Exhibit No.:	
Issue:	Rate Design
Witness:	Greg R. Meyer
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Missouri Industrial Energy Consumers
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 for Authority to Implement A General Rate Increase for Electric Service	))))))	**Case No. ER-2014-0370**

Rebuttal Testimony of

Greg R. Meyer

On behalf of

Missouri Industrial Energy Consumers

May 7, 2015

BRUBAKER & ASSOCIATES, INC.

Project 9979

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	)	Case No. ER-2014-0370

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

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. 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 Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission, Case No. ER-2014-0370.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Greg R. Meyer

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

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 6, 2017
Commission # 13706793

Notary Public

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

Rebuttal Testimony of Greg R. Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and an Associate with Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A This testimony is presented on behalf of the Missouri Industrial Energy Consumers ("MIEC"). Member companies purchase substantial amounts of electricity from Kansas City Power & Light Company ("KCPL") and the outcome of this proceeding will have an impact on their cost of electricity.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A My rebuttal testimony will address the Direct Testimony of Sierra Club witness Tim Woolf as it relates to decoupling. Specifically, I will discuss why decoupling should not be used to address rate design problems, particularly high customer charges. In addition, I do not believe a decoupling mechanism addresses the primary purpose of a fuel adjustment clause ("FAC") or cost trackers. Finally, I note potential legal restrictions on the adoption of decoupling.

Q WHAT IS DECOUPLING?

A As described by Mr. Woolf, decoupling is separating the utility's incentive to increase profits through increased sales and to avoid decreased profits through decreased sales, by breaking the link between revenues and sales volumes. Stated differently, decoupling provides for the recovery of a certain level of revenues regardless of the level of sales during a specified period.

Q WHY IS MR. WOOLF PROPOSING THE USE OF DECOUPLING?

A KCPL proposes to increase the residential monthly customer charge from $9 to $25. In response, Mr. Woolf proposes that a solution to the dramatic increase (177%) in the customer charge can be alleviated by instituting decoupling. By proposing decoupling, he asserts that a utility would have the revenue sufficiency that a high fixed charge would also generate. He argues that allowing decoupling will relieve the need to raise the customer charge as proposed. Finally, he points out that high fixed charges reduce the incentive for a customer to conserve energy.

Q DO YOU AGREE WITH MR. WOOLF'S ARGUMENT?

A No. I do not believe revenue decoupling should be used as a mechanism to address a rate design issue.

Q DOES MR. WOOLF DISCUSS THE RAMIFICATIONS OF A HIGHER FIXED CHARGE RELATIVE TO THE VOLUMETRIC CHARGE IN A CUSTOMER BILL?

A Yes. Mr. Woolf discusses that a higher fixed charge will reduce the incentive for the customers to implement efficiency measures or to install distributed generation which also would reduce energy consumption.

Q DO YOU AGREE WITH MR. WOOLF THAT A HIGHER FIXED CHARGE RATE WILL DECREASE A CUSTOMER'S INCENTIVE TO CONSERVE ENERGY?

A I believe there is some validity to Mr. Woolf's position. At some point, a customer will lose the incentive to conserve energy because of the high fixed charge level. For example, several small Missouri water companies do not have individual customer meters to measure a customer's water consumption. These customers pay a flat fee for monthly water service. The incentive for these customers to conserve water is thus greatly reduced. There is a balance between an appropriate cost-based, fixed charge and conservation.

Q WHAT ARE THE TWO EXTREME SCENARIOS FOR PRICING ENERGY CONSUMPTION?

A The two extremes are:

(1) A total fixed charge rate. Under this scenario, the total costs of providing service are collected under a fixed charge.

(2) A total flat volumetric rate. This rate charges customers totally based on the volumes of energy they use. A total flat volumetric rate discriminates against

large users and does not address the advantages of moving consumption to a different period during the day.

In Missouri, the two extremes are rarely used, but something in between has been adopted for developing energy rates.

Q HAS THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") COMMENTED ON THE RELATIONSHIP BETWEEN VOLUMETRIC RATES AND FIXED CUSTOMER CHARGES?

