuel O&M expense and A&G expense,
13 where the O&M Expenses less A&G expenses allocator is replaced with the Net Plant
14 factor.

15 **Q THERE IS A STATEMENT AT PAGE 11 OF THE STAFF REPORT WHICH STATES**
16 **THAT ITS NON-DETAILED BIP AND A&E STUDY RESULTS ARE GENERALLY**
17 **CONSISTENT WITH THE DETAILED BIP STUDY RESULTS TO A DEGREE OF**
18 **PRECISION TYPICALLY RELIED UPON FOR INTERCLASS ALLOCATION**
19 **PURPOSES. DO YOU AGREE WITH STAFF IN THIS REGARD?**

20 A No. Please refer to Schedule MEB-COS-R-4. Here I show the estimated percentage
21 increases and decreases to move all classes to equal rate of return at the current
22 overall rate level. I do this for my A&E study and for the three Staff studies. What I
23 believe this shows is that (with the exception of the off-peak lighting class under
24 Staff's non-detailed BIP study) the results of my A&E, Staff's A&E study, and Staff's

1 non-detailed BIP study are the closest together. On the other hand, Staff's detailed
2 BIP study results are considerably at odds with the results of these other three
3 studies. In fact, for the LPS class, the other three studies indicate a range of
4 decreases from 3.9% to 4.8%, whereas the Staff's detailed BIP study suggests an
5 increase of 4.9%. For the residential class, the detailed BIP study only has a 1%
6 increase, whereas the other three studies have increases ranging from 7.8% to
7 11.2%.

8 **OTHER ISSUES**

9 **Q HAVE YOU REVIEWED THE DIRECT TESTIMONY OF WITNESS JANE**
10 **LOHRAFF, WHO TESTIFIES ON BEHALF OF DED?**

11 **A** Yes.

12 **Q WHAT IS THE CENTRAL TENET OF MS. LOHRAFF'S TESTIMONY WITH**
13 **RESPECT TO ECONOMIC DEVELOPMENT RATES?**

14 **A** As stated on page 4 of her direct testimony, the central tenet is to recommend that
15 KCPL's Economic Development Rider ("EDR") and Urban Core Development Rider
16 ("UCD") be modified to require participation in KCPL's MEEIA program as a
17 requirement for receiving EDR or UCD benefits.

1 **Q DO YOU AGREE WITH MS. LOHRAFF'S RECOMMENDATION?**

2 A No, I do not. This recommendation is flawed for several reasons. First, it would
3 require participation in a program without any demonstration that the energy
4 efficiency measures offered by the utility are applicable to and would be cost-effective
5 with respect to the particular customer's payback criteria.

6 **Q WHY IS THIS A PROBLEM?**

7 A It obviously is a problem because if the customer already has implemented and is
8 practicing energy efficiency to the extent cost-effective for the customer, forcing
9 participation in a program which does not provide additional benefits would only
10 burden the customer with excess cost, and reduce the attractiveness of the economic
11 development programs. In addition, even if the customer has not pursued all energy
12 efficiency programs which would be cost-effective for it, if the KCPL program does not
13 offer measures or other assistance that would be applicable to and cost-effective for
14 the customer, requiring such participation would be self-defeating, and simply would
15 amount to a "give-back" of part of the economic development benefits for which the
16 customer otherwise would be eligible.

17 **Q DO YOU HAVE ANY OTHER COMMENTS WITH RESPECT TO MS. LOHRAFF'S**
18 **RECOMMENDATION OF MANDATORY PARTICIPATION IN KCPL'S MEEIA**
19 **PROGRAMS?**

20 A Yes. It is MIEC's/MECG's position that the statutory language implementing MEEIA
21 provides the criteria for customers to "opt-out" of utility-sponsored energy efficiency
22 programs, and that the statutory authorization for the opt-outs trumps any potential
23 "policy" principles that DED or any other state government entity may attempt to
24 impose.

1 Q HAS THE COMMISSION RECENTLY CONSIDERED THIS SAME ISSUE?

2 A Yes. In its recent decision in the Ameren rate proceeding, the Commission held the
3 following:

4 "Participation in Ameren Missouri's economic development riders is not
5 robust at this time and adding criteria for participation will not
6 encourage greater participation. The Commission will not make
7 participation in MEEIA a requirement for receiving service through
8 Ameren Missouri's economic development riders."

