

Exhibit No.:
Issue: Rate Design;
Changes to Rules and Regulations
Witness: Tim M. Rush
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2006-0314
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-0314

REBUTTAL TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
September 2006**

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CASE NO. ER-2006-0314

1 **Q: Please state your name and business address.**

2 A: My name is Timothy M. Rush. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCPL" or the "Company") as
6 Director, Regulatory Affairs.

7 **Q: Are you the same Timothy M. Rush who pre-filed direct testimony in this case?**

8 A: Yes, I am.

9 **Q: What is the purpose of your testimony?**

10 A: The purpose of my testimony is to respond to issues discussed in the direct testimonies
11 filed by other parties in this case addressing rate design, class cost of service ("COS"),
12 and Rules and Regulations.

13 **RATE DESIGN & CLASS COST OF SERVICE**

14 **Q: Please explain the company's position regarding Rate Design in this proceeding.**

15 A: As stated in my direct testimony in this proceeding, "The Company does not propose to
16 change the current relationship of customer class returns to the average jurisdictional
17 return. The Company is recommending an equal percentage increase be to all customer
18 classes with minimal changes to rate design."

1 **Q: Does this follow the requirements established in the EO-2005-0329 Stipulation and**
2 **Agreement (“S&A”)?**

3 A: Yes.

4 **Q: What requirements were established in the S&A regarding class COS?**

5 A: KCPL agreed to file a class COS Study in this proceeding that would include
6 requirements outlined in Appendix I of the S&A.

7 **Q: Does the S&A allow for any variation from Appendix I regarding rate classes:**

8 A: The S&A outlines the rate class framework specifically. Item 1 of the Appendix requires
9 that Rate Classes for the class COS to be defined as Residential, Small General Service,
10 Medium General Service, Large General Service, Large Power Service, and Lighting and
11 other customers to which known costs are assigned and other costs are allocated.

12 **Q. Do any of KCPL’s tariffs listed in Appendix I have eligibility requirements for the**
13 **commercial and industrial (“C&I”) customers?**

14 A: Yes. C&I customers are not eligible for residential rates. Aside from this requirement,
15 any C&I customer can modify their business equipment or operation to meet
16 prerequisites of each individual tariff.

17 **Q: Has a contrasting argument been presented in this proceeding?**

18 A: Yes. Direct testimony submitted on behalf of Trigen-Kansas City Energy Corp.
19 (“Trigen”) by Mr. Joseph A. Herz states that KCPL has presented tariffs that are
20 discriminatory to customers by requiring eligibility measures. This theory is not
21 accurate. Any C&I customer can choose to make investments in energy efficiency or
22 equipment modifications that would allow them to be placed on a different rate tariff.

1 **Q: Are there any other concepts presented by Trigen that the Company considers**
2 **questionable?**

3 A: Mr. Herz fails to accurately present KCPL's load characteristics. KCPL has low cost
4 generation capacity that is available during winter months, but is required to meet
5 maximum summer demand. KCPL's revenue from winter heat customers who utilize
6 this winter capacity can be used to contribute the capital costs of this generation. This
7 results in a benefit to all customer classes.

8 **Q: Is this proceeding an appropriate vehicle for effective rate structure adjustments?**

9 A: As Mr. Herz has eluded in his testimony, the Company has not fully responded to all
10 requests made by Mr. Herz in this proceeding. The Company has provided a level of
11 information that it is capable of assembling given the time constraints of this proceeding.
12 The Company agrees that additional information would be needed to effectively analyze
13 and determine appropriate adjustments to KCPL's rate structure. The Company would
14 point out that much of the information requested by Mr. Herz was addressed in a lengthy
15 class COS and rate design case in the mid-1990s, in which parties participated in a class
16 COS initially and then spent several years developing the studies and ultimate rate design
17 upon which the current tariff structure is based. This is the same structure that the
18 Company is proposing in this proceeding.

19 **Q: Does Mr. Herz make any specific conclusions and findings as they pertain to the**
20 **tariffs offered by KCPL?**

21 A: Yes. On pages 4-5 of his testimony he makes the following conclusions. He states that
22 KCPL's discounted rates related to space heating are unreasonable and unfairly
23 discriminate between C&I customers, some of which may be competing with each other,

1 by charging different amounts for identical usage under similar circumstances. He
2 further discusses all the reasons that he disagrees with rates that differentiate based on
3 whether a customer qualifies or not under the eligibility provisions of the tariff.