A Yes. In Case No. ER-2012-0166, the Commission in its Report and Order at pages 110 and 111, stated the following:

> "12. Recently, in File Number EO-2012-0142, the Commission approved Ameren Missouri's first energy efficiency plan under the Missouri Energy Efficiency Investment Act (MEEIA). Shifting customer costs from variable volumetric rates, which a customer can reduce through energy efficiency efforts, to fixed customer charges, that cannot be reduced through energy efficiency efforts, will tend to reduce a customer's incentive to save electricity.[328]
>
> 13. Admittedly, the effect on payback periods associated with energy efficiency efforts would be small,[329] but increasing customer charges at this time would send exactly t[he] wrong message to customers that both the company and the Commission are [not] encouraging [customers] to increase efforts to conserve electricity." [Footnotes omitted, Emphasis added.]

Q HAS THE COMMISSION ADOPTED ANY RULES WHICH ADDRESS ENERGY CONSERVATION?

A Yes. The Commission has adopted rules pursuant to Missouri Statutes for the Missouri Energy Efficiency Investment Act ("MEEIA").

Q DO THE MEEIA RULES ADDRESS THE IMPACT FOR ENERGY CONSERVATION ON ELECTRIC UTILITIES?

A Yes. The Commission adopted 4 CSR 240-20.093 to implement the MEEIA legislation and that regulation discusses the financial impact to the utility from energy conservation.

Q DO THE RULES PROVIDE ANY RECOVERY FOR THE LOSS OF REVENUES THAT THE UTILITY WOULD NORMALLY COLLECT BUT FOR UTILITY-SPONSORED ENERGY EFFICIENCY PROGRAMS?

A Yes. The rule includes the recovery of lost revenues. Lost revenues are defined below:

> "(Y) Lost revenue means the net reduction in utility retail revenue, taking into account all changes in costs and all changes in any revenues relevant to the Missouri jurisdictional revenue requirement, that occurs when utility demand-side programs approved by the commission in accordance with 4 CSR 240-20.094 cause a drop in net system retail kWh delivered to jurisdictional customers below the level used to set the electricity rates. Lost revenues are only those net revenues lost due to energy and demand savings from utility demand-side programs approved by the commission in accordance with 4 CSR 240-20.094 Demand-Side Programs and measured and verified through EM&V;" (4 CSR 240-20.093 Demand-Side Programs Investment Mechanisms)

Recovery of lost revenues is allowed through the demand-side programs investment mechanism. I have included that provision below:

> "(M) Demand-side programs investment mechanism, or DSIM, means a mechanism approved by the commission in a utility's filing for demand-side program approval to encourage investments in demand-side programs. The DSIM may include, in combination and without limitation:
> 1. Cost recovery of demand-side program costs through capitalization of investments in demand-side programs;
> 2. Cost recovery of demand-side program costs through a demand-side program cost tracker;
> 3. Accelerated depreciation on demand-side investments;
> 4. Recovery of lost revenues; and

5. Utility incentive based on the achieved performance level of approved demand-side programs;" (4 CSR 240-20.093 Demand-Side Programs Investment Mechanisms)

As can be seen from the above Commission rule, there is already a recovery mechanism in place for true recovery of lost revenues from utility demand-side programs. Resorting to decoupling is not necessary to incent the utility to implement demand-side programs as the current Commission rules allow for the recovery of lost revenues associated with energy efficiency programs.

Q MR. WOOLF ALSO SUGGESTS THAT KCPL HAS PROPOSED AN FAC, A PROPERTY TAX TRACKER, AND A VEGETATION MANAGEMENT TRACKER TO ADDRESS REVENUE SUFFICIENCY AND VOLATILITY CONCERNS. DO YOU AGREE WITH HIS ARGUMENTS?

A Generally, no. I am confused by some of Mr. Woolf's arguments. It appears Mr. Woolf believes that the property tax tracker and vegetation management tracker would allow customer rates to change between rate cases. My experience with trackers in Missouri is that costs are tracked between rate cases and then those costs are eligible for recovery in rates in the utility's next general rate case. Trackers do not address revenue sufficiency or volatility between rate cases.