9 Similar to Ameren, participation in KCPL's economic development rider is not robust.
10 According to Data Request No. 318, KCPL only has four participants in the EDR
11 rider.

12 Q ON PAGE 11 OF HER TESTIMONY, MS. LOHRAFF REFERENCES TARIFFS OF
13 NORTHERN INDIANA PUBLIC SERVICE COMPANY AND WISCONSIN POWER
14 AND LIGHT COMPANY FOR THE PROPOSITION THAT ENERGY EFFICIENCY
15 INITIATIVES HAVE BEEN TIED TO ECONOMIC DEVELOPMENT RIDERS IN
16 OTHER STATES. HAVE YOU HAD AN OPPORTUNITY TO REVIEW THIS
17 TESTIMONY AND THE ATTACHED TARIFFS?

18 A Yes.

19 Q DO YOU BELIEVE THAT THE ATTACHED TARIFFS SUPPORT MS. LOHRAFF'S
20 RECOMMENDATION TO REQUIRE PARTICIPATION IN KCPL'S MEEIA
21 PROGRAMS BY CUSTOMERS RECEIVING ECONOMIC DEVELOPMENT
22 INCENTIVES?

23 A No. These tariffs clearly do not support that view.

1 **Q PLEASE EXPLAIN.**

2 A First, the Northern Indiana Public Service Company tariff that is attached to her
3 testimony simply references “high-efficiency, end-use equipment and construction
4 technologies.” No mention whatsoever is made of mandatory participation in any
5 energy efficiency program that may be conducted by Northern Indiana Public Service
6 Company. Accordingly, this tariff does not support Ms. Lohraff’s recommendation.

7 The Wisconsin Power and Light Company tariff attached to her testimony
8 simply states that the customer must meet with company representatives to identify
9 economically viable energy efficiency and demand-side management opportunities.
10 It also requires the customer to participate in or implement all economically viable
11 programs or projects with a projected payback of five years or less. However, it does
12 not require mandatory participation in Wisconsin Power and Light Company’s energy
13 efficiency programs.

14 **Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO DED’S PROPOSALS**
15 **WITH REGARD TO MODIFYING EDR AND UCD RIDERS?**

16 A My recommendation is that they be rejected because they are unsupported, and if
17 implemented could be counter-productive.

18 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A Yes, it does.

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Kansas City Power & Light Company

Customer Class Generation Capacity Costs Per kW And Energy Costs Per kWh Under Traditional Methods As Compared to KCP&L Proposal

