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Rate Design
Witness: Michael S. Scheperle
Sponsoring Party: MO PSC Staff
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Case No.: ER-2010-0356
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

MICHAEL S. SCHEPERLE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

**Jefferson City, Missouri
December 2010**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
KCP&L Greater Missouri)
Operations Company for Approval)
to Make Certain Changes in its)
Charges for Electric Service

File No. ER-2010-0356

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 7 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 1st day of December, 2010.

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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OF

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EXECUTIVE SUMMARY

1
2 Q. What is the purpose of your direct testimony?

3 A. The purpose of this testimony is to sponsor the Staff's recommendation in its
4 Class Cost-of-Service and Rate Design Report (CCOS Report) that is being filed concurrently
5 with this direct testimony. I also provide in this direct testimony an overview of Staff's
6 recommendations detailed in its CCOS Report. The CCOS Report presents Staff's updated
7 CCOS study for KCP&L Greater Missouri Operations Company (GMO) for territory formerly
8 served by Aquila, Inc., d/b/a Aquila Networks – L&P (L&P) and territory formerly served by
9 Aquila, Inc., d/b/a Aquila Networks – MPS (MPS); and provides methods to collect a
10 Commission ordered overall increase in GMO's overall revenue requirement.

11 Q. What are Staff's rate design recommendations to the Commission for GMO in
12 this case?

13 A. Generally, the customer classes that Staff used for its CCOS study match
14 GMO's rate schedule, i.e., generally each rate schedule is a customer class. The exceptions
15 are that MPS primary and secondary general service customers were combined, L&P limited
16 demand, short term and separate meter general service customers were combined, that MPS
17 lighting rate schedules are treated as one customer class, as are L&P lighting rate schedules.
18 As explained in its CCOS Report, Staff recommends that each MPS customer class with a
19 negative revenue shift percentage (revenue from the class exceeds the cost to serve) over ten
20 percent (-10%) receive no rate increase for any Commission ordered increase for MPS up to
21 and including \$5 million; and that each MPS customer class with a positive revenue shift
22 percentage (cost to serve exceeds revenue from the class) over ten percent (+10%) share the
23 first \$5 million of any rate increase on an equal percentage basis; and for any increase above

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1 \$5 million, Staff recommends that the additional amount above \$5 million be allocated to all
2 MPS customer classes on an equal percentage basis. The impact of the first \$5 million on the
3 affected customer classes would be an additional increase of approximately 1%. Based on
4 Staff's CCOS study results, Staff recommends that each L&P customer class with a positive
5 revenue shift percentage (cost to serve exceeds revenue) share the first \$3 million of any
6 Commission ordered rate increase for L&P on an equal percentage basis; and, for any increase
7 above \$3 million, Staff recommends that the additional amount above \$3 million be allocated
8 to all L&P customer classes on an equal percentage basis. The impact of the first \$3 million
9 on the affected customer classes would be an additional increase of approximately 1%.

10 Stated differently, Staff recommends the following revenue adjustments for the MPS
11 customer classes:

- 12 1. The following MPS customer classes receive the system average increase, as the
13 revenue responsibilities of these customer classes are close to GMO's cost to serve
14 them:

15 Residential – Regular
16 Residential – Space Heating
17 Small General Service – Secondary and Primary
18 Large General Service – Primary
19 Large General Service – Secondary
20 Large Power Service – Primary
21 Large Power Service – Secondary
22 Special – Thermal Energy Storage

- 23 2. The following MPS customer classes receive no increase for the first \$5 million,
24 because their current revenue responsibilities exceed GMO's cost of serving them.
25 For any Commission ordered increase above \$5 million, that the additional amount
26 above \$5 million be allocated on an equal percentage basis to the following MPS
27 customer classes:

28 Residential – Other
29 Small General Service – No Demand
30 Small General Service – Short Term without Demand

- 31 3. The MPS Lighting customer class receives the system average percent increase plus
32 an additional approximate 1% increase, because the current revenue responsibility of
33 that customer class is less than GMO's cost to serve it.
34

1
2 And, Staff recommends the following revenue adjustments for the L&P customer
3 classes:

- 4 1. Allocate the first \$3 million of any Commission ordered increase as an equal
5 percentage increase to the rate schedules for the following L&P customer classes, as
6 their revenue responsibilities are less than GMO's cost to serve them:
7 • Residential – Regular
8 • Residential – Other
9 • Residential – Space Heating
10 • Large Power Service – Time of Use (TOU) for Primary, Secondary, Substation
11 and Transmission (1 rate schedule)
- 12 2. Allocate any Commission ordered increase above \$3 million to all L&P rate schedules
13 on an equal percentage basis.