4 **Q. Do you agree with his conclusions and findings?**

5 A No. KCPL's general overall rate design has been in place for many years. As I stated in
6 my direct testimony, KCPL went through a class COS and rate design case in 1996. At
7 that time, rates were established based on the class COS, and rate design changes were
8 made that changed in the overall price structure. The rates maintained the price
9 differentials between customers with electric heating that were in place prior to the rate
10 design case. The structure, pricing elements, and eligibility requirements were reviewed
11 and approved by the Missouri Public Service Commission.

12 **Q. Mr. Herz is critical that KCPL has not quantified nor performed any incremental**
13 **or marginal cost studies related to serving all-electric, electric space heating**
14 **customers. Given this, he concludes that KCPL has failed to produce any support**
15 **for the pricing differentials of its all-electric C&I customers, nor the expansion of**
16 **the tariff eligibility provisions. Do you agree?**

17 A. No. KCPL went through an exhaustive class COS and rate design in the late 90's that
18 culminated with the approved tariffs that the Company is proposing to increase in this
19 case. KCPL has recommended an equal percentage increase to all classes of customers
20 with very minimal changes to the rate design. As stated in my direct testimony, we are
21 proposing to increase the all-electric winter energy rate by 5%, while expanding the
22 qualification provision to establish electric heating as the primary heating source, rather
23 that the requirement that the customer qualification is all-electric. This change is directed

1 at making the tariff more tailored toward customer needs. For example, the tariff today
2 requires a customer to be all-electric in order to qualify. This means that all of the
3 customer's energy consuming equipment including water heating and space heating must
4 be all electric. This precludes customers that wish to install solar equipment or other
5 supplemental heating energy sources from qualifying. It also precludes customers from
6 having natural gas cooking, water heating or other minor energy sources. Expansion of
7 the tariff will give customers more choice and a better means for equipment utilization.

8 **Q. Do you agree with Mr. Herz recommendation found on page 15 of his testimony?**

9 A. No. Mr. Herz is in essence trying to unwind all the work that was done in the last rate
10 case because a study that "he" requested was not performed in the context of this case.

11 **Q. Has Mr. Herz presented any evidence to support his position beyond conjecture and**
12 **hypothetical examples of why rates approved by this Commission should be**
13 **rejected?**

14 A. No. Mr. Herz testimony is simply a discussion of his philosophy on rate design.

15 **Q. Are there issues that the Company would like to address regarding the Office of the**
16 **Public Counsel ("OPC") class COS?**

17 A: Yes. Barbara A. Meisenheimer of the OPC presented testimony on the class COS study
18 and recommended changes to rates both in this case and in future cases: 1) OPC's class
19 determinations in this proceeding differ from that agreed to in the S&A and 2) OPC's
20 rate design recommendation presents a levelization of rate of return by using OPC's class
21 COS.

22 **Q: Does the S&A provide flexibility to allow for added customer classes?**

1 A: Customer classes as defined in Appendix I of the S&A are designed to accommodate all
2 classes that fall within the Commission's jurisdiction. OPC has testimony filed in this
3 proceeding that presents a class COS study that includes Special Contracts as a separate
4 customer class. Company believes that the Customer Class structure as presented in the
5 S&A should not be altered in this proceeding. Additionally, OPC has modified the class
6 COS to reflect OPC's rate case, not the test period agreed to in the S&A for the class
7 COS. This issue and concern is addressed in the testimony of Staff witness Janice Pyatte.
8 Essentially, OPC's method creates an inconsistency between allocation factors and
9 financial results because the class COS financial numbers are updated to reflect the rate
10 case while the allocation factors are not updated.

11 **Q: Do you agree with OPC's proposal on rate design and class COS?**

12 A: No. The Company does not agree with the OPC proposal regarding rate levelization.

13 **Q, Are there issues that the Company would like to address regarding The Department**
14 **of Energy – National Nuclear Security Administration ("DOE") class COS and Rate**
15 **Design?**

16 **Q.** A: Yes. Gary C. Price of DOE recommends that the changes in class COS to
17 achieve a levelized rate of return be implemented over the next four rate cases. He
18 presented testimony on the class COS study and recommended changes to rates both in
19 this case and in future cases. His proposal would cause significant problems in
20 implementing. The Company does not agree with his position and believe that it is
21 conflict with the S&A, where the parties agreed not to file updated or new class COS in
22 the next cases leading up to Rate Filing #4.