MIEC COST OF SERVICE STUDY Traditional Avg. & Excess CCOS

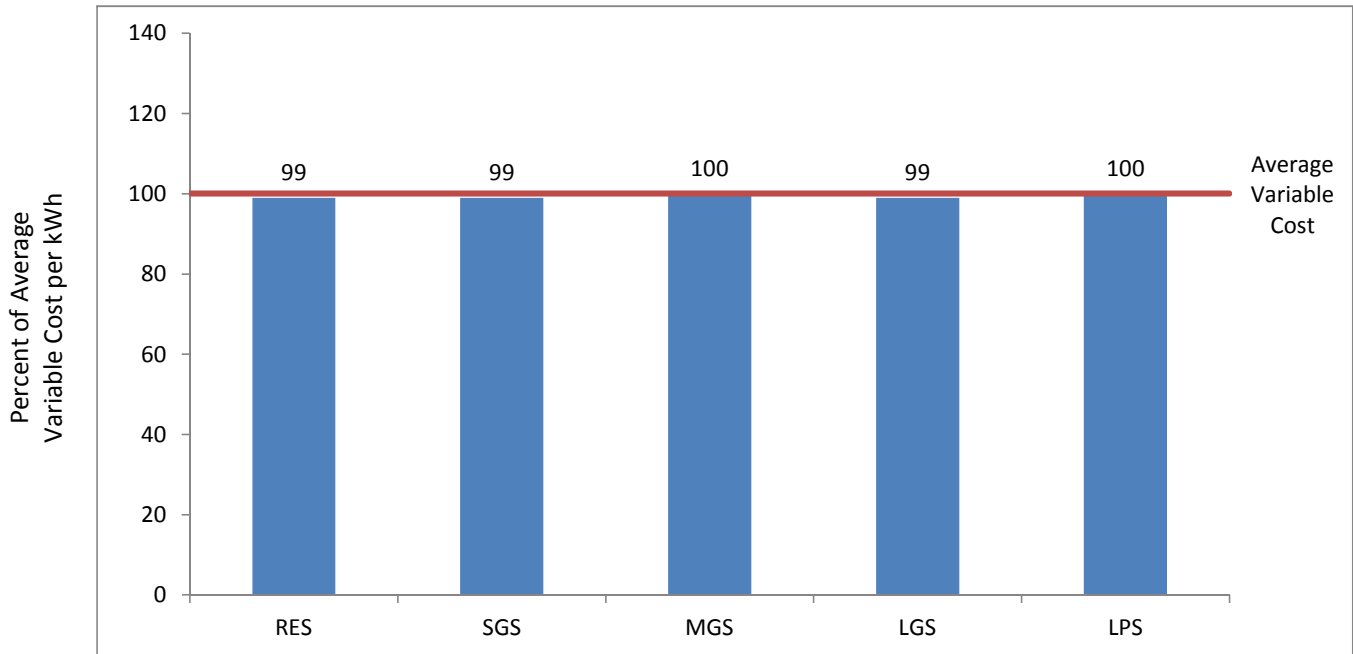
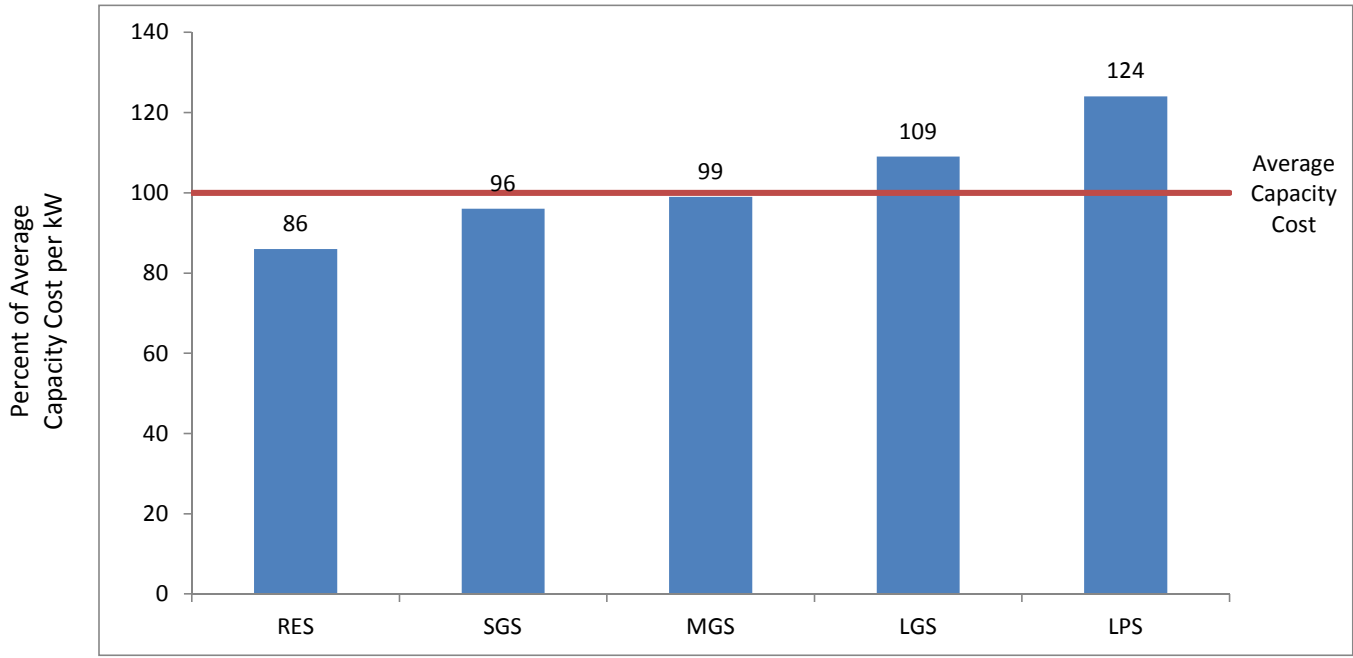
<u>Line</u>	<u>Customer Class</u>	<u>Capacity Rev Req.</u>		<u>Energy Rev Req.</u>	
		Capacity Costs \$ per kW (1)	% Difference From System Avg. (2)	Energy Costs ¢ per kWh (3)	% Difference From System Avg. (4)
1	Missouri Retail	244		1.61	
2	Residential	244	0%	1.61	0%
3	Small General Service	244	0%	1.61	0%
4	Medium General Service	244	0%	1.61	0%
5	Large General Service	244	0%	1.61	0%
6	Large Power Service	244	0%	1.61	0%
7	Lighting	244	0%	1.61	0%