14
15 Q. Does Staff have any additional rate design recommendations in this case?

16 A. Yes, as explained in its CCOS Report, Staff recommends the Commission
17 order GMO to complete its evaluation of Light Emitting Diode (LED) Street and Area
18 Lighting (SAL) systems and, no later than twelve (12) months of the effective date of the
19 Commission's Report and Order in this case, file proposed LED lighting tariff sheet(s) for
20 GMO. Staff is not recommending that GMO offer a LED SAL demand-side program unless
21 GMO's analysis shows that a LED SAL demand-side program would be cost-effective.
22 However, if a LED SAL demand-side program is not cost-effective, the Staff recommends
23 that GMO update the Staff as to the finding's rationale and file a proposed tariff sheet(s) that
24 would provide LED SAL services at cost to its customers.

25 Q. Does Staff also recommend other tariff changes?

26 A. Yes. Staff recommends the Commission order changes to the fuel adjustment
27 clause (FAC) tariff sheets to correspond to recommendations Staff made in its Revenue Cost-
28 of-Service Report (COS Report) filed on November 10, 2010, and other minor tariff changes
29 as detailed in Staff's CCOS Report.

STAFF CCOS AND RATE DESIGN REPORT

1
2
3 Q. How is the Staff's CCOS Report organized?

4 A. It is organized by topic as follows:

5 I. Executive Summary

6 II. Class Cost-of-Service and Rate Design Overview

7 III. Staff's Class Cost-of-Service Study

8 IV. Rate Design

9 V. Miscellaneous Tariff Language

10 VI. High Efficiency Street and Area Lighting

11 VII. Fuel and Purchased Power Adjustment Clause (FAC)

12 Q. Which members of Staff are responsible for the Staff's CCOS Report?

13 A. I am responsible for the Class Cost-of-Service Overview and Staff Class Cost-
14 of-Service sections. Also, I am responsible for the recommended rate design schedules. John
15 Rogers and David Roos are responsible for changes to the FAC tariff sheets; William (Mack)
16 McDuffey is responsible for the Recommended Tariff Language section; Hojong Kang is
17 responsible for High Efficiency Street and Area Lighting recommendations.

18 Q. What relationship, if any, is there between the Staff's COS Report filed
19 November 10, 2010, and the Staff's CCOS Report?

20 A. In its COS Report, Staff filed its accounting information for both MPS and
21 L&P, which included Staff's estimates of the revenue requirements for MPS and L&P, and
22 thus for GMO, through the true-up cut-off date of December 31, 2010. Consistent with that
23 COS Report, this CCOS Report reflects the Staff's revenue requirement recommendation of
24 \$5,459,454 (mid-point for MPS) and Staff's revenue requirement recommendation of

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1 \$30,667,129 (mid-point for L&P) based on Staff's estimates through the true-up cut-off date
2 of December 31, 2010.

3 **CLASS COST OF SERVICE STUDY**

4 Q. How did Staff reach its CCOS recommendations to the Commission?

5 A. Staff's Accounting Schedules filed with Staff's COS Report show an increase
6 in MPS's revenue requirement in the range of \$858,261 to \$10,060,648 is warranted. In its
7 COS Report, Staff's mid-point of its return on equity range calculated MPS's revenue
8 requirement to be \$5,459,454, an overall increase of 1.02%.

9 Staff's Accounting Schedules filed with Staff's COS Report show an increase in
10 L&P's revenue requirement in the range of \$28,773,121 to \$32,561,137 is warranted. In its
11 COS Report, Staff's mid-point of its ROE range calculated L&P's revenue requirement to be
12 \$30,667,129, an overall increase of 21.86%.