The FAC is designed to capture cost differentials between actual fuel costs and the level of fuel cost included in a utility's base rates. The FAC is based on the recovery of actual fuel costs. I do not believe the FAC was intended to address revenue sufficiency or volatility when it was legislated.

Mr. Woolf seems to suggest that decoupling could replace the FAC and certain trackers to address revenue sufficiency and volatility. I do not agree that the purpose of those regulatory mechanisms was to address revenues. Instead, those

mechanisms are used to collect specific costs which are volatile, not under the direct control of the utility, or unusual, or extraordinary in nature.

Q ARE YOU AWARE OF ANY RULINGS THAT MAY PROHIBIT DECOUPLING FROM BEING ADOPTED BY THIS COMMISSION IN THIS RATE CASE?

A Yes. Although I am not a lawyer, I believe a simple reading of the following language from *State ex rel. Utility Consumers Council*, 585 S.W. 2d 41 (MO 1979) ("UCCM") prohibits decoupling:

> The utilities take the risk that rates filed by them will be inadequate, or excessive, each time they seek rate approval. To permit them to collect additional amounts simply because they had additional past expenses not covered by either clause is retroactive rate making, i.e., the setting of rates which permit a utility to recover past losses or which require it to refund past excess profits collected under a rate that did not perfectly match expenses plus rate-of-return with the rate actually established.[25/] [Footnote omitted.]

I am unaware of any legislation that has been passed by the Missouri Legislature that would allow decoupling for electric utilities.

Q ARE THERE PRACTICAL REASONS WHY DECOUPLING SHOULD NOT BE ADOPTED BY THIS COMMISSION?

A Yes, I have listed below three reasons that I believe demonstrate that decoupling should not be adopted by this Commission:

- Decoupling causes customer rate volatility and customer confusion;
- Decoupling isolates the revenues of the utility for separate ratemaking treatment without consideration of all relevant factors; and
- Decoupling could provide disincentives to restore service after a major storm.

I will discuss each of these concerns separately.

Q PLEASE DESCRIBE YOUR CONCERN WITH CUSTOMER RATE VOLATILITY AND CUSTOMER CONFUSION.

A If decoupling were instituted, customer rates would fluctuate every year. With decoupling in effect it is guaranteed that customer rates will change every year to collect or refund the difference between the approved level of revenues in the rate case and the actual revenues collected.

Revenues could change from those established in the utility's last general rate case because of weather or economic conditions. Utility rates are determined based on normal weather. If actual weather conditions were cooler than normal, an electric utility will not collect as much revenues as customers will not be using as much electricity for air conditioning. Under decoupling, the utility would be allowed to recover ungenerated revenues resulting from the cooler than normal weather conditions.

Likewise, if economic conditions are unfavorable, utility customers will use less electricity or go out of business. These circumstances occurred in the recession of 2008. If decoupling was in effect, those lost revenues from less electricity usage and businesses closing their doors would be collected from existing customers to make up for the shortfall. This situation was described by Mr. Woolf in Maine, and decoupling was terminated by the Maine Public Utilities Commission.

In addition to the volatility of customer rates that will occur annually, customers will be confused why their rates have changed without a rate case. This confusion will translate into more phone calls to the utility call center for explanations.

Q PLEASE EXPLAIN THE CONCEPT OF ALL RELEVANT FACTORS AND HOW THAT CONCEPT IS DISTORTED WITH DECOUPLING.

A "All relevant factors" describes a ratemaking concept whereby all of the factors which affect a utility's revenue requirement (cost of doing business) should be considered during the same period of time in order to calculate the utility's cost of service or revenue requirement. The utility's revenue requirement determines the level of revenue the utility is allowed[1] to collect in rates to recover its cost of service. Decoupling would guarantee the recovery of that level of revenue without consideration of changes to any of the relevant factors which determine that level of revenue. Thus, decoupling would essentially violate the "all relevant factors" concept. Revenues are the product of a utility's revenue requirement. Revenues are collected from customers to recover the utility's revenue requirement. By allowing decoupling, the utility would be guaranteed collection of a certain level of revenues without regard to the actual costs incurred, thus enhancing the ability of the utility to earn profits at the expense of ratepayers.