KCP&L COST OF SERVICE STUDY KCLP Avg. and Peak CCOS

<u>Line</u>	<u>Customer Class</u>	<u>Capacity Rev Req.</u>		<u>Energy Rev Req.</u>	
		Capacity Costs \$ per kW (1)	% Difference From System Avg. (2)	Energy Costs ¢ per kWh (3)	% Difference From System Avg. (4)
8	Missouri Retail	244		1.61	
9	Residential	211	-14%	1.60	-0.6%
10	Small General Service	234	-4%	1.60	-0.6%
11	Medium General Service	242	-1%	1.61	0.0%
12	Large General Service	266	9%	1.60	-0.6%
13	Large Power Service	302	24%	1.61	0.0%
14	Lighting	129	-47%	1.61	0.0%

Kansas City Power & Light Company

Illustration of Skewed Allocation of Capital Costs and Energy Costs Under KCP&L's Allocation Proposal



ELECTRIC UTILITY COST ALLOCATION MANUAL

January, 1992



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CHAPTER 8

CLASSIFICATION AND ALLOCATION OF COMMON AND GENERAL PLANT INVESTMENTS AND ADMINISTRATIVE AND GENERAL EXPENSES

This chapter describes how general plant investments and administrative and general expenses are treated in a cost of service study. These accounts are listed in the general plant Accounts 389 through 399, and in the administrative and general Accounts 920 through 935.

I. GENERAL PLANT

General plant expenses include Accounts 389 through 399 and are that portion of the plant that are not included in production, transmission, or distribution accounts, but which are, nonetheless, necessary to provide electric service.

One approach to the functionalization, classification, and allocation of general plant is to assign the total dollar investment on the same basis as the sum of the allocated investments in production, transmission and distribution plant. This type of allocation rests on the theory that general plant supports the other plant functions.

Another method is more detailed. Each item of general plant or groups of general and common plant items is functionalized, classified, and allocated. For example, the investment in a general office building can be functionalized by estimating the space used in the building by the primary functions (production, transmission, distribution, customer accounting and customer information). This approach is more time-consuming and presents additional allocation questions such as how to allocate the common facilities such as the general corporate computer space, the Shareholder Relation Office space, etc.

Another suggested basis is the use of operating labor ratios. In performing the cost of service study, operation and maintenance expenses for production, transmission, distribution, customer accounting and customer information have already been functionalized, classified, and allocated. Consequently, the amount of labor, wages, and salaries assigned to each function is known, and a set of labor expense ratios is thus available for use in allocating accounts such as transportation equipment, communication equipment, investments or general office space.

II. ADMINISTRATIVE AND GENERAL EXPENSES

Administrative and general expenses include Accounts 920 through 935 and are allocated with an approach similar to that utilized for general plant. One methodology, the two-factor approach, allocates the administrative and general expense accounts on the basis of the sum of the other operating and maintenance expenses (excluding fuel and purchased power).

A more detailed methodology classifies the administrative and general expense accounts into three major components: those which are labor related; those which are plant related; and those which require special analysis for assignment or the application of the beneficiality criteria for assignment.

The following tabulation presents an example of the cost functionalization and allocation of administrative and general expenses using the three-factor approach and the two-factor approach.

Account Operation		Three-Factor Allocation Basis	Two-Factor Allocation Basis
920	A & G Salaries	Labor - Salary and Wages	Labor - Salary and Wages
921	Office Supplies	Labor - Salary and Wage	Labor - Salary and Wages
922	Administration Expenses Transferred-Credit	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
923	Outside Services Employed	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
924	Property Insurance	Plant - Total Plant ¹	Plant - Total Plant
925	Injuries and Damages	Labor - Salary and Wages ²	Labor - Salary and Wages
926	Pensions and Benefits	Labor - Salary and Wages	Labor - Salary and Wages
927	Franchise Requirements	Revenues or specific assignment	Revenues or specific assignment

¹ A utility that self-insures certain parts of its utility plant may require the adjustment of this allocator to only include that portion for which the expense is incurred.

