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Rate Design  
Witness: Michael Scheperle  
Sponsoring Party: MO PSC Staff  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL SCHEPERLE**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2009-0089**

**Jefferson City, Missouri**

**March 2009**



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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MICHAEL SCHEPERLE**

4 **KANSAS CITY POWER & LIGHT COMPANY**

5 **CASE NO. ER-2009-0089**

6 Q. Please state your name and business address.

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

9 Q. Who is your employer and what is your present position?

10 A. I am employed by the Missouri Public Service Commission (Commission) and  
11 I am a Regulatory Economist, Economic Analysis, Energy Department, Utility Operations  
12 Division.

13 Q. Are you the same Michael Scheperle that prefiled direct testimony in this case  
14 on February 25, 2009?

15 A. Yes.

16 **EXECUTIVE SUMMARY**

17 Q. What is the purpose of your testimony?

18 A. The purpose of this testimony is to address rate design issues as identified in  
19 direct testimony. These issues may be summarized as relating to class cost-of-service (CCOS)  
20 studies for interclass revenue shifts and rate design for proposed intraclass revenue shifts.

21 Staff makes the following recommendations to the Commission:

- 1           • Since no party to the case, including Staff, is proposing any interclass revenue  
2           shifts, any increase in revenue be applied as an equal percent to all classes, so  
3           that the current relationship among the classes is maintained;
- 4           • Acceptance of Kansas City Power & Light Company's (KCPL's) proposal that  
5           the commercial and industrial all-electric and separately metered space heating  
6           rates be phased out, and that the separately metered space heating winter  
7           energy charges for the General Service Tariffs (Small, Medium, and Large) be  
8           increased by 5% prior to any increase in revenue requirement;
- 9           • To speed up the phase-out of the General Service All-Electric and Separately  
10          Metered space heating rates:
- 11               (1) An additional 10% increase for all of the General Service (Small,  
12               Medium, and Large) all-electric winter season energy rates;
- 13               (2) An additional 5% increase for all of the General Service classes'  
14               separately-metered space heating provisions;
- 15               (3) Separately-metered space heating customers that switch to the non-  
16               heating rate no longer be charged for the additional meter;
- 17               (4) Elimination of those frozen General Service All-Electric and  
18               separately-metered space heating rate schedules where no customers are  
19               currently served; and
- 20          • The Commission refrains from adopting the changes to the Large Power  
21          Service rates as proposed by Mr. Maurice Brubaker, on behalf of DOE/NNSA;  
22          Ford Motor Company; Midwest Users Association; Missouri Industrial Energy  
23          Consumers; and Praxair, Inc.

1 **Class Cost-of-Service - Interclass Revenue Shifts**

2 Q. What CCOS studies were submitted in direct testimony?

3 A. In my direct testimony and the Staff Class Cost-Of-Service and Rate Design  
4 Report filed February 25, 2009, Staff outlined that the Kansas City Power & Light (KCPL)  
5 Regulatory Plan approved by the Commission in Case No. EO-2005-0329, stated no new or  
6 updated class cost-of-service (CCOS) studies would be allowed by the signatory parties in the  
7 second and third rate filing of the Regulatory Plan. Commission Staff is a signatory party to  
8 the Regulatory Plan, and this case is the third filing in the Regulatory Plan. In compliance  
9 with the Regulatory Plan, Staff did not file a new or updated CCOS study. However, other  
10 parties did file CCOS studies, specifically, the Office of Public Counsel (OPC), BAI (on  
11 behalf of DOE/NNSA, Ford Motor Company, Midwest Energy Users Association, Missouri  
12 Industrial Energy Consumers and Praxair, Inc.), and KCPL filed one or more CCOS studies.

13 It appears that even though CCOS studies were filed, no party to the case is proposing  
14 any interclass revenue shifts. According to Staff's understanding, all parties support KCPL's  
15 proposal that any increase in revenue be applied as an equal percent to all classes, so that the  
16 current relationship among the classes is maintained.