Q PLEASE DESCRIBE THE POSSIBLE DISINCENTIVE FROM DECOUPLING.

A The disincentive caused by decoupling might be experienced in restoring service after a major storm occurred in the utility's service territory. Currently, when a major storm occurs in the utility's service territory, the utility is incentivized to restore service as quickly as possible, given economic considerations, namely its desire to sell more of its product. A utility has every incentive to restore service quickly, not only to meet its reliability metrics, but also because it is in its economic best interest to restore service and resume the collection of revenues. Frequently, this involves overtime

[1]Allowed – the utility is provided the opportunity to recover those revenues reflecting normal weather conditions and a certain level of customers.

work and additional compensation for employees and compensation to other utilities for mutual assistance in restoring, repairing, and replacing damaged infrastructure as a result of the storm.

If the utility's revenues are insulated from such events, to the extent it collects the same amount of money regardless of how quickly service is restored, there is economic disincentive to spend extra money for overtime and mutual assistance, because doing so would not affect the levels of revenues collected. In addition, if the storm costs are determined to be extraordinary, they could be collected through a deferral mechanism and ratepayers may be subject to even higher rates with decoupling.

Q PLEASE SUMMARIZE YOUR COMMENTS ON DECOUPLING.

A Decoupling should not be used as a substitute for a higher fixed charge. The determination of the fixed charge should be a rate design issue and should be established by the Commission. The fixed charge rate should be set to continue to encourage energy conservation while providing a steady level of revenues to the utility. The Commission currently has rules (MEEIA) in effect to address energy conservation including the recovery of "lost revenues." Decoupling would be an unnecessary addition. Decoupling is not a substitute for cost trackers and the FAC. Finally, there are several practical reasons to not adopt a decoupling mechanism. For all of these reasons, I recommend that the Commission not adopt a decoupling mechanism for KCPL's rate case.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

Qualifications of Greg R. Meyer

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am an Associate in the field of public utility regulation with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree in Business Administration, with a major in Accounting. Subsequent to graduation I was employed by the Missouri Public Service Commission. I was employed with the Commission from July 1, 1979 until May 31, 2008.

I began my employment at the Missouri Public Service Commission as a Junior Auditor. During my employment at the Commission, I was promoted to higher auditing classifications. My final position at the Commission was an Auditor V, which I held for approximately ten years.

As an Auditor V, I conducted audits and examinations of the accounts, books, records and reports of jurisdictional utilities. I also aided in the planning of audits and investigations, including staffing decisions, and in the development of staff positions in which the Auditing Department was assigned. I served as Lead Auditor and/or Case Supervisor as assigned. I assisted in the technical training of other auditors, which included the preparation of auditors' workpapers, oral and written testimony.

During my career at the Missouri Public Service Commission, I presented testimony in numerous electric, gas, telephone and water and sewer rate cases. In addition, I was involved in cases regarding service territory transfers. In the context of those cases listed above, I presented testimony on all conventional ratemaking principles related to a utility's revenue requirement. During the last three years of my employment with the Commission, I was involved in developing transmission policy for the Southwest Power Pool as a member of the Cost Allocation Working Group.

In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a Consultant. Since joining the firm, I have presented testimony and/or testified in the state jurisdictions of Florida, Idaho, Illinois, Indiana, Maryland, Missouri and Washington. I have also appeared and presented testimony in Alberta and Nova Scotia, Canada. These cases involved addressing conventional ratemaking principles focusing on the utility's revenue requirement. The firm Brubaker & Associates, Inc. provides consulting services in the field of energy procurement and public utility regulation to many clients including industrial and institutional customers, some utilities and, on occasion, state regulatory agencies.

More specifically, we provide analysis of energy procurement options based on consideration of prices and reliability as related to the needs of the client; prepare rate, feasibility, economic, and cost of service studies relating to energy and utility services; prepare depreciation and feasibility studies relating to utility service; assist in contract negotiations for utility services, and provide technical support to legislative activities.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona and Corpus Christi, Texas.