1 Q. **Have you read the testimony of Maurice Brubaker pertaining to class COS and**
2 **Rate Design?**

3 A. Yes.

4 Q. **Please comment on the results of his class COS and proposed alignment of revenues.**

5 A. Mr. Brubaker recommended using an allocation methodology that places significant fixed
6 generation capacity costs on customers with poor load factors and places little generation
7 capacity on customers with high load factors. This is a plausible and often accepted
8 methodology for assigning costs in a class COS. However, Mr. Brubaker then takes all
9 the benefits of selling off-system power and the margins for those sales and allocates it
10 on an energy basis. This charges poorer load factor customers for the power plants
11 needed to meet their energy needs, but then gives all the profit from selling power off-
12 system to the other classes who have higher load factors and do not generally have extra
13 capacity to sell into the off-system market. I believe that his allocation methodology is
14 flawed and should not be used for determining rate levels in this case. Mr. Brubaker
15 recommends different levels of class revenue shifts based on the overall rate increase, his
16 proposed class COS and the impact on residential class. This type of class revenue shift
17 causes significant problems in implementing such a change simply due to the existing
18 continuity of rates within the small, medium, large general service and large power
19 classes. Janice Pyatte addresses this issue in her testimony and I agree with her position
20 and recommendation.

21 Q: **Have you read the testimony of Mr. James Selecky, the witness for Wal-Mart?**

22 A. Yes.

1 **Q, What is the recommendation of Wal-Mart witness James Selecky regarding the**
2 **implementation of any rate increase approved by this Commission?**

3 A: Mr. Selecky testifies that the Commission should reject KCPL's use of the average and
4 peak method to allocate its fixed production and transmission costs among KCPL's rate
5 classes. He argues that KCPL's method over-allocates costs to high load factor
6 customers. Mr. Selecky recommends instead that the Commission use either the
7 coincident peak method, or the average and excess demand method to allocate such costs.

8 **Q: Do you agree with his statements?**

9 A: No. As presented by Company witness Lois J. Liechti, the Company's allocation
10 methodology recognizes the peak demands placed on the system, as well as the types of
11 generation equipment installed to support both the peak demand and energy consumption
12 of the customer on the system. Mr. Selecky's proposed methodology would allocate a
13 base load nuclear or coal power plant in the same manner it would allocate a peaking gas-
14 fired plant through the coincident peak method. While gas peaking units are typically
15 designed for only peaking requirements, base load units are designed to essentially run
16 around the clock. By allocating the base load units on the coincident peak demand only
17 would disproportionately charge peaking type customer classes a higher capacity costs
18 than customers whose use is more spread out through the year. This would not be
19 appropriate given the mix of generating units the Company has installed and the manner
20 in which they are used. The base load generating units are more reflective of full-time
21 units. If they are not selling to retail customers, those units are selling to the open market
22 and providing support for retail customers by providing off-system margins. These units
23 should not be allocated simply on four summer peak demands, as suggested by Mr.

1 Selecky. The Company's allocation method of average and peak reflects the types of
2 units and the manner in which they are used. The second allocation methodology
3 recommended by Mr. Selecky is the average and excess method. This methodology only
4 focuses on the retail load's load factors and the utilization of equipment. Additionally,
5 Mr. Selecky's proposed class COS has the same flaw that Mr. Brubaker has regarding the
6 allocation of off-system sales.

7 **Q: Is Mr. Selecky recommending the use of his proposed methodologies?**

8 A: Yes. While Mr. Selecky accepts KCPL's recommendation that a rate increase should be
9 applied equally to the customer classes, he qualifies that it should only occur if the full,
10 request is granted. If a reduced increase is granted, Mr. Selecky recommends that any
11 such reductions be applied in a manner that corrects excess revenues that have been
12 assigned to particular classes, based on the rates established through his study.

