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Witness:	Michael S. Scheperle
Sponsoring Party:	MO PSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
May 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	))))	File No. ER-2014-0370

AFFIDAVIT OF MICHAEL SCHEPERLE

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

Michael Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 14 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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 Scheperle
Michael Scheperle

Subscribed and sworn to before me this 5th day of May, 2015.

LAURA DISTLER
Notary Public - Notary Seal
STATE OF MISSOURI
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Laura Distler
Notary Public

Table of Contents

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Q. Please state your name and business address.

A. My name is 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 filed, on April 16, 2015, direct testimony in question and answer format and as part of the Staff's Rate Design and Class Cost-of-Service Report ("CCOS Report")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to respond to parts of the overall rate design proposals by Kansas City Power & Light Company ("KCPL"), the Sierra Club, Public Counsel, Missouri Industrial Energy Consumers ("MIEC") and Midwest Energy Consumers' Group ("MECG"), and United States Department of Energy ("USDOE") in direct testimony. Specifically: 1) I respond to the revenue requirement class allocation proposals; 2) I respond to proposed Commercial and Industrial customer charge changes; and 3) I respond to recommendations for intra-class revenue allocations.

Q. Are you the only Staff witness filing rebuttal testimony on rate design for this case?

A. No, Sarah Kliethermes and Robin Kliethermes have rebuttal testimony on other aspects of rate design. Specifically, they address residential customer charges, and marginal cost calculations for Large Power Service ("LPS") and Large General Service ("LGS") customer classes.

I. RESPONSE TO REVENUE ALLOCATION PROPOSALS

Q. How do other parties propose how a rate increase should be allocated to KCPL's customer classes?

A. KCPL is requesting an overall annual increase in rate revenues of $120.9 million or 15.75%. KCPL[1] proposes that the requested increase be applied to the classes on an equal percentage basis, with no class revenue shifts for the residential class, commercial and industrial ("C&I") classes, special rates[2], and lighting. However, within the classes, KCPL is proposing numerous changes.

The Sierra Club[3] recommends that the Commission require KCPL to increase the residential customer charge and energy rate by the same percentage that rates are increased for the other customer classes. Staff's interpretation of the Sierra Club's recommendation is that rate classes and rate elements would receive the overall system average increase.

Public Counsel recommends that the revenue increase should be distributed to the customer classes on an across-the-board basis at the system average increase.[4] Public Counsel also recommends that existing customer charges not be increased, distribution rates be increased according to COSS study results, allocated to the volumetric and demand components on an equal percentage basis. Additionally, Public Counsel recommends

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[1] Direct Testimony of KCPL witness Tim Rush, page 58.
[2] Two part-time of use, special interruptible, real time pricing, special contracts, customer specific, and standby or breakdown service.
[3] Direct Testimony of Sierra Club witness Tim Woolf, page 33.
[4] Direct Testimony of David Dismukes, page 3.

modifications to residential other use rates and to the second and third winter rate blocks for the SGS (Small General Service) All-Electric rate schedules.

The MIEC and the MECG, through their witness Mr. Maurice Brubaker, recommend an adjustment to move classes roughly 25% of the way toward their costs of service[5]. This equates to a positive +2.8% revenue–neutral adjustment to the residential class, a negative -1.5% revenue-neutral adjustment for the Small General Service ("SGS") class, a negative -1.0% revenue-neutral adjustment to the Medium General Service ("MGS") class, a negative -2.1% revenue-neutral adjustment to the Large General Service ("LGS") class, a negative -1.2% revenue-neutral adjustment to the Large Power Service ("LPS") class, and a negative -0.3% revenue-neutral adjustment to the Lighting class. Mr. Brubaker also recommends modifications to the LPS and LGS rate elements.

The USDOE recommends that the Commission should cap rate increases for any particular rate class at the greater of one-third (33 percent) more than the system average percentage rate increase or three percent above the system average percentage rate increase. Class rate changes below the system average should be limited to double these levels (e.g. two thirds less than the system average) prior to any reallocation of revenues necessitated by the proposed caps on rate increases.[6] Specifically, if the Commission were to grant KCPL an $82.4 million revenue requirement, an overall 10.7% increase, USDOE's approach[7] would provide for the following percentage increases for each class:

[5] Direct Testimony of Maurice Brubaker, Schedule MEB-COS-6.
[6] Direct Testimony of Michael Schmidt, page 5.
[7] Direct Testimony of Michael Schmidt, page 13, Table 3.

