

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

FILED

TRANSCRIPT

APR 16 1987

PUBLIC SERVICE COMMISSION

CASE NO. : HO-86-139

In the matter of the investigation of steam
service rendered by KANSAS CITY POWER & LIGHT
COMPANY.

DATE : APRIL 9, 1987

PAGES : 350 TO 413c, INCLUSIVE (INDEX: 413a-413c)

VOLUME NO.: SIX

ORIGINAL CASE FILED
APR 16 1987

P R O C E E D I N G S

(EXHIBIT NOS. 37 TO 45 WERE MARKED BY THE
REPORTER FOR IDENTIFICATION.)

EXAMINER HOGERTY: Come to order.

Staff may call its next witness.

MS. YOUNG: Staff would call Mr. Mark
Oligschlaeger to the stand.

(Witness sworn.)

TERMINATION OF CENTRAL STEAM SERVICE ISSUES CONTINUED:

MARK L. OLIGSCHLAEGER testified as follows:

DIRECT EXAMINATION BY MS. YOUNG:

Q. Would you please state your name for the
record.

A. Mark L. Oligschlaeger.

Q. By whom are you employed, Mr. Oligschlaeger?

A. I'm employed by the Missouri Public Service
Commission.

Q. Are you the same Mark L. Oligschlaeger who
has caused to be filed in this docket direct testimony which
has been marked as Exhibit 37?

A. Yes, I am.

Q. And also schedules to that direct testimony
marked Exhibit 38?

A. Yes.

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1 Q. Rebuttal testimony marked Exhibit 39?

2 A. Yes.

3 Q. And surrebuttal testimony marked Exhibit 40?

4 A. Yes.

5 Q. Do you have any corrections or changes to
6 make to those documents at this time?

7 A. Yes. I have a couple of changes to make to
8 my direct testimony, Exhibit No. 37. On Page 14 of my
9 direct testimony, on Lines 11 and 12, at the end of Line 11
10 where it reads "(Schedule __)," the blank space at the
11 beginning of Line 12 there should be inserted the number 16.

12 My other change is on Page 42 of my direct
13 testimony, Line 6. In the middle of that line, where it
14 reads "Schedule 31," that should read "Schedule 32."

15 And those are all the changes I need to make
16 to my testimony.

17 Q. If I were to ask you the questions that
18 appear in Exhibit 37, 38, 39, and 40 this morning, would
19 your answers be the same as they appear therein?

20 A. Yes, they would.

21 Q. And do you adopt that testimony as your
22 direct, rebuttal, and surrebuttal testimony on the issues to
23 be heard today?

24 A. Yes.

25 MS. YOUNG: And I would point out for the

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1 record that we did not file an affidavit with the
2 surrebuttal testimony; however, I have requested
3 Mr. Oligschlaeger to adopt that as his surrebuttal today
4 under oath.

5 Staff would tender the witness for cross-
6 examination.

7 EXAMINER HOGERTY: Ms. Latz.

8 MS. LATZ: We request to go last, your
9 Honor.

10 EXAMINER HOGERTY: All right. Ms. Bjelland.

11 MS. BJELLAND: No questions.

12 EXAMINER HOGERTY: Mr. Finnegan.

13 MR. FINNEGAN: No questions.

14 EXAMINER HOGERTY: Mr. Kennett.

15 MR. KENNETT: No questions.

16 EXAMINER HOGERTY: Ms. Latz.

17 CROSS-EXAMINATION BY MS. LATZ:

18 Q. Good morning.

19 A. Good morning.

20 Q. You allege in your prefiled testimony, do
21 you not, that Kansas City Power & Light mismanaged its steam
22 system prior to 1982, specifically that Kansas City Power &
23 Light utilized a decentralized form of management?

24 A. That is correct.

25 Q. Do you know of any steam customers which

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1 left the system during this period prior to 1982 due to this
2 alleged mismanagement?

3 A. I know there were many customers during the
4 period of the 1970s and early 1980s which left the system.
5 I could not testify as to their reason specifically, no.

6 Q. Isn't it true that the additional
7 maintenance to the system, which you suggest, specifically
8 systematically replacing aged sections of pipe in a
9 preventative maintenance program would have been costly?

10 A. Certainly the replacement of the company's
11 underground distribution piping would have incurred a fair
12 amount of capital costs, however, the criteria the company
13 should have used in determining whether that was the proper
14 course of action or not would have been to compare the
15 capital cost of replacing the pipe with the ongoing
16 maintenance cost associated with keeping aged and, to some
17 degree, deteriorating pipe in the ground.

18 Q. And in suggesting that this should have been
19 done by the company, did you make any study to compare the
20 cost of replacing this pipe with any possible benefits?

21 A. No, I didn't. To my knowledge, the company
22 has also never performed a study on that question.

23 Q. But you were the one that was suggesting
24 that that's what should have been done, were you not?

25 A. Well, I believe both myself and Mr. Fuller

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1 do suggest that that should have been done at some point in
2 time or at least been looked at.