17 **Rate Design - Proposed Intraclass Revenue Shifts**

18 **1. All-Electric and Separately Metered Space Heating Rates**

19 Q. What intraclass revenue shifts have been proposed?

20 A. My direct testimony and the Staff's Class Cost-Of-Service and Rate Design  
21 Report, filed February 25, 2009, outlined several proposed intraclass revenue shifts.  
22 Specifically, Staff recommended: (1) an additional 10% increase for all of the General Service  
23 (Small, Medium, and Large) all-electric winter season energy rates; (2) an additional 5%

1 increase for all of the General Service classes separately-metered space heating provisions;  
2 (3) that separately-metered space heating customers that switch to the non-heating rate no  
3 longer be charged for the additional meter; and (4) the elimination of those frozen General  
4 Service All-Electric and separately-metered space heating rate schedules where no customers  
5 are currently served.

6 KCPL recommended that the commercial and industrial all-electric and separately  
7 metered space heating rates be phased out, and that the separately metered space heating  
8 winter energy charges for the General Service Tariffs (Small, Medium, and Large) be  
9 increased by 5% prior to any increase in revenue requirement. Staff supports these  
10 recommendations by KCPL. However, Staff believes that additional changes need to be made  
11 to speed up the phase-out of the All-Electric and Separately Metered space heating rates for  
12 the General Service Classes (Small, Medium, Large).

## 13 2. Large Power Service Rates

14 Mr. Maurice Brubaker, on behalf of DOE/NNSA; Ford Motor Company; Midwest  
15 Users Association; Missouri Industrial Energy Consumers; and Praxair, Inc. recommends a  
16 proposal that any increase allocated to the Large Power Service (LPS) rate schedules be  
17 spread in such a fashion as to not increase the collection of fixed costs in the high load factor  
18 block. An explanation regarding why Staff does not support such a proposal at this time can  
19 be found later in this testimony.

## 20 ISSUES

### 21 Class Cost-of-Service – Interclass Revenue Shifts

22 Q. Why did the parties to this case file CCOS studies in direct testimony?

1           A.       Staff’s understanding is that no party to the case is recommending any inter-  
2 class revenue shifts. It appears that parties submitted CCOS studies for various purposes.  
3 OPC, a signatory party to the Regulatory Plan, filed two CCOS studies in this case in order to  
4 be prepared to respond to any proposed inter-class revenue shifts proposed by other parties in  
5 this case (p. 2-3, Barbara Meisenheimer, Direct Testimony).

6           Maurice Brubaker, on behalf of DOE/NNSA, Ford Motor Company, Midwest Energy  
7 Users Association, Missouri Industrial Energy Consumers and Praxair, Inc., (collectively,  
8 Industrials), filed summaries of two cost studies. However, the Industrials support the  
9 proposal of Kansas City Power & Light Company (KCPL) to allocate any increase that it may  
10 receive in this case as an equal percent to all customer classes (p. 2, Maurice Brubaker, Direct  
11 Testimony).

12           With the January 1, 2008 rate increase request, Kansas City Power & Light Company  
13 filed a CCOS study. The CCOS filing by Paul Normand representing KCPL (Management  
14 Consultant and President of Management Applications Consulting, Inc) was submitted to  
15 satisfy a Commission Order in the Commission’s Report and Order, Case No. ER-2007-0291,  
16 whereby KCPL was to file a complete cost of service and/or cost-effectiveness studies and  
17 analyses of KCPL’s general service all-electric tariffs and separately metered space heating  
18 rates (p. 2, Direct Testimony, Tim Rush). The purpose of the filing of these studies and  
19 analyses was to allow KCP&L the opportunity to present its preferred phase-out plan for the  
20 General Service all-electric and separately metered space heating tariffs.