- Res 14.3%
- SGS 8.9%
- MGS 8.8%
- LGS 8.4%
- LPS 8.8%
- Lighting 6.4%
- Overall 10.7%

Q. What is Staff's revenue allocation recommendation for each class?

A. At this time, Staff is not recommending any revenue-neutral adjustments to any class, as each class is close to Staff's CCOS study results within a realm of reasonableness range. On a revenue-neutral basis, the following shifts are calculated: Res, 0.97%, general service class's combined (SGS,MGS,LGS), -3.36%; LPS, 4.94%; and lighting, -1.33%;

Q. What is Staff's zone of reasonableness range criteria?

A. In this case, Staff's zone of reasonableness criteria consists of five considerations:

1. An important tool and starting point is the reasonableness of current rate levels for each customer class based on Staff's CCOS study results compared to other classes.
2. Staff's class cost of service study does not indicate that a realignment of class revenue responsibility is warranted at this time as its CCOS study is not supportive of any shifts in interclass revenue responsibility.
3. Significant shifts in class revenue responsibility were made in KCPL's last general rate case (ER-2012-0174), which significantly impacted customers.
4. Staff's rule of thumb that we have used is a 5 percent band one way or the other as a first step at whose rates should be increased or decreased. In other words, Staff looks to see if the difference between each class' revenue collected and costs to serve is over or under 5 percent. If Staff finds a number over or under 5 percent, Staff looks at the other classes to see whether any classes have an offsetting difference. In this case, all classes (groups) are within 5 percent, so Staff did not recommend any revenue shifts.
5. Interrelationships between customer classes for potential rate switchers.

Q. Do you have any concerns with KCPL's proposed revenue increase allocation?

A. No. It appears that KCPL and Staff agree that the revenue increase allocation for each class be the system average increase. However, there is disagreement on intra-class rate component increases, but a basic agreement on class revenue allocation. Classes are defined as Res, SGS, MGS, LGS, LPS, and lighting.

Q. Do you have any concerns with the Sierra Club's proposed revenue increase allocation?

A. No. It appears that the Sierra Club and Staff agree that the revenue increase allocation for each class be the system average increase.

Q. Do you have any concerns with Public Counsel's proposed revenue increase allocation?

A. No. It appears that Public Counsel and Staff agree that the revenue increase allocation for each class be the system average increase. However, there is disagreement on intra-class rate component increases and customer charge increases.

Q. Do you have any concerns with MIEC and MECG's proposed class revenue increase allocation?

A. Yes. Their witness Mr. Brubaker recommends a revenue-neutral adjustment of a positive 2.8% for the Res class and various negative revenue-neutral adjustments for the other classes[8]. Mr. Brubaker's class revenue allocation proposal, is consistent with his CCOS results, were the Commission to accept his CCOS results. However, his proposal raises a number of concerns. First, his recommended shifts would distort the rate continuity between the small, medium, and large general service rate schedules. Second, his revenue-neutral

[8] Mr. Brubaker recommends negative adjustments for the SGS (-1.5%) class, for the MGS (-1.0%) class, for the LGS (-2.1%) class, for the LPS (-1.2%) class, and for the lighting (-0.3%) class.

shifts contradict[9] what the Commission ordered for the Res and the LPS class in its Report and Order in KCPL's last rate case.[10]

Q. Why is rate continuity within the general service classes important?

A. Customers can easily switch between these classes. Breaking the ties that exist between these rates would create advantageous and disadvantageous pricing for some customers, causing them to switch classes. Since Mr. Brubaker's cost study is based on the customers that are currently in each general service class, an analysis is needed to determine whether rate switchers would change the cost-causation that he bases his recommendations on.

Q. Do you have any concerns with USDOE's proposed revenue increase allocation?

A. Yes. USDOE's revenue allocation proposal is a drastic revenue-neutral adjustment for the Res class of 3.6% (14.3% - 10.7%) which contradicts what the Commission ordered for the Res class in its Report and Order in its last general rate increase case.[11]

Q. You have now mentioned what the Commission said and ordered in its Report and Order from KCPL's last rate general rate case, Case No. ER-2012-0174 twice in your answers now. What did the Commission say?