² A detailed analysis of this account may be necessary to learn the nature and amount of the expenses being booked to it. Certain charges may be more closely related to certain plant accounts than to labor wages.

Account Operation		Three Factor Allocation Basis	Labor-Ratio Allocation Basis
928	Regulatory Commission Expenses	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
928	Duplicate Charge-Cr.	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
930.1	General Advertising Expenses	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
930.2	Miscellaneous General Expenses	Other - Subtotal of Operating Expenses Less Fuel and Purchased Power	Labor - Salary and Wages
931	Rents	Plant - Total Plant ³	Plant - Total Plant
Maintenance		Three Factor Allocation Basis	Labor-Ratio Allocation Basis
935	General Plant	Plant - Gross Plant	Labor - Salary and Wages

³A detailed analysis of rental payments may be necessary to determine the correct allocation bias. If the expenses booked are predominantly for the rental of office space, the use of labor, wage and salary allocators would be more appropriate.

KANSAS CITY POWER & LIGHT COMPANY

Change in Class Revenue Requirement in Staff's Preferred Study from Revising Staff's Allocation of Production Non-Fuel O&M Expense and A&G Expense*

<u>Line</u>	<u>Class</u>	Change from Non-Fuel Production O&M Expense Allocation (\$000) (1)	Change from A&G Expense Allocation (\$000) (2)	Total (\$000) (3)
1	Residential	\$ 3,648	\$ (35)	\$ 3,612
2	Small General Service	\$ 208	\$ (7)	\$ 201
3	Medium General Service	\$ 7	\$ 1	\$ 8
4	Large General Service	\$ (1,789)	\$ 18	\$ (1,771)
5	Large Power Service	\$ (1,152)	\$ 25	\$ (1,127)
6	Lighting	<u>\$ (923)</u>	<u>\$ (2)</u>	<u>\$ (925)</u>
7	Total	\$ (0)	\$ (0)	\$ (0)

* O&M Expenses less A&G Expenses allocator replaced with Payroll allocator.

KANSAS CITY POWER & LIGHT COMPANY

Change in Class Revenue Requirement in Staff's Preferred Study from Revising Staff's Allocation of Production Non-Fuel O&M Expense and A&G Expense*

<u>Line</u>	<u>Class</u>	Change from Non-Fuel Production O&M Expense Allocation (\$000) (1)	Change from A&G Expense Allocation (\$000) (2)	Total (\$000) (3)
1	Residential	\$ 3,648	\$ (11)	\$ 3,637
2	Small General Service	\$ 208	\$ (2)	\$ 207
3	Medium General Service	\$ 7	\$ (12)	\$ (5)
4	Large General Service	\$ (1,789)	\$ 1	\$ (1,788)
5	Large Power Service	\$ (1,152)	\$ 23	\$ (1,129)
6	Lighting	<u>\$ (923)</u>	<u>\$ 1</u>	<u>\$ (922)</u>
7	Total	\$ (0)	\$ (0)	\$ (0)

* O&M Expenses less A&G Expenses allocator replaced with Net Plant allocator.

KANSAS CITY POWER & LIGHT COMPANY

Comparison of Class Increases Needed for Equal Rates of Return at Present Overall Rate Level (Revenue Neutral)

<u>Line</u>	<u>Class</u>	<u>MIEC/ MECG¹</u> (1)	<u>Staff² A&E</u> (2)	<u>Staff² Non- Detailed BIP</u> (3)	<u>Staff² Detailed BIP</u> (4)
1	Residential	11.2%	7.7%	7.8%	1.0%
2	Small General Service	-5.8%	-7.8%	-6.7%	-9.6%
3	Medium General Service	-4.2%	-2.8%	-2.2%	-3.1%
4	Large General Service	-8.3%	-5.7%	-5.9%	-0.8%
5	Large Power Service	-4.8%	-4.0%	-3.9%	4.9%
6	Lighting	-1.3%	2.6%	-11.6%	-1.3%
7	Total	0.0%	0.0%	0.0%	0.0%

¹ Schedule MEB-COS-5

² Workpaper of S Kliethermes - KCPL_CCOS_results.xlsx, minus the 11.44% overall increase assumed by Staff.