13 Q. How did Staff conduct its CCOS study?

14 A. The CCOS Report outlines how Staff performed its CCOS study. In its CCOS
15 study Staff used the Base, Intermediate, and Peaking (BIP) method for allocating production
16 investment and costs to the customer classes. Staff used the 12 coincident (12 CP) method to
17 allocate transmission investment and costs to the customer classes. Staff used a combination
18 of non-coincident (NCP) demands, individual customer maximum demands, and company
19 specific studies to allocate distribution investment and costs to customer classes. Customer
20 costs are allocated to customer classes based on the numbers of customers, company studies,
21 and other internal allocators. Staff's CCOS study summary is attached to its CCOS Report
22 (Schedule MSS-1 for MPS and Schedule MSS-2 for L&P) and is based on Staff's midpoint

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1 ROE recommendation revenue requirement for MPS's Missouri jurisdictional retail
2 operations of \$5,459,454 and L&P's Missouri jurisdictional retail operations of \$30,667,129.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

Michael S. Scheperle

**Testimony/Reports Filed Before
The Missouri Public Service Commission:**

CASE NOS:

TO-98-329, *In the Matter of an Investigation into Various Issues Related to the Missouri Universal Service Fund*

TT-2000-527/513, *Application of Allegiance Telecom of Missouri, Inc. ... for an Order Requiring Southwestern Bell Telephone Company to File a Collocation Tariff; Joint Petition of Birch Telecom of Missouri, Inc. for a Generic Proceeding to Establish a Southwestern Bell Telephone Company Collocation Tariff before the Missouri Public Service Commission*

TT-2001-139, *In the Matter of Mark Twain Rural Telephone Company's Proposed Tariff to Introduce its Wireless Termination Service*

TT-2001-298, *In the Matter of Southwestern Bell Telephone Company's Proposed Tariff PSC Mo. No. 42 Local Access Service Tariff, Regarding Physical and Virtual Collocation*

TT-2001-440, *In the Matter of the determination of Prices, Terms, and Conditions of Line-Splitting and Line-Sharing*

TO-2001-455, *In the Matter of the Application of AT&T Communications of the Southwest, Inc., TCG St. Louis, Inc., and TCG Kansas City, Inc., for Compulsory Arbitration of Unresolved Issues with Southwestern Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996*

TC-2002-57, *In the Matter Of Northeast Missouri Rural Telephone Company's And Modern Telecommunications Company's Complaint Against Southwestern Bell Telephone Company Regarding Uncompensated Traffic Delivered by Southwestern Bell Telephone Company To Northeast Missouri Rural Telephone And Modern Telecommunications Company.*

TC-2002-190, *In the Matter Of Mid-Missouri Telephone Company vs. Southwestern Bell Telephone Company*

TC-2002-1077, *BPS Telephone Company, et al., vs. Voicestream Wireless Corporation, Western Wireless Corp., and Southwestern Bell Telephone Company*

TO-2005-0144, *In the Matter of a Request for the Modification of the Kansas City Metropolitan Calling Area Plan to Make the Greenwood Exchange Part of the Mandatory MCA Tier 2*

TO-2006-0360, *In the Matter of the Application of NuVox Communications of Missouri, Inc. for an Investigation into the Wire Centers that AT&T Missouri Asserts are Non-Impaired Under the TRRO*

IO-2007-0439, *In the Matter of Spectra Communications Group, LLC d/b/a CenturyTel's Request for Competitive Classification Pursuant to section 392.245.5 RSMo*

IO-2007-0440, *In the Matter of CenturyTel of Missouri, LLC's Request for Competitive Classification Pursuant to Section 392.245.5 RSMo*

TO-2009-0042, *In the Matter of the Review of the Deaf Relay Service and Equipment Distribution Fund Surcharge*

ER-2009-0090, *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*

ER-2009-0089, *In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan*

ER-2010-0036, *In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service*

ER-2010-0130, *In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company*

ER-2010-0355, *In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric service to Continue the Implementation of Its Regulatory Plan*