A. The Commission stated:

> "Based on KCPL's CCoSS, which is in part the basis of the Commission's findings, OPC proposes to increase LP as follows. It takes the difference between LP return (3.011%) and KCPL's system-average return (5.539%). The difference is 2.528% (5.539% - 3.011%). The amount of LP rate base

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[9] See Table 1 in this testimony.
[10] Report and Order, Case No. ER-2012-0174.
[11] Case No. ER-2012-0174.

under-contributing is therefore $10,917,144. Using those amounts, OPC recommends shifting half the under-contributing LP rate base ($10,917,144 x ½ = $5,458,572) to decrease SGS and MGS by a 69% / 31% split. The results are:

- LP increases by $5,458,572, which is 50% of KCPL's CCoSS shifts;
- MGS decreases by $2,139,206, which is 39% of the LP increase; and
- SGS decreases by $3,319,366, which is 61% of the LP increase."[12]

Furthermore, it said:

"The Commission is not implementing the increasing residential true-up revenues by the additional 1.00%, with a corresponding equal-percentage revenue neutral decrease in the true-up revenues for all non-lighting rate classes, proposed by signatories to the *Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design* in File No. ER-2012-0174." (page 33, Report and Order, File No. ER-2012-0174).

Q. Did Staff support that non-unanimous stipulation and agreement?

A. Yes. At the time, and based on Staff CCOS results, Staff supported the non-unanimous stipulation and agreement of a positive 1.00% revenue-neutral adjustment to the residential class. However, Staff's CCOS result in this case is a positive 0.97% compared to the positive 1.00% that Staff recommended in KCPL's last case. This 0.97% is within 1 percent of Staff's CCOS study results and the zone of reasonableness range. Staff believes the other customer classes are also within a zone of reasonableness range after consideration of revenue-neutral adjustments ordered by the Commission in KCPL's last case.

Q. Please describe the Report and Order from Case No. ER-2012-0174?

A. Listed below is the class summary of the Report and Order in Case No. ER-2012-0174.

[12] Report and Order, Case No. ER-2012-0174, page 38

TABLE 1

Class	Revenues from Staff True-up	Ordered Neutral Class Shift	Ordered Revenue Increase	Net Increase	Final Revenue	Percent
Res	$259,631,036	$0	$25,029,196	$25,029,196	$284,660,232	9.640%
SGS	$46,952,137	($3,319,366)	$4,526,324	$1,206,958	$48,159,095	2.571%
MGS	$95,722,085	($2,139,206)	$9,227,891	$7,088,685	$102,810,770	7.405%
LGS	$162,923,932	$0	$15,706,347	$15,706,347	$178,630,279	9.640%
LPS	$125,004,461	$5,458,572	$12,050,798	$17,509,370	$142,513,831	14.007%
Lighting	$8,820,652	$0	$850,337	$850,337	$9,670,989	9.640%
Total	$699,054,303	$0	$67,390,893	$67,390,893	$766,445,196	9.640%

Table 1 shows, that based on the Commission's Report and Order, that the Res and LGS class received the system average increase of 9.640%, the SGS class received a 2.571% increase, the MGS class received a 7.405% increase, and the LPS class received a 14.007% increase. Staff's recommendation in this case is based on its current CCOS results and prior Commission decision. For example, Staff's Res CCOS results support an overall increase of 11.44% with the Res class CCOS results at 12.41% increase. This revenue-neutral adjustment (12.41% - 11.44%) is only 0.97% difference. Therefore, Staff recommended the system average increase for the Res class. Furthermore, Staff believes the C&I customer classes are also within a zone of reasonableness range after consideration of revenue-neutral adjustments ordered by the Commission in KCPL's last case and Staff's CCOS results.

<u>II. RESPONSE TO COMMERCIAL AND INDUSTRIAL CUSTOMER CHARGES</u>

Q. What have the other parties proposed for commercial and industrial customer charges?

A. KCPL has proposed that customer charges for C&I rate classes be applied approximately on an equal percentage basis across all classes and bill elements[13]. This means that the C&I customer charges would be increased by approximately the class average increase. In reviewing KCPL's proposed rates, the SGS, MGS, LGS, and LPS customer charges vary from 15.5% to 16.1% with the system average overall increase at 15.8%.

The Sierra Club recommends that the C&I customer charges be increased by the system average increase.

Public Counsel recommends that the existing customer charges not be increased. This would include C&I customer charges.

MIEC and MECG jointly recommend that the C&I customer charges increase slightly above the class system average increase, due to intra-class rate component recommendations they make. For example, the LPS service customer charge would increase 20.4%[14] and the LGS customer charge would increase 18.9%.[15] These percentages are above the system average increase of 15.8% KCPL recommends.

USDOE recommends slightly below a system average increase of 10.7% for the SGS, MGS, LGS, and LPS classes based on its CCOS results and recommendations, and where C&I rates increase from 8.4% to 8.9%.

Staff recommends that the C&I customer charges be increased by the class system average.

Q. Why does Staff support increasing the C&I customer charges?

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[13] KCPL witness Tim Rush, Direct Testimony, page 59.
[14] MIEC and MECG witness Brubaker, class cost of service / rate design direct testimony, Schedule MEB-COS-7, Page 1 of 8, ($1,157.29/$961.50).
[15] MIEC and MECG witness Brubaker, class cost of service / rate design direct testimony, Schedule MEB-COS-8, page 1 of 6, ($120.29/$101.15).

A. Staff analyzed all Missouri Investor Owned Utilities ("IOU") for C&I customer charges. KCPL's current customer charges are a bit below the state average. KCPL has a unique C&I customer charge in its tariff in that the customer charges are based on each customer's demand for the month. Table 2 shows the percent of revenue recovered by each IOU in the state.

TABLE 2

	Customer Charge	Energy Charge	Demand Charge	MEEIA Charge	Pre-MEEIA Charge	RESRAM Charge	Total Charge
Residential							
Ameren Missouri	7.68%	88.00%	0.00%	3.41%	0.91%	0.00%	100.00%
Empire	9.52%	90.26%	0.00%	0.00%	0.23%	0.00%	100.00%
KCPL	9.16%	90.10%	0.00%	0.00%	0.73%	0.00%	100.00%
GMO - MPS	8.65%	87.83%	0.00%	2.79%	0.73%	0.00%	100.00%
GMO - L&P	8.04%	88.60%	0.00%	2.91%	0.44%	0.00%	100.00%
Total	**8.20%**	**88.48%**	**0.00%**	**2.55%**	**0.78%**	**0.00%**	**100.00%**
Commercial & Industrial							
Ameren Missouri	2.24%	80.17%	14.61%	2.36%	0.62%	0.00%	100.00%
Empire	3.35%	75.93%	20.48%	0.00%	0.24%	0.00%	100.00%
KCPL	2.53%	73.56%	22.91%	0.00%	1.01%	0.00%	100.00%
GMO - MPS	3.01%	77.62%	16.15%	2.18%	1.03%	0.00%	100.00%
GMO - L&P	10.19%	70.58%	16.46%	2.17%	0.60%	0.00%	100.00%
Total	**2.72%**	**78.51%**	**16.45%**	**1.65%**	**0.68%**	**0.00%**	**100.00%**

Q. Would you explain Table 2?

A. Table 2 is a breakdown by percentage of how each Commission rate-regulated utility recovers its revenues from different charge categories. This is calculated for the residential class and the combined C&I classes. C&I customer charges are not a large component of 2.72% compared to the residential customer charge of 8.20%. This is due in part to the fact that most C&I rate schedules involve a demand component, while the residential class does not include a demand component. The state average for C&I customer charge is 2.72% while KCPL is at 2.53%. Staff finds that KCPL's C&I customer charges are close to the state average and recommends that the C&I customer charges be increased by the class system average, which would maintain its C&I customer charge percentage.

III. Staff Response to Intra-Class Shifts

Q. Is KCPL proposing residential intra-class shifts?

A. KCPL is proposing numerous intra-class shifts for certain rate components. They are listed below:

Residential Class

- Residential Customer Charge increases from $9.00 to $25.00 for ResA and ResB customers. ResC customer charge increase from $11.05 to $30.00 and Res time of day customer charge from $14.04 to $25.00.
- KCPL proposes that ResA, ResB, ResC, and separately-metered space heat rate summer energy charges be the same rate per kWh.
- KCPL proposes that the ResB rate structure agree with ResA and ResC for both winter and summer season.
- KCPL proposes numerous rate adjustments for winter rates with some increasing/decreasing from current rates.

Q. What is Staff's response to these KCPL proposals?

A. Staff supports some, but not all, of them. Specifically, KCPL proposes that the residential customer charge increase by $16 ($25.00 – $9.00) for ResA and ResC customers or 178%. Based on Staff's CCOS results and on policy considerations, Staff instead recommends that the residential customer charges increase by the class system average increase for all residential customer charges. Staff witness Robin Kliethermes explains why in her rebuttal testimony.

Staff supports KCPL's summer rate components, where each summer kWh is priced at the same rate whether the customer is served under the rate schedules for ResA, ResB, or ResC. Staff believes this is the current situation.

Staff supports KCPL's proposed rate structure change to ResB to match the rate structures of ResA and ResC. Currently ResA and ResC have the following rate structures for both summer and winter rates:

- Customer Charge
- First 600 kWh
- Next 400 kWh
- Over 1,000 kWh

but ResB has the following rate structure for both summer and winter rates:

- Customer Charge
- First 1,000 kWh
- Over 1,000 kWh

KCPL's proposal would make the rate structure the same for the three residential rate schedules.

Staff does not support KCPL's other intra-class recommendations for the Res class at this time. Many revenue rate component recommendations are tied to the proposed KCPL increase in residential customer charge from $9 to $25.

General Service and Large Power Service Rate Schedules

Q. Please summarize Staff position with respect to KCPL C&I intra-class shifts for the SGS, MGS and LGS classes.

A. KCPL proposes that the requested increase be applied to the classes on an equal percentage basis. However, KCPL is proposing some intra-class shifts for frozen SGS, frozen MGS, and frozen LGS rate components. This involves a separately metered space heat rate for these general service customers.

- SGS – separately metered space heat winter season rate from current rate of $0.6109 to $0.05824, a 4.67% reduction.
- MGS – separately metered space heat winter season rate from current rate of $0.05352 to $0.04143, a 22.59% reduction.
- LGS – separately metered space heat winter season rate from current rate of $0.05246 to $0.03640, a 30.61% reduction.

At this time, Staff does not support these KCPL recommendations. Staff recommends the system average increase be applied to each rate component. The winter season reduced rate reduction seems excessive, as KCPL wants to increase rates by 15.8%, while at the same time reducing some rate elements by 20% to 30%.

Q. What are MIEC and MECG proposing for LPS service and LGS service rates?

A. Through their witness Mr. Brubaker, they propose to adjust the LGS and LPS rates as follows:

> In the interest of gradualism, my proposal is to maintain the energy charges for the high load factor (over 360 hours use per month, or over a 50% load factor) block at their current levels, increase the middle blocks (hours use from 181 to 360) by three quarters of the average percentage increase, and to collect the balance of the revenue requirement for the tariff by applying a uniform percentage increase to the remaining charges in the tariff. This includes the customer charge, the reactive demand charge, the facilities charges, the demand charges, and the initial block energy charges. (Direct Testimony, page 32).

Q. What is Staff's response to this proposal?

A. Staff does not support it at this time. Staff has not opposed such a concept in the past. Staff has three major criteria it considers when reviewing such a proposal: 1) Staff gauges the rate impact per customer and potential for rate shock for any customer due to intra-class shifts; 2) does each rate component (hours of use rate) cover the marginal costs for its revenue requirement; and 3) seeks to analyze the potential rate switchers for customers who might switch from a rate schedule to another rate schedule. The utility should have the opportunity to make its revenue requirement when customers are switching rate schedules due to rate design shifts.

In this situation, Staff analyzed each customer on the LPS rate tariff schedule and believes that rate shock would not occur for any customer.

Staff witnesses Robin Kliethermes and Sarah Kliethermes are analyzing whether each rate component in the LPS and LGS tariff schedules are allowing KCPL to recover its marginal cost where there is a contribution to fixed charges. Since this would be the fourth rate case[16] in succession that the bottom rate of the hours of use rate has not increased, Staff is analyzing the current rate for both the LPS and LGS rate design and its impact. Staff witnesses Robin Kliethermes and Sarah Kliethermes are filing rebuttal testimony on this proposal.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

[16] This Case No. ER-2014-0370, Case No. ER-2012-0174, Case No. ER-2010-0355, and Case No. ER-2009-0089.