Exhibit No.:	
Issues:	Rate Design Class Cost of Service
Witness:	Michael S. Scheperle
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Direct Testimony
Case No.:	HR-2014-0066
Date Testimony Prepared:	May 15, 2014

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

DIRECT TESTIMONY

OF

MICHAEL S. SCHEPERLE

VEOLIA ENERGY KANSAS CITY, INC.

CASE NO. HR-2014-0066

Jefferson City, Missouri
May 2014

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF MICHAEL S. SCHEPERLE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael S. Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 8 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael S. Scheperle
Michael S. Scheperle

Subscribed and sworn to before me this 14th day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Susan L. Sundermeyer
Notary Public

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VEOLIA ENERGY KANSAS CITY, INC

CASE NO. HR-2014-0066

Q. Please state your name and business address.

A. Michael S. Scheperle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Michael S. Scheperle who previously filed testimony in this case?

A. Yes.

Q. With reference to Case No. HR-2014-0066, have you participated in the Commission's Staff's (Staff) audit of Veolia Energy Kansas City, Inc. ("Veolia Kansas City" or "Company") concerning its request for a rate increase in this proceeding?

A. Yes, I have, with the assistance of other members of the Staff. I support Staff's recommendation to the Commission concerning the Rate Design and Class Cost-of-Service Report ("CCOS Report").

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to provide an overview of Staff's position relating to the CCOS Report that is being filed concurrently with this direct testimony. The CCOS Report approach to the case minimizes the number of Staff witnesses required to file direct testimony and provides for a clearer presentation of Staff's recommendations. The

CCOS Report presents Staff's updated CCOS study for Veolia Kansas City and provides methods to collect a Commission-ordered increase in Veolia Kansas City's overall revenue requirement and other tariff changes recommended by Veolia Kansas City including the proposed expansion of its service territory and its proposed Production Adjustment Cost Clause (PACC). Staff's revenue requirement increase for Veolia Kansas City ranges from $1,516,039 to $1,661,246 based on the accounting schedules filed on May 1, 2014. In Veolia Kansas City's filing, the Company calculated an overall revenue requirement increase of $2.8 million but only requested an increase of $1.0 million. Staff's rate design is based on Veolia Kansas City's request for $1.0 million.

Q. What are the recommendations for Veolia Kansas City's proposed new tariff sheets?

A. For purposes of this Direct Filing on CCOS and rate design, Staff is not proposing that the Commission order Veolia Kansas City to file any new tariff provisions. However, Veolia Kansas City has included new tariff sheet recommendations with its filed rate request. While Staff is not recommending new tariff provisions, Staff is recommending preliminary recommendations so Veolia Kansas City may address these in rebuttal testimony. Veolia Kansas City's new tariff sheets address the following items:

1. Establishment of a Production Adjustment Cost Clause
2. Expansion of its certificated service territory
3. Establishment of an Economic Development Rider
4. Establishment of a Capacity Reserve and Emergency Service Schedule
5. Establishment of a generic Special Contract Rate
6. Establishment of a Residential High-Rise Schedule

Q. What are Staff's rate design recommendations to the Commission for Veolia Kansas City in this case?

A. Veolia Kansas City has three active commercial and industrial service classifications. The service classifications are Standard Commercial Service (SCS), Large Commercial Service (LCS) and the Interruptible Heating Service (IHS). Staff recommends:

1. That no change (no increase/decrease) be made to Veolia Kansas City's customer meter charges for the SCS, LCS, and IHS customer classes.
2. That Veolia Kansas City maintains the existing uniformity of usage charges (Mlbs/usage) between the SCS, LCS, and IHS classes. The current usage charge for each class is $8.45 mlbs. The usage charge may increase but uniformity will still be maintained for each class.
3. That the LCS demand rate structure and IHS demand rate structure be the same. They are currently different with the LCS demand structure having four declining blocks and the IHS demand structure having seven declining blocks. Veolia Kansas City proposes a six declining block rate structure for both the LCS and IHS rate structure. The proposed six declining block demand rate structure would be the same. Staff finds Veolia Kansas City's recommendation reasonable and supports its demand rate structure proposal.
4. Veolia Kansas City proposes that the LCS winter peaking time frame change from December 1 through March 31 time frame, to November 1 through March 31 time frame, and the summer peaking timeframe change from April 1 through November 30, to April 1 through October 31 timeframe. Staff finds the proposal reasonable and supports the change.
5. Veolia Kansas City proposes that the IHS peaking timeframe change from December 1 through March 31, to November 1 through March 31 timeframe. Staff finds Veolia Kansas City's proposal reasonable and supports the change.
6. Based on Staff's CCOS study, that the LCS demand rate structure remains relatively revenue-neutral as proposed by Veolia Kansas City where the demand rate structure will have six declining block rates.
7. Based on its' CCOS study, Staff recommends that the first step of the IHS capacity/demand charge be increased by the system average increase. Also that the remaining capacity/demand rates steps be reduced by 10% from the previous step. The main difference is that Veolia Kansas City is proposing no increase in the first block (first 3 mlb/hour) and then each remaining block be reduced by 10%. Staff's recommendation is to increase the first block by the system average increase of 14.12% and then each remaining block be reduced by 10%.
8. That the remaining increase be spread uniformly to usage charge (Mlbs.) as outlined in Step 2 above.

9. To change the qualifications criteria for IHS. The current qualification criteria are closed (grandfathered) to existing customers on IHS rate schedule. Veolia Kansas City proposed new criteria is the customer must already be receiving steam service under this rate schedule, or be a new customer at a location currently receiving steam service, or a new location that has not received service, or be an existing steam customer initiating service at a new location. Customers must certify to Veolia Kansas City's satisfaction that the customer is capable of providing 100% of the Customer's space heating requirement. Staff finds Veolia Kansas City's proposal reasonable and supports the proposal.

STAFF RESPONSIBILITY

Q. Please identify the Staff expert responsible for addressing each area in the CCOS Report?

A. The Staff expert for each listed issue is as follows:

Issue	Staff Expert
Executive Summary	Michael Scheperle
Class Cost of Service Overview	Robin Kliethermes
Class Cost of Service	Robin Kliethermes
Rate Design	Bradley Fortson
Expansion of Service Area	Sarah Kliethermes and Karen Lyons
Economic Development Rider	Michael Stahlman
Residential High-Rise Tariff	Michael Stahlman
Capacity Reserve/Emergency Service Tariff	Michael Stahlman
Special Contract Steam Service Tariff	Sarah Kliethermes
Rules and Regulations Changes	Sarah Kliethermes
Production Adjustment Cost Clause	Erin Maloney

CLASS COST OF SERVICE

Q. What is the purpose of Staff's CCOS?

A. The purpose of Staff's CCOS is to provide the Commission with a measure of relative cost responsibility for the overall revenue requirements of Veolia Kansas City. Staff developed its analysis of the cost of serving each class using inputs taken from Staff's Revenue Requirement Report and the Staff Accounting Schedules filed in this case on May 1, 2014. Staff's recommended revenue requirement for Veolia Kansas City is $1,516,039 to $1,661,246, based on a return on equity (ROE) range of 8.50% to 9.50%. For individual items of cost, the responsibility of a certain class of customers to pay that cost can be either directly assigned or allocated to customer classes using reasonable methods for determining the class responsibility for that item of cost. The CCOS study determines whether each class of customer is providing the utility with the level of revenue necessary to cover (1) the utility's investments required to provide service to that class of customers, and (2) the utility's ongoing expenses to provide steam service to that class of customers. Staff's CCOS study is a continuation and refinement of Staff's cost of service revenue requirement study, resulting in a determination of the costs incurred in providing steam service to each of Veolia Kansas City's customer classes. The results are then summarized so they can be compared to revenues being collected from each customer class on current rates. The difference between a particular customer class' costs responsibility and the revenues generated by that customer class is the amount that class is either subsidizing (revenues greater than costs) or the other classes are being subsidized (revenues less than costs).

Q. Please provide an overview of Staff's CCOS study.

A. Listed below are the summary results of Staff's CCOS study.

TABLE 1

Summary Results of Staff's CCOS Study

Customer Class	Revenue Neutral % Increase
Standard Commercial Service (SCS)	8.16%
Large Commercial Service (LCS)	7.35%
Interruptible Heating Service (IHS)	58.72%
Process Steam (contract customers)	0.00%
Total	0.00%

Table 1 shows the changes necessary on a revenue-neutral basis of each customer class required to exactly match that customer class's rate revenues with Veolia Kansas City's cost to serve that class based on Staff's CCOS study. The results are presented on a revenue-neutral basis, as a percent shift (Expressed as negative or positive percent) that is required to equalize the utility's rate of return from each class.

A negative amount or percentage indicates revenue from the customer class exceeds the cost of providing service to that class; therefore, to equalize revenues and cost of service, rate revenues should be reduced, i.e., the class has overpaid. A positive amount or percentage indicates revenue from the class is less than the cost of providing service to that class; therefore, to equalize revenues and cost of service, rate revenues should be increased, i.e., the class has underpaid. Because a CCOS study is not precise, it should be used only as a guide for designing rates. In addition, bill impacts need to be considered.

The customer classes used in Staff's study correspond to Veolia Kansas City's current rate schedules.

Q. What relationship, if any, is there between the Staff's Revenue Requirement Cost of Service (COS) Report filed May 1, 2014, and the Staff's CCOS Report?

A. In its COS Report, Staff filed its accounting information, which included Staff's estimate of Veolia Kansas City's revenue requirement through the update period of December 31, 2013. Consistent with the COS Report, this CCOS Report reflects the Staff's revenue requirement recommendation of $1,661,246 (high point) based on Staff's estimate through the update period.

Q. How did Staff conduct its CCOS study?

A. The CCOS Report outlines how Staff performed its CCOS study. The cost-of-service procedures involve three steps: (1) Functionalization – this procedure identifies the different functional "levels" of the system; (2) Classification – this procedure determines for each functional type, the primary cause or causes of that cost being incurred, and segregates these costs of service components into a customer, demand or energy component; and (3) Allocation – this procedure allocates the class proportional responsibilities for each type of cost and spreads the cost among the various classes. The cost of service procedures of Functionalization, Classification, and Allocation are more fully explained in Schedule RK-1 to Staff's CCOS Report.

Q. What is the Staff's recommendation on CCOS?

A. The Staff is recommending revenue increases for each class of customer. The interruptible heating service class is grossly underpaying its fair share and Staff's rate design recommendation recommends an above system average increase to bring this class closer to its cost to serve. Veolia Kansas City's CCOS study also shows this class underpaying and recommends an increase above the system average.

RATE DESIGN

Q. What is rate design?

A. Rate design is the assignment of rates to each customer class and is based from the Staff's CCOS and other relevant factors to this case. It provides methods to implement in rates any Commission-ordered overall change in customer revenue responsibility. Rate design is 1) a process used to determine the rates for a steam utility once cost of service and CCOS is known; 2) characteristics such as rate structures, rate values, and availability that define a rate schedule and provide instructions necessary to calculate a customer's steam bill. Rates are designed to collect revenue to recover the cost to serve the class. Steam rates are based on three rate components. They are 1) demand-related costs[1]; (2) usage-related costs[2]; and 3) customer-related costs[3].

Q. What are Staff's rate design recommendations?

A. Staff's specific rate design recommendations are outlined in Staff's CCOS Report and as outlined in the Executive Summary section of this Direct Testimony.

Q. Does this conclude your direct testimony?

A. Yes, it does.

[1] Demand-related costs are allocated among the customer classes on the basis of demands (Mlbs/hour) imposed on the system during specific peak hours.
[2] Usage related costs are allocated among the customer classes on the basis of usage (Mlbs) which the system must supply to serve the customers.
[3] Customer-related costs are allocated among the customer classes on the basis of the number of customers or the weighted number of customers. These costs include service lines, meters, meter reading, and billing per customer.