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Issues:	Rate Design Class Cost of Service
Witness:	Michael S. Scheperle
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Surrebuttal Testimony
Case No.:	ER-2012-0174
Date Testimony Prepared:	October 5, 2012

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

Jefferson City, Missouri
October 2012

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-2012-0174

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 Surrebuttal Testimony in question and answer form, consisting of 10 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal 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 3rd day of October, 2012.

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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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 in this proceeding on August 16, 2012, direct testimony, both in question and answer format and as part of the Missouri Public Service Commission Staff's ("Staff's") Rate Design and Class Cost-of-Service Report, and who filed on September 5, 2012 rebuttal testimony in question and answer format?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I respond to the rebuttal testimony of Kansas City Power & Light Company ("KCPL") witness Paul M. Normand; U.S. Department of Energy ("DOE") witness Dennis W. Goins; Missouri Industrial Energy Consumers ("MIEC") and the Midwest Energy Consumer's Group ("MECG"), collectively "Industrials" witness Maurice Brubaker; Southern Union Company d/b/a Missouri Gas Energy ("MGE") witness F. Jay Cummings; and Midwest Energy Users' Association ("MEUA") witness Donald E. Johnstone.

Executive Summary

Q. Please summarize your surrebuttal testimony.

A. I will respond to KCPL by describing how Staff's methodology appropriately represents the base component in its application of its Base, Intermediate and Peak ("BIP") production capacity allocator. Additionally, Staff uses non-coincidental peak ("NCP") information instead of coincidental peak ("CP") information in its production-capacity allocator to alleviate the potential for free-ridership.

I will respond to DOE, by describing how Staff's use of different allocation methods for jurisdictional allocations (Missouri retail jurisdiction, Kansas retail jurisdiction and the wholesale jurisdiction) versus class revenue responsibility for Missouri retail is appropriate and consistent with present and previous Class Cost-of-Service ("CCOS") studies. I will describe how with regard to Administrative & General ("A&G") allocator, Staff used the energy allocator to allocate most A&G expense accounts instead of Staff's preferred labor allocator due to large variation of labor allocator to other class allocators.

I will respond to MGE's recommendation to eliminate KCPL's residential electric heat rate classes and schedules, and describe why Staff does not support that recommendation.

Finally, I will respond to MEUA's idea that Staff's BIP methodology is based on periods that do not create costs and are therefore somewhat overstated.

Production-Capacity Allocator

Q. Mr. Normand alleges on page 4 of his rebuttal testimony that Staff's Production-Capacity Base Allocator double-dips small users by using total annual energy and that Staff magnifies the class allocation amount based on NCP information in the intermediate and peaking component of the BIP method. Do you agree with Mr. Normand's characterization that Staff's Production-Capacity Allocator double-dips?

A. No. Staff calculates a base component, an intermediate component, and a peak component in its BIP method. The intermediate component is calculated less the base component already allocated. The peak component is calculated less the base and intermediate already calculated. Therefore, Staff does not double-dip in its base, intermediate, and peak component, as usage characteristics are calculated less the components already allocated. Although Mr. Normand does not define or explain what he means by "double-dip." Staff's methodology appropriately represents the base usage of all customers.

Q. Do you agree with Mr. Normand's position that Staff should use CP information and not NCP information in its BIP methodology?

A. No. A concern with utilizing a CP-based allocation factor is that a particular rate class or parts of a rate class are found to be prominently or completely off peak in nature. For example, over-reliance on the CP information may result in free ridership for parts of the lighting class. Free ridership is when service rendered completely off-peak or not at the system peak time is not assigned any responsibility for capacity cost. Outdoor lighting could avoid some of the demand cost assignment as system peaks generally occur during daylight hours. To alleviate any concern of free ridership, Staff uses NCP information.

Difference of Jurisdictional Allocators (wholesale, Kansas retail) versus Missouri Retail

Q. Does Mr. Goins state in his rebuttal testimony, that Staff must use the 4CP method in its CCOS retail rate study because Staff used the 4CP allocation in its jurisdictional allocation?

A. Yes. Mr. Goins contends that because Staff used a 4CP jurisdictional allocator, it should use the same methodology to calculate the production-demand[1] allocator for CCOS for Missouri retail classes.

Q. What were Staff's jurisdictional allocators?

A. Jurisdictional allocation refers to the process by which demand-related and energy-related costs are allocated to the applicable jurisdictions. Staff calculated jurisdictional allocation factors for demand and energy to allocate KCPL's costs between the three applicable jurisdictions: Missouri retail jurisdiction, Kansas retail jurisdiction, and the wholesale jurisdiction. The contribution of each of the three individual jurisdictions coincident to the system demands is the appropriate basis on which to allocate the costs of these facilities. Staff utilized a 4CP method for jurisdictional purposes based on the monthly seasonal coincident peaks of the four summer months to determine the demand allocation factors, the same methods that the Commission ordered in Case No. ER-2006-0314, and which both KCPL and Staff used in each subsequent KCPL rate cases (Case Nos. ER-2007-0291, ER-2009-0089 and ER-2010-0355). Staff's Cost of Service Revenue Requirement Report ("COS Report") stated that the 4CP method is appropriate for a utility such as KCPL that experiences dominant demands in the four summer months (June through September) relative to the demands in the other eight months of the year.

Q. Is it useful to compare jurisdictional allocators to CCOS allocators?

A. No. Jurisdictional allocations and CCOS allocations should not be confused with each other. Jurisdictional allocations are used to allocate among the federal and state jurisdictions, or said in another manner, allocate among wholesale and retail jurisdictions.

[1] Demand refers to the rate at which electric energy is delivered to a system to match the energy requirements of its customers, generally expressed in kilowatts ("kWs") or Mega Watts ("MWs"), either at an instant in time or averaged over a designated interval of time.

This is in contrast to CCOS allocations that are used in a CCOS study to allocate costs among the utility's retail customers.

Q. What are the primary difference allocating costs among interstate retail (Kansas) and wholesale jurisdictions compared to allocating costs among Missouri retail classes?

A. The allocation of costs among jurisdictions, wholesale and retail (there may be more than one state jurisdiction), determines the amount of costs that are to be collected from retail customers. Of course, this Commission does not determine the rate structure for wholesale rates; however, this Commission does determine the allocation of costs to the Missouri retail rate classes, and how, through rate structure, these costs are collected. The allocation of costs among the Missouri retail classes should be reflective of how these costs are collected in rates from customers in the various rate classes. Therefore, the CCOS allocators have a retail rate structure component that the jurisdictional allocator does not have.

Q. How does the consistency between class cost allocation and class rate design effect Staff's choice of class allocation factors?

A. The rates for various classes include time differentiated rates such as seasonal and time-of-use rates. Staff's consistent position has been that the allocation of costs among retail classes should provide a reasonable basis for setting time or seasonal differentiated rates. The BIP allocation method provides a reasonable method of cost allocation to be used in determining time differentiated rates. In contrast, allocation methods (i.e., 4CP) that depend only on summer peak demands do not provide a reasonable basis for setting time or seasonal differentiated rates, because such a cost allocation method implies that all demand charges set for customers should be collected during the summer months. This rate design

would fail to allocate costs to those who use generation and transmission capacity during the non-summer months, and that is not a reasonable retail rate design.

Administrative and General Expenses

Q. On page 8, lines 16-21 of his rebuttal testimony, MIEC and MECG witness Brubaker states that Staff has applied an unconventional and unprecedented approach to the allocation of A&G expenses. Do you agree with his characterization of Staff's classification?

A. Not entirely. A&G[2] expenses represent labor, employee benefits, miscellaneous expenditures, and materials that are not directly related to one of the major utility functions, and therefore, must be allocated. In most cases, allocation of labor expenditures is a common method to allocate many A&G expenditures along with revenues and plant related expenses. In this case, there appears to be a significant difference between the labor allocator and other class allocators and even a larger variation between the labor allocator for certain classes of KCPL, Staff, and MIEC. In this case, Staff when it reviewed the results that it obtained using its labor allocator it found that using this allocator resulted in allocation of costs in an irrational manner. Therefore it is not reasonable to use the Staff's labor allocator, although using the labor allocator for many A&G expenses is typically Staff's preferred method. Table 1 details Staff's concern with using the labor allocator for many of the A&G expenses.

[2] Compared to Operation and Maintenance ("O&M") expenses which consist of labor, miscellaneous expenditures, and materials which are directly related to a major utility function.

TABLE 1

Allocators	RES	SGS	MGS	LGS	LPS	Lighting	Total
Staff Labor Allocators	47.39%	5.78%	11.59%	19.47%	14.52%	1.25%	100.00%
Staff Energy Allocators	30.31%	4.85%	12.77%	26.12%	24.95%	1.00%	100.00%
Staff Earnings Allocators	24.00%	10.89%	19.16%	26.90%	17.53%	1.52%	100.00%
Staff Rate Revenue Allocators	37.20%	6.71%	13.79%	23.11%	17.93%	1.26%	100.00%
Staff Cost of Service Allocators	40.72%	5.62%	12.57%	22.19%	17.73%	1.17%	100.00%
Staff Rate Base less revenue related Allocators	45.45%	5.11%	12.34%	20.87%	15.13%	1.10%	100.00%
Staff O&M less A&G Allocator	40.84%	5.40%	11.80%	22.02%	18.85%	1.09%	100.00%
KCPL Labor Allocators - W/O A&G	38.91%	6.06%	12.25%	22.14%	19.28%	1.36%	100.00%
KCPL Labor Allocators - Total	38.93%	6.06%	12.25%	22.13%	19.28%	1.35%	100.00%
MIEC and MECG Labor Allocators	47.04%	5.96%	11.71%	19.51%	14.69%	1.09%	100.00%

Q. What are the results of the use of the labor allocator computed by Staff compared to other allocators used in Staff's CCOS study?

A. Table 1 shows that Staff's calculation of a labor allocator for the residential group is 47.39%. The use of this labor allocator for some A&G expenses is not realistic compared to other allocators used in Staff's CCOS study. For example, Staff's earnings allocator for the residential class is 24.00%, Staff's energy allocator for the residential class is 30.31%, Staff's rate revenue allocator for the residential class is 37.20%, Staff's Operating and Maintenance expense allocator less A&G is 40.84%. Even KCPL's labor allocator for the residential group is approximately 38.93%. Analytically, the labor allocator as calculated by Staff is unreasonable compared to other allocators. In this case, Staff did not use its previously preferred method of allocating many A&G expenses by the labor allocator as it appears not reasonably related to other allocators for certain groups of customers. Therefore, Staff recommends that the Commission use the energy allocator for most of the A&G accounts as the energy allocator represents all kWh produced for sale to all classes which

entail the whole electric network to meet its customer's load demands each hour of the day and throughout the entire year. It is a realistic means to allocate A&G salaries, pensions, employee benefits, and A&G expense, as this is the product produced and purchased by the consumers.

Q. Is Staff trying to get a result that would favor a certain class over another class?

A. No, it was not. While class cost-of-service is very analytic it is also an art. There is no "right" answer. However, there are reasonable and unreasonable answers. Every analyst should review the results of their analysis for reasonableness and if the result is not reasonable, the analyst should carefully review their work and make changes. If this check for reasonableness is not done, the analyst's results are meaningless.

Elimination of Space Heating Rate Classes

Q. Do you agree with MGE's recommendations to eliminate or alternately freeze residential heating rate schedules?

A. No, I do not. Mr. Cummings recommends elimination of the residential heat rate schedules or alternately freezing these rate schedules. Specifically, Rate B – Residential General Use and Space Heat – one meter; Rate C – Residential General Use and Space Heat – 2 meters; and Rate D (applicable to electric space heat and water heating). At this time, Staff does not support MGE's recommendation to eliminate these residential rate schedules. Staff does not oppose all-electric residential rates; instead Staff recommends that the customers on such rate schedules be moved closer toward KCPL's cost to serve them, especially for the winter season.

Q. Why does Staff oppose immediate elimination of these residential rate schedules?

A. Staff recommends that the Commission recognize the potential rate shock of outright elimination of these rate schedules, which is mitigated by gradually bringing the rates to parity with the Residential General Use rate.

General Service Space Heating Rate Classes

Q. Do you agree with MEUA's assessment of Staff's BIP methodology?

A. Not entirely. Staff disagrees with Rebuttal Testimony of MEUA witness Donald Johnstone. Mr. Johnstone outlines that:

> Staff's reliance on the 12 Coincident Peak (12 CP) method as part of its version of the BIP method would only be appropriate if all 12 peaks equally caused the costs. They do not. Consequently costs are in part allocated based on periods that do not create the costs and are therefore somewhat overstated. (Johnstone, Rebuttal Testimony, p. 7)

The idea that Staff's BIP methodology is based on periods that do not cause cost is incorrect. All periods create costs and Staff's BIP methodology properly weights each period costs (base, intermediate, peak). First, Staff uses NCP information and not CP as stated in Mr. Johnstone's Rebuttal Testimony. In Staff's BIP method (the "B" portion in BIP) is calculated on each class's annual kWh usage at generation and weighted by the system load factor. The intermediate piece (the "I" in BIP) involves using the average of the 12 NCP for the intermediate piece. The intermediate portion is determined by the intermediate peak less the base portion already allocated to the various classes. The peak portion is allocated to the various classes based on each class's share of the summer peak, based on the monthly peaks of June, July, August, and September less the base and intermediate portions already allocated to the various classes. Staff used the four summer months for calculating the Production-

Capacity Peak Cost Allocator, since the four highest peaks are within 94% of KCPL's system peak. Staff's BIP methodology considers periods of cost in the base component (12 months of kWh produced); intermediate component (12 months of class peaks); peak component (four summer months of peak information). The BIP methodology properly allocates and considers all the costs of generating the capacity needed to serve customers.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.