21           **Rate Design – Proposed Intraclass Revenue Shifts**

22           Q.       What are KCPL’s rate design proposals for intraclass revenue shifts?



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1           A.     KCPL recommends that over the next few cases, that the commercial and  
2 industrial all-electric and separately metered space heating rates be phased out and also, that  
3 the separately metered space heating winter energy charges for the Small General Service,  
4 Medium General Service, and Large General Service tariffs be increased by 5 percent prior to  
5 any increase in revenue requirement in this case (p. 9, Direct Testimony, Tim Rush). Staff  
6 agrees that the commercial and industrial all-electric and separately-metered space heating  
7 rates be phased out, but Staff proposes that the frozen all-electric and separately metered  
8 space heating rate schedules under which no customers are currently served be cancelled in  
9 this case. Staff agrees with KCPL that the separately metered space heating tariff's winter  
10 charges be increased by 5 percent prior to any increase in revenue requirement. Additionally,  
11 Staff proposes that the all-electric winter season energy rates be increased by 10% for all of  
12 the General Service (Small, Medium, and Large) tariffs prior to applying any increase in  
13 revenue requirement.

14           General Service All-Electric customers on average pay approximately 12% to 16%  
15 less (cents per kWh) than customers under the standard General Service rate schedules. Staff  
16 believes that the additional 10% increase is a necessary step forward in eliminating the  
17 General Service All-Electric rate schedules.

18           Q.     What are the Industrials' rate design proposals for intraclass revenue shifts?

19           A.     Mr. Maurice Brubaker, on behalf the Industrials, recommends that any increase  
20 allocated to the LPS rate schedules be spread in such a fashion as to not increase the  
21 collection of fixed costs in the highest load factor energy block. The Industrials recommend  
22 that the LPS class rate schedule be modified by maintaining the charges for energy  
23 consumption in excess of 360 kWh per kW at their current levels, increasing the charges for

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1 the middle energy block (181-360) hours use by one-half of the average increase applicable to  
2 the LPS rate, and applying the balance of the revenue increase as a uniform percentage  
3 increase to all of the remaining charges in the rate schedule. With this rate structure, high  
4 load factor customers (i.e., customers with a constant load) would receive less of an impact  
5 than customers that have a low load factor.

6 A possible rationale for this type of rate is that high load factor customers are less  
7 expensive to serve than low load factor customers. If it is assumed that base load plants are  
8 built for high load factor customers, then the fixed cost for these customers is high and the  
9 variable (i.e., fuel) cost is low. Likewise, if it is assumed that peaking plants are built to serve  
10 low load factor customers, then fixed costs should be lower and variable costs high. For these  
11 customers the customer charge should be lower and the variable charges higher. Because  
12 there are too many customers to have a specific rate design for each customer, customers are  
13 grouped together and a rate design is developed for the customer class as a whole. This takes  
14 customer and cost information to appropriately complete a rate design.

15 The Staff believes that Mr. Brubaker's proposal did not provide the information  
16 necessary to support these changes. Therefore it is premature at this point to change the LPS  
17 rates. Staff intends to address this issue in the next round of filing CCOS studies that will  
18 include the costs of Iatan 2.

19 Staff analyzed each of the ninety-seven customers currently served on the LPS rate  
20 structure. It appears that thirty-two customers (33%) would benefit on Mr. Brubaker's  
21 proposal while sixty-five customers (67%) would pay higher electricity rates under Mr.  
22 Brubaker's proposal than under KCPL's proposal. Percentage wise, the customer impacts  
23 vary from a reduction of 2.9% to an increase of 3.8% relative to KCPL's proposed overall

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1 increase of 17.5%. Thus, the increase in customers' bills would vary from approximately  
2 14.6% to 21.3% based on KCPL's proposed overall increase of 17.5%.

3 Staff analyzed the ninety-seven customers for potential rate switchers, *i.e.*, customers  
4 who would pay lower electricity rates by switching from the Large Power Class to the Large  
5 General Service Class. According to Staff's calculation, there are approximately nineteen  
6 customers (20%) who could switch classes and lower their bills. Staff is concerned that the  
7 recommendation is too drastic a change where 67% would receive a higher percent increase  
8 and 20% could lower their bills by shifting to another class of service. Furthermore, unless the  
9 reduced revenues from rate switching are accounted for, KCPL will not realize the whole  
10 increase authorized by the Commission.

11 For these reasons, Staff does not support the recommendation by Mr. Brubaker.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes, it does.