13 **Q: Do you agree with his recommendation?**

14 A: Not completely. It is the Company's position that the rate increase be equally distributed
15 to all classes and that all additional changes recommended by the Company in its initial
16 filing be implemented. However, if the Commission accepts Mr. Selecky's position,
17 KCPL would recommend that proposed changes be in conformance to the class COS as
18 presented by the Company.

19 **Q. Have you read the testimonies of Missouri Public Service Commission Staff**
20 **witnesses Janice Pyatte and James A. Busch?**

21 A. Yes.

22 **Q. Do you have any general comments about the class COS presented by Ms. Pyatte?**

1 A. Yes. The results of the study were very close to the results of the Company's study.
2 Additionally, I agree with Ms. Pyatte's approach and thoroughness in addressing the
3 issues necessary to complete and implement a class COS. I particularly agree with
4 discussion on pages 22 and 23, and her recommendation to preserve rate continuity
5 between rate schedules that are "linked". As she described, the Company, Staff, OPC
6 and other parties went through a significant class COS and rate design case that
7 concluded in 1996. This was a significant undertaking where countless hours were spent
8 by parties addressing the issues, and implementing a rate design that has been
9 successfully utilized over the last 10 years.

10 **Q. What comments or concerns regarding the testimony of Mr. Bush?**

11 A. While the Company is recommending an equal percentage increase to each class of
12 customer, the Staff's approach to addressing shifting revenues prior to any rate increase
13 makes sense. I would note that Mr. Bush did not address the Company's proposed
14 changes in customer charge, as well as some other proposed changes. The Company still
15 supports its position for the changes it recommends.

16 **RULES AND REGULATIONS**

17 **Q: Please address the issues that the Company has with Mr. McDuffey's proposal**
18 **regarding its rules and regulations.**

19 A: It is my understanding that Mr. McDuffey agrees with the Company's proposed changes
20 regarding the following:

- 21 a. Change the interest paid on deposits from a rate of nine (9) percent to a rate of one
22 percentage (1%) point above the prime bank lending rate published in The Wall

Street Journal for the last business day of the preceding calendar year, compounded annually.

- b. Add a return check charge to its tariff with a maximum charge not to exceed thirty dollars (\$30) when a Customer's check is returned due to insufficient funds.
- c. Change the free extension length from a distance of a quarter of a mile on public property plus 210 feet on customer property to a total free extension of a quarter of a mile.
- d. Add to the extension policy for Excess Facilities to clarify to the Customer and Company representatives the charges that the Customer is responsible for, and are specified in the mutually agreed upon terms and conditions between the Company and Customer.

It is my understanding that Mr. McDuffey filed testimony initially opposed to the Company's proposed changes regarding the excess extension charge payment period, but I now understand that he supports and agrees with the Company.

MISCELLANEOUS TARIFF ISSUES

Q: Please address the issues that the Company has with Mr. McDuffey's proposal regarding miscellaneous tariff issues.

A Following are Staff's positions on Company proposals:

DEFINITIONS: Staff has no objection to adding definitions for: Adult, Billing Error, Field Error, Fraud, Individual Liability, Meter Error, Responsible Party, Tampering, Time of Application, and Unauthorized Use.

SEASONAL: Staff is in agreement with the removal of the “Seasonal” reference in the current section titled “Temporary and Seasonal Electric Service”.

1 LIABILITY OF COMPANY: Staff is in agreement with the removal of the tariff
2 language on sheet 1.14 and re-titling sheet 1.11 to “Continuity of Service and Liability of
3 Company”.

4 PAYMENT METHOD: Staff does not object to adding the use of credit and debit cards
5 as a means of payment for residential Customers.

6 OTHER PERMANENT EXTENSIONS: Staff is in agreement with adding “Permanent”
7 to the title “Other Extensions” to read “Other Permanent Extensions”.

8 VACANT WITH USAGE: It is Staff’s position that the Company should not bill for
9 usage of a building or dwelling when the previous customer requested a disconnect and
10 the Company responded with a “soft disconnect”.

11 **Q: Does the Company agree with Staff’s position on Vacant with Usage?**

12 A: Yes. The Company has put into practice policies and provisions that address the
13 concerns expressed by Staff.

14 **Q: Does that conclude your testimony?**

15 A: Yes, it does.