3 Q. Did you do an analysis to determine how such
4 a costly program would have affected the steam rates?

5 A. I myself did not do an analysis. It's
6 possible that, if such an analysis or a study had been done,
7 that the effect on the long-term steam rates would have been
8 beneficial in terms of reducing ongoing maintenance costs.

9 Q. But isn't it just as possible that the
10 results of the study would have shown otherwise?

11 A. Since the study was not performed, I
12 couldn't say.

13 Q. So there was no study then to base your
14 allegations that the company should have replaced the aged
15 section of the pipe in a preventative maintenance program?

16 A. Well, I believe my direct testimony reads
17 that the company should have at the very least investigated
18 that possibility.

19 Q. Do you believe it's possible even in a
20 perfectly managed steam system to keep all customers when
21 the price of other sources of heat are more economical?

22 A. I doubt for any business it's possible to
23 keep all your customers for an indefinite period of time.
24 However, once a business realizes that there is an ongoing
25 customer loss, it is my belief that they should take all

1 necessary actions to minimize or offset that loss by
2 attempting to add new customers and aggressively market its
3 product.

4 Q. And that's also difficult if the other
5 sources of heat are more economical, is it not?

6 A. Well, I'm not sure how you're using the term
7 "economical." As was in the testimony of Mr. Fuller, there
8 are certain intangible advantages to a central district
9 steam heating system to its customers that can be utilized
10 promoting that product even if the energy costs of competing
11 forms of energy might be lower than that of central district
12 steam.

13 Q. You suggest in your surrebuttal testimony,
14 do you not, that the test of a steam system's viability in
15 Kansas City would be to put the system up for sale to see if
16 anyone would bid on the system?

17 A. Yes, I believe I state that in my rebuttal
18 testimony.

19 Q. Don't you think it's possible that someone
20 could bid on a system or even buy that system and not be
21 able to operate it profitably?

22 A. Well, certainly a prudent businessman before
23 bidding--before deciding to bid on KCPL's system should
24 certainly do an analysis, a study, of KCPL's steam business
25 in order to determine their perception of the future level

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1 of profitability associated with KCPL's steam system in
2 downtown Kansas City. If their perception was that for any
3 reason it was not--it would be unprofitable, then it's
4 doubtful that as a prudent businessman they would pursue it
5 any further.

6 Q. You don't believe prudent businessmen buy
7 businesses that are not able to make it?

8 A. Well, there's certainly no guarantees that
9 another owner could, without any question, operate the
10 Kansas City central district steam heating system at a
11 profit. However, it's our belief that the--from looking at
12 other central district steam heating systems that are
13 viable, that are profitable around the country, that that is
14 enough of a possibility and is likely enough to justify the
15 taking of bids for Kansas City.

16 Q. But you don't know who these bidders would
17 be or who these possible buyers would be?

18 A. No.

19 Q. Isn't it even possible that bankruptcy could
20 be a possibility for a potential buyer?

21 A. Anything could be a possibility for a
22 potential buyer.

23 Q. Well, let me ask you this then. What would
24 happen to the steam customers in that event?

25 A. In the hypothetical situation where the

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1 steam heating system in Kansas City would go bankrupt under
2 a new owner, I would assume the customers would have to look
3 for another source.

4 Q. They might not have too long to look for
5 that other source, would they?

6 A. I couldn't answer.

7 Q. In your surrebuttal testimony, you state, do
8 you not, that Kansas City Power & Light's belief that
9 National Starch will leave the steam system after 1990 is
10 not well founded?

11 A. Yes.

12 Q. Were you not involved with a Staff interview
13 of National Starch on December 11, 1986?

14 A. Yes, I was.

15 Q. Doesn't Staff's notes from that meeting
16 indicate that the personnel from National Starch stated that
17 \$7 per Mlb. is too expensive for steam?

18 A. I don't have those notes in front of me, so
19 I couldn't comment.

20 Q. Could I refresh your memory.

21 (The witness was handed a document.)

22 A. Yes. That is a correct statement.

23 Q. And doesn't those notes also say that
24 National Starch believes that they can generate their own
25 steam cheaper?

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1 A. Yes, it does. However, within this
2 interview, Mr. Salles, the plant manager of
3 National Starch, asked Staff a number of questions relating
4 to the possible disposition of Grand Avenue after the period
5 of 1990, specifically whether there was any chance the
6 Commission would order Grand Avenue to remain open after
7 that period of time.

8 From those questions and from the documents
9 I've reviewed concerning the negotiations between KCPL and
10 National Starch in the period of 1984 and 1985, I drew my
11 conclusion that there's at least a serious possibility that
12 National Starch might be interested in steam supply beyond
13 1990.

14 Q. Do your notes indicate that?

15 A. No. Those were--these notes were written, I
16 guess, to record National Starch's responses to our
17 questions. I did not include the questions that went the
18 other way, National Starch asking us questions.

19 Q. Do those notes not also state that National
20 Starch says that it can buy natural gas for less than \$3 per
21 MCF?

22 A. Yes, the notes say that.

23 Q. Do you believe that Kansas City Power &
24 Light should have sought customers and connected them to the
25 system without telling them the age of the system and the

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1 company's proposal for the system?

2 A. Well, certainly the question of marketing
3 for new steam customers is connected to the age and the
4 condition of the system in that if you have a system which
5 is widely thought to be old, perhaps deteriorating, there's
6 a lot of evidence of frequent leaks just by walking down the
7 streets of Kansas City, it would probably make your job of
8 marketing new steam customers more difficult.

9 Q. My question is, Do you think we have
10 obligation to future customers to tell them what the
11 condition of the system was and what the proposal, the
12 company's proposal, for the system was?

13 A. As to the condition of the system, certainly
14 KCPL in its talks or contact with potential customers should
15 be honest as to their perception of the future of the
16 system. I don't disagree with that.

17 MS. LATZ: I have no further questions.
18 Wait a minute.

19 BY MS. LATZ:

20 Q. Does Kansas City Power & Light have any
21 obligation to tell its current customers what its plans
22 are?

23 A. Certainly. I think they have done so.

24 MS. LATZ: No further questions.

25 EXAMINER HOGERTY: Redirect?

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1 MS. YOUNG: Thank you.

2 REDIRECT EXAMINATION BY MS. YOUNG:

3 Q. Mr. Oligschlaeger, does the Staff
4 typically--the accounting staff typically conduct
5 cost/benefit analysis for the utility companies of this
6 state?

7 A. No. Typically, when we're interested in
8 that question, we request such studies from the company
9 themselves for our review.

10 Q. Now, in cross-examination, you were asked
11 about several possibilities if the sale option were carried
12 out and a new owner came in. Is it also possible that a new
13 owner could come in and successfully operate this system?

14 A. Yes. And it is our belief that that is a
15 likely enough course of events that has led to our
16 recommendation that the system be put up for bids.

17 Q. In your opinion, is the possibility that a
18 buyer may fail sufficient to justify not pursuing the sale
19 option?

20 A. No, not at all.

21 Q. Is it your understanding that in every
22 event where a company goes bankrupt that there is an
23 immediate closure of the business and that if a buyer of
24 this system went bankrupt, that would mean the steam system
25 would be shut off as soon as the bankruptcy was filed?

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1 A. It's my understanding from just a layman's
2 knowledge of bankruptcy law that is frequently not the case,
3 that the businesses can even keep on going after declaring
4 bankruptcy.

5 Q. Did the company have an obligation to
6 publicize its intentions regarding the filings to be made in
7 this docket to the customers outside the course of this
8 docket?

9 A. I would think that the company has the
10 obligation to its customers to fully inform the customers of
11 their plans for the steam heating system as soon as those
12 plans become relatively final. And that's--whether that's--if
13 that's before the filing of this sort of rate proceeding, then
14 that's when it should have been done.

15 Q. Did the company have an obligation to devise a
16 termination plan that included an inducement to the customers
17 in this offering of the test boilers?

18 A. No, they had no obligation whatsoever.

19 MS. YOUNG: No further questions.

20 EXAMINER HOGERTY: Ms. Bjelland.

21 MS. BJELLAND: No questions.

22 EXAMINER HOGERTY: Mr. Finnegan.

23 MR. FINNEGAN: No questions.

24 EXAMINER HOGERTY: Mr. Kennett.

25 MR. KENNETT: No. Thank you.

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1 EXAMINER HOGERTY: Ms. Latz.

2 MS. LATZ: Just a minute.

3 No further questions.

4 EXAMINER HOGERTY: Thank you,
5 Mr. Oligschlaeger.

6 (Witness excused.)
7

8 MS. YOUNG: I believe that would conclude
9 any cross-examination of Mr. Oligschlaeger on the exhibits
10 that we marked this morning. So at this time I would offer
11 Exhibits 37, 38, 39, and 40 into the record.

12 EXAMINER HOGERTY: Exhibits 37, 38, 39, and
13 40 are received.

14 (EXHIBIT NOS. 37 TO 40 WERE RECEIVED IN
15 EVIDENCE AND MADE A PART OF THIS RECORD.)

16 EXAMINER HOGERTY: Staff may call its next
17 witness.

18 MS. YOUNG: Staff calls Mr. Edward A. Tooley
19 to the stand.

20 (Witness sworn.)
21

22 EDWARD A. TOOHEY testified as follows:

23 DIRECT EXAMINATION BY MS. YOUNG:

24 Q. Would you please state your name for the
25 record.

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1 A. Edward A. Tooey.

2 Q. By whom are you employed, Mr. Tooey?

3 A. By the Missouri Public Service Commission.

4 Q. Are you the same Edward A. Tooey who has
5 caused to be filed in this docket prepared testimony which
6 has now been marked as Exhibit No. 41?

7 A. Yes, I am.

8 Q. Do you have any corrections or changes to be
9 made to that testimony?

10 A. No.

11 Q. If I were to ask you the questions that
12 appear in the testimony, would your answers be the same as
13 they appear therein?

14 A. Yes, they would.

15 Q. Do you adopt that as your direct testimony
16 in this case?

17 A. Yes, I do.

18 MS. YOUNG: Staff would tender the witness
19 for cross-examination.

20 EXAMINER HOGERTY: Ms. Bjelland.

21 CROSS-EXAMINATION BY MS. BJELLAND:

22 Q. Mr. Tooey, I have just one question. If you
23 could refer to your direct testimony on Page 6, beginning
24 with the question beginning on Line 6 concerning property
25 damage caused by steam leaks. Are you aware of any

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1 instances of property damage after the date of September 16
2 of '86 that you refer to in the answer to that question?

3 A. After September 16, 1986, no.

4 MS. BJELLAND: Thank you.

5 EXAMINER HOGERTY: Mr. Finnegan.

6 MR. FINNEGAN: No questions.

7 EXAMINER HOGERTY: Mr. Kennett.

8 MR. KENNETT: I have no questions. Thank
9 you.

10 EXAMINER HOGERTY: Ms. Latz.

11 CROSS-EXAMINATION BY MS. LATZ:

12 Q. In your prefiled testimony, you addressed
13 Kansas City Power & Light's maintenance program, its
14 billings and collections, and its financial reports. Do all
15 your criticisms regarding these pertain to the period prior
16 to 1982?

17 A. I would say the vast majority do, yes.

18 Q. Do you have any specific criticisms of these
19 issues after 1982?

20 A. No.

21 Q. Have you quantified in today's steam prices
22 the effect of these pre-1982 alleged management
23 inefficiencies?

24 A. I don't believe it would be possible to
25 quantify those.

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1 MS. LATZ: No further questions.

2 EXAMINER HOGERTY: Redirect?

3 MS. YOUNG: No questions.

4 EXAMINER HOGERTY: Anything further?

5 (No response.)

6 EXAMINER HOGERTY: Thank you.

7 (Witness excused.)

8
9 MS. YOUNG: We offer Exhibit 41 into the
10 record.

11
12 EXAMINER HOGERTY: Exhibit 41 is received.

13 (EXHIBIT NO. 41 WAS RECEIVED IN EVIDENCE AND
14 MADE A PART OF THIS RECORD.)

15 MS. YOUNG: Mr. Walther will be calling the
16 next witness for the Staff.

17 MR. WALTHER: Staff calls Keith Haskamp to
18 the stand.

19 (Witness sworn.)

20
21 KEITH A. HASKAMP testified as follows:

22 DIRECT EXAMINATION BY MR. WALTHER:

23 Q. Mr. Haskamp, could you please state your
24 name and business address for the record.

25 A. I'm Keith Haskamp. I'm employed by the

Missouri Public Service Commission

1 Missouri Public Service Commission, business address
2 700 East Eighth Street, University Towers, Kansas City,
3 Missouri.

4 Q. Are you the same Keith Haskamp who has
5 caused to be filed direct testimony in this case, which has
6 been marked Exhibit No. 42; and surrebuttal testimony,
7 which has been marked as Exhibit 43?

8 A. Yes, I am.

9 Q. Do you have any changes to make to your
10 direct and your surrebuttal testimony at this time?

11 A. No, I do not.

12 Q. If I asked you the same questions today,
13 would your answers be the same?

14 A. They would.

15 Q. And are the answers true and correct to the
16 best of your knowledge and belief?

17 A. Yes, they are.

18 MR. WALTHER: At this time I tender the
19 witness for cross-examination.

20 EXAMINER HOGERTY: Ms. Bjelland.

21 MS. BJELLAND: Public Counsel has no
22 questions.

23 EXAMINER HOGERTY: Mr. Finnegan.

24 MR. FINNEGAN: No questions at this time.

25 EXAMINER HOGERTY: Mr. Kennett.

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1 MR. KENNETT: No questions.

2 EXAMINER HOGERTY: Ms. Latz.

3 CROSS-EXAMINATION BY MS. LATZ:

4 Q. Good morning.

5 A. Good morning.

6 Q. In your direct testimony you assert, do you
7 not, that Kansas City Power & Light has paid little
8 attention to the marketing and promotion of its steam
9 utility services?

10 A. Yes, I do.

11 Q. Are you aware of the Promotional Practices
12 Rule?

13 A. Yes, I am.

14 Q. What do you believe is the purpose behind
15 that rule?

16 A. I believe the purpose behind the rule is to
17 forbid the companies--the companies that are mentioned in
18 the rule from providing certain inducements to choose, say,
19 one service over another, one utility service over another.

20 Q. Let me ask you this. What promotional
21 efforts do you believe the company could have engaged?

22 A. I believe, as Mr. Featherstone and
23 Mr. Fuller have also stated I believe in not only testimony
24 before the Commission but in their prefiled testimony, that
25 it was very important for the company to at least maintain a

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1 presence in the downtown area in terms of--marketing reps,
2 I believe, could call door to door maintaining some form of
3 communication with the customers that are presently on the
4 system as well as the customers that were inquiring about
5 steam.

6 There would also be a possibility for the
7 company to, in those meetings, market such things as the
8 intangibles, as Mr. Oligschlaeger just addressed, which, I
9 believe, those intangibles are listed in Mr. Fuller's direct
10 testimony.

11 Q. Are you aware that the company has two
12 engineers who spend a great deal of their time doing just
13 what you described, having a presence in the community,
14 knocking on doors, working with customers, helping them with
15 their problems, talking to other people in the downtown
16 area?

17 A. I wasn't aware that they did that, no.

18 Q. But you did do an audit on the company, did
19 you not?

20 A. Yes, I did. I did ask that very question,
21 what exactly--I believe the two individuals are Hubert Kent
22 and Diane Bechmann--exactly what their duties consisted of
23 when we talked with them. And they had indicated that most
24 of their time had been spent on energy audits, which I
25 address in my rebuttal testimony, and that those individuals

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1 also were in the office doing rate analyses and rate
2 comparisons for customers that would call them and ask for
3 that information. I was not aware that they went door to
4 door canvassing and contacting customers on a basis such as
5 I believe the competition does in downtown Kansas City.

6 Q. But you are aware that they are working with
7 steam customers and potential steam customers in the
8 downtown area?

9 A. If those customers do call and request their
10 assistance, yes.

11 Q. You don't believe that Kansas City Power &
12 Light goes out when they read in the paper that there's new
13 buildings being built and talk to those people about what
14 their heating systems are going to be in those buildings?
15 You didn't learn that from your audit?

16 A. I learned it from that, yes, and from the
17 testimony Mr. Graham gave yesterday or the day before. I
18 believe I was in the room when he addressed the company's
19 responses to customers that would inquire as to service that
20 they could receive in downtown and that they were aware of
21 that through certain reports that come from developers.

22 Q. You further assert in your testimony, do you
23 not, that Kansas City Power & Light's proposal to raise
24 rates in this case is a demarketing effort on the part of
25 the company?

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1 A. Yes, I do.

2 Q. Isn't it true that in five of the last six
3 steam cases the Staff's revenue deficiency has been larger
4 than the rate increase sought by the company?

5 A. I believe that's true, yes.

6 Q. Then from your reasoning can it accurately
7 be said that the Staff aided in this alleged demarketing
8 effort?

9 A. No, I don't believe so at all. I believe
10 the Staff in this case is looking at a very unusual incident
11 in that the company is going out of the steam business and
12 them telling steam customers that they will be looking down
13 the road for some alternative is in conjunction with that
14 100 or so percent increase--

15 Q. Then let me--

16 A. --as demarketing.

17 Q. Then let me ask you the question. In your
18 opinion, does Kansas City Power & Light have an obligation
19 to its customers to tell them what their proposal for the
20 system is?

21 A. Yes, I believe they do. However, I believe
22 the company's neglect and mismanagement of the system all
23 along have contributed to this very thing we are seeing
24 today.

25 Q. But that wasn't the question.

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1 The question is, Do we have an obligation to
2 tell our customers of our plans to seek future rate
3 increases or other plans for the system?

4 A. Yes. You also have an obligation to serve
5 those customers safely and adequately. And I believe that
6 because the company has failed to do so in the past and has,
7 in fact, told certain customers that they are discouraging
8 them, that they would rather they didn't take steam service.

9 Q. How has Kansas City Power & Light not served
10 its customers in the past? Could you give me an example?

11 A. I believe despite the efforts that the
12 company has devoted all along to demarketing such service
13 they have, in fact, when pushed, hooked up certain customers
14 to the steam system. And those very customers would be the
15 ones that I have outlined in my testimony, the Vista,
16 Jackson County Jail, CPC, and Mercantile. Those, at least,
17 are the ones that I have seen.

18 Q. And those are the ones which what?

19 A. Which despite the company's best efforts to
20 demarket the steam service, they did, in fact, hook them up
21 to the steam system.

22 Q. Do you know of any incidents where the
23 company did not serve its customers?

24 A. I don't know of such an instance, no.

25 Q. And you do believe that the company has an

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1 obligation to let its customers know of its plans for a
2 system?

3 A. As I state, I believe it's--yes, that is
4 their obligation as well as providing safe and adequate
5 service.

6 Q. In your direct testimony, you state, do you
7 not, that the absence of a steam marketing department
8 dedicated to customer expansion and growth in the downtown
9 loop further supported a lack of attention by the company to
10 the marketing of its steam?

11 A. Yes, I believe that's my testimony.

12 Q. Given that there is only slightly over 200
13 total buildings in the downtown loop and given that only 2
14 major new buildings have been built in the downtown loop in
15 the last 10 years, do you believe that maintaining a
16 marketing department solely dedicated to steam in the
17 downtown loop would be a good business decision?

18 A. Oh, very definitely. I believe that because
19 of that very reason, because it's such a small confined area
20 and because of the small number of customers, that KCPL has
21 the obligation to serve those customers in that small area
22 as best they can.

23 Q. How much cost do you think the company
24 should put into this department you're describing?

25 A. I don't know.

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1 Q. But you do know that there are certain rules
2 that you can't put more cost into something than the market
3 will bear, do you not, certain business practices?

4 A. I believe that would be a fair statement,
5 yes.

6 Q. In your direct testimony, you criticize
7 Kansas City Power & Light, do you not, for its failure to
8 pursue a customer after it has arrived at its decision
9 regarding energy alternatives?

10 A. Yes.

11 Q. What do you suggest Kansas City Power &
12 Light should do after a customer has reached its decisions?

13 A. Well, it depends on how badly you want to
14 sell that certain product. I believe that--say, electric
15 heat has been marketed very strongly and its competition
16 being gas and steam in the downtown loop, if the company
17 does indeed want to sell that product such as steam, they
18 could market the attributes that that particular utility
19 service has.

20 Q. What are the attributes of steam?

21 A. I believe it would be the convenience,
22 wouldn't need a large boiler plant located in the building,
23 those intangibles that I talked about and referred to in
24 Mr. Fuller's testimony, reliability, the availability
25 certainly.

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1 Q. Are there attributes of a gas or electric
2 heating system?

3 A. Yes, I'm sure there are.

4 Q. Do you believe that developers of buildings
5 and business owners have a basic understanding of what the
6 attributes of different heating systems are?

7 A. I don't believe the developers and builders
8 in downtown Kansas City know those, no.

9 Q. Oh, you don't?

10 A. No, I don't.

11 Q. What's the basis for that opinion?

12 A. I believe just in looking at the documents
13 that I've reviewed that, in the instances which I am aware,
14 Kansas City Power & Light did not market their product that
15 they had available to them. I believe an example of how
16 they should do that would be contained in Mr. Featherstone's
17 testimony.

18 Q. What does that have to do with whether or
19 not the engineers or architects know the attributes of
20 different heating systems?

21 A. I believe it would be to the company's
22 benefit to make those builders and architects aware of those
23 attributes.

24 Q. I think my question was, Why do you believe
25 they do not know?

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1 A. Just from the constant death spiral of the
2 steam system as we now see it. If the company were actively
3 marketing its product and trying to in its best efforts to
4 keep the customer base stable and, in fact, to add customers
5 as we've seen on other systems around the country, that
6 those--

7 Q. Are you saying that if an architect knew
8 anything about heating systems they would always choose
9 steam? Is that what you're implying?

10 A. Not at all.

11 Q. Isn't it true that you were involved in a
12 Staff interview with KPL on December 10, 1986?

13 A. I believe that was the date, yes.

14 Q. Doesn't the Staff's notes from that meeting
15 indicate that KPL stated that its feasibility studies
16 usually showed substantial fuel cost savings and that KPL
17 feels that they've been very successful in converting
18 downtown customers to on-site gas boilers?

19 A. I couldn't say with certainty without
20 looking at the notes.

21 Q. Let me show you the notes.

22 (The witness was handed a document.)

23 A. Thank you.

24 Is that at the top of the notes?

25 Q. Yes.

Missouri Public Service Commission

1 A. Yes.

2 Q. What type of a marketing program do you
3 think would be successful in retaining customers against a
4 similar lower priced product?

5 A. Well, as I've stated, I believe marketing
6 those intangibles and maintaining a presence, continuing to
7 tell the customer that steam is available, not--and it's
8 certainly not by telling a customer that steam might not be
9 available as the company did with numerous projects that I
10 mentioned in my direct.

11 Q. Have you ever held a marketing position?

12 A. No, ma'am, I have not.

13 Q. Were you also involved in another Staff
14 meeting with KPL on January 29?

15 A. I believe that was the date.

16 Q. Doesn't Staff notes from that meeting state
17 that in areas where KPL supplies both gas and electric that
18 they simply offer the customers the alternatives and let the
19 customer decide which energy source they prefer?

20 A. Once again, I'd like to see the notes.

21 (The witness was handed a document.)

22 A. Yes, that's what is stated.

23 Q. In your surrebuttal testimony, did you
24 indicate that the number of steam customers in Baltimore
25 have remained stable at a price of \$12 per Mlb.?

Missouri Public Service Commission

1 A. Yes, I did.

2 Q. Do you know the price of gas in Baltimore?

3 A. No, I don't.

4 Q. Do you know the price of electricity
5 in Baltimore?

6 A. No, I don't.

7 Q. Without this information it's difficult to
8 compare the Baltimore situation with the Kansas City
9 situation, is it not?

10 A. I was including that information merely as
11 information to show that other systems were maintaining a
12 customer base.

13 Q. But that information would be more valid if
14 we had all the facts, would it not?

15 A. I suppose so.

16 Q. You also attempt to compare the Kansas City
17 steam situation with that of St. Louis, do you not?

18 A. Yes, I do.

19 Q. Do you know how many potential--what the
20 potential number of customers in the downtown St. Louis area
21 is compared to the potential number of customers in the
22 Kansas City area?

23 A. No, I don't.

24 Q. Without that information it's also difficult
25 to compare the possibilities of these two systems, isn't it?

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1 A. Roughly, I guess, downtown St. Louis is a
2 bit larger than Kansas City. That would be the only basis
3 on which I could have to compare the two.

4 Q. Are you familiar with downtown St. Louis?

5 A. Somewhat, yes.

6 Q. Are you familiar with downtown Kansas City?

7 A. Yes. Very.

8 Q. And there is a difference in the size of
9 those downtown areas, is there not?

10 A. Roughly, yes.

11 Q. In your surrebuttal testimony, you accuse
12 Kansas City Power & Light of demarketing steam to the
13 Mercantile Bank building in 1972; isn't that correct?

14 A. Yes.

15 Q. Would you turn to Schedule 2-15 of your
16 surrebuttal testimony?

17 A. Yes, I have that.

18 Q. Isn't this a schedule of the analysis of the
19 cost of electric and steam energy for the Mercantile
20 building?

21 A. Yes, it is.

22 Q. Doesn't it show the cost of electric to be
23 less than the cost of steam?

24 A. Yes. This particular schedule does;
25 however, there were a couple, two or three others, that were

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1 provided in that packet of information in response to that
2 data request that I turned in which showed the cost of
3 electric much higher than \$138,000.

4 Q. Would you point that out, please.

5 A. I have not included those in my surrebuttal
6 testimony.

7 Q. Why didn't you?

8 A. The information that I received was about an
9 inch and a half thick, and I didn't want to burden the
10 record.

11 Q. But that would have been relevant to your
12 argument that we demarketed steam, would it not?

13 A. That would not have been relevant to my
14 argument, no.

15 Q. The schedule that you did include shows that
16 the cost of electricity is less than steam, does it not?

17 A. Yes, it does. However, I don't know those
18 numbers to be true and accurate.

19 MS. LATZ: No further questions.

20 EXAMINER HOGERTY: Redirect.

21 MR. WALTHER: Yes.

22 REDIRECT EXAMINATION BY MR. WALTHER:

23 Q. Mr. Haskamp, in the course of your
24 investigation, did you inquire of KCPL as to what the scope
25 of their marketing effort was?

Missouri Public Service Commission

1 A. Yes, I did.

2 Q. And in the course of this investigation,
3 were you ever told or did you ever come across any
4 information that indicated that they had marketing personnel
5 going door to door making personal contact with potential
6 steam customers or present steam customers?

7 A. No.

8 Q. What is your understanding of--just briefly
9 of what KCPL's marketing effort involves?

10 A. Well, as Mr. Graham testified the other day,
11 I believe to the best of my knowledge that the customer
12 would call Kansas City Power & Light and inquire as to the
13 rates of steam or electric and that the company would
14 provide rate analyses based on square footage in a
15 particular building.

16 Q. Are you aware of any district heating
17 systems that have separate marketing departments devoted
18 strictly to the marketing of steam?

19 A. Yes, I am.

20 Q. Could you be specific?

21 A. I know that the St. Louis system has five
22 people dedicated solely to marketing and to calling on
23 people literally every day. That is their primary and only
24 focus is calling on people in the downtown area as well as
25 outside the downtown loop.

Missouri Public Service Commission

1 Q. Are you aware of whether or not KPL-Gas
2 Service has marketing personnel devoted solely to the
3 downtown area of Kansas City which contains KCPL's steam
4 system?

5 A. Yes, there are two of them.

6 Q. Is Staff suggesting in this case that
7 customers in downtown Kansas City be given a choice of
8 energy services between electric, gas, and steam?

9 A. Yes, we are.

10 Q. Are you aware whether KCPL in the course of
11 their marketing efforts in the course of talking to
12 developers and architects made an effort to inform these
13 people or make them aware of the intangible benefits of
14 steam?

15 A. No.

16 Q. In your opinion, would it be a good selling
17 point for a developer or a builder if KCPL made them aware
18 that they could attach the building to the central steam
19 system, save capital costs for alternate heat systems and
20 save him from designing the building around the heat system?

21

22 A. Yes.

23 Q. In your opinion would that selling point,
24 along with some of the other intangible benefits of steam,
25 overcome the competitive edge that another energy

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1 alternative might have?

2 A. Yes, that's very possible.

3 MR. WALTHER: I have no further questions.

4 EXAMINER HOGERTY: Ms. Bjelland.

5 MS. BJELLAND: No questions.

6 EXAMINER HOGERTY: Mr. Finnegan.

7 MR. FINNEGAN: I just have one question.

8 RECROSS-EXAMINATION BY MR. FINNEGAN:

9 Q. You were asked by counsel for KCPL about
10 whether or not Kansas City Power & Light had an obligation
11 to advise prospective customers of their plan to terminate
12 the system.

13 A. Yes.

14 Q. My question is, Does Kansas City Power &
15 Light have an obligation to terminate the system in the
16 first place?

17 A. No, they do not.

18 Q. And the fact that they are planning to
19 terminate it is something voluntary on their own part; is
20 that correct?

21 A. Yes.

22 MR. FINNEGAN: That's all the questions.

23 EXAMINER HOGERTY: Mr. Kennett.

24 RECROSS-EXAMINATION BY MR. KENNETT:

25 Q. Mr. Haskamp, referring to your direct

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1 testimony, your Schedule 8-3, memorandum from Mr. Graham,
2 dated January 28, 1972, the subject Mercantile Bank, the
3 last sentence in the third paragraph, "We also advised them
4 that steam might not be available for this project"
5 This is 15 years ago.

6 A. Yes.

7 Q. Would that lead you to any conclusion that
8 15 years ago, at least 15 years ago, the company had already
9 arrived at a decision or a policy to, in effect, scuttle the
10 system?

11 A. Well, certainly it was troublesome to Staff
12 in seeing this letter. It further pointed out the fact that
13 the company demarketed, in a sense, this project and
14 discouraged them from taking steam service.

15 Q. Mr. Graham also says there that he advised
16 the people he was talking to that they should very seriously
17 consider going total electric.

18 A. Yes.

19 Q. Is there any indication that he gave any
20 warning to these people of what the electric rates might be
21 in the future?

22 A. I don't believe--I don't know if that was
23 included in the information he gave them or not.

24 Q. Are you--do you have any knowledge of
25 electric rates of KCPL in 1972 as compared to 1987?

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1 A. I'm sure they were lower.

2 MR. KENNETT: Thank you.

3 EXAMINER HOGERTY: Ms. Latz.

4 RE-CROSS-EXAMINATION BY MS. LATZ:

5 Q. You indicated that St. Louis has a marketing
6 department solely dedicated to the marketing of steam.
7 Isn't that the only product that they market?

8 A. Yes, it is. They are not caught in the
9 inherent conflict that KCPL is caught in.

10 Q. And you also said that KPL has marketing
11 people that are dedicated solely to the marketing of gas in
12 Kansas City, Missouri. Isn't that the only product they
13 sell to Kansas City, Missouri?

14 A. Yes, it is.

15 Q. What is your--what are the facts that your
16 belief is based on that builders aren't aware that they can
17 connect to the steam system in Kansas City?

18 A. I'm sure they're quite aware that they can
19 connect. I believe that most of the builders are very
20 concerned with the availability of that steam. And if they
21 hear such things as Mercantile heard, I certainly wouldn't
22 be willing to connect to a system where one of the marketing
23 personnel told me that steam might not be available. I
24 certainly wouldn't connect to that type of a system.

25 Q. Did you attend the Staff interviews with

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1 Executive Hills, a large developer, and Smith and Boucher,
2 an architectural firm, on January 13, 1987?

3 A. Yes, I did attend that.

4 Q. Did either of these interviewees indicate
5 that they were unaware of the attributes of steam?

6 MR. WALTHER: I object. It's recross going
7 beyond the scope of redirect.

8 EXAMINER HOGERTY: Overruled.

9 THE WITNESS: I'm sorry. Could you repeat
10 the question.

11 BY MS. LATZ:

12 Q. During this interview did either of these
13 interviewees indicate that they were unaware of the
14 attributes of steam?

15 A. I believe one of the interviewees indicated
16 they weren't even going to consider steam. I don't believe
17 that they were unaware of whether they could hook up to the
18 steam system or not.

19 Q. Or the attributes of steam heating?

20 A. I don't believe those were even mentioned.

21 Q. Did you talk with any other architects or
22 builders in the Kansas City area during your audit?

23 A. No.

24 MS. LATZ: I have no further questions.

25 EXAMINER HOGERTY: Thank you, Mr. Haskamp.

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1 (Witness excused.)

2

3 MR. WALTHER: Madam Examiner, at this time
4 I'd like to offer Exhibit 43 into evidence, which contains
5 Mr. Haskamp's surrebuttal testimony. I will hold off on
6 Exhibit 42 until tomorrow because it references the
7 compensation issue.

8

EXAMINER HOGERTY: Exhibit 43 is received.

9

(EXHIBIT NO. 43 WAS RECEIVED IN EVIDENCE AND
10 MADE A PART OF THIS RECORD.)

11

EXAMINER HOGERTY: Staff may call its next
12 witness.

13

MS. YOUNG: Staff would call Larry G. Cox to
14 the stand.

15

(Witness sworn.)

16

17 LARRY G. COX testified as follows:

18

DIRECT EXAMINATION BY MS. YOUNG:

19

Q. Would you please state your name for the
20 record.

21

A. Larry G. Cox.

22

Q. And by whom are you employed, Mr. Cox?

23

A. By the Missouri Public Service Commission.

24

Q. Are you the same Larry Cox who has caused to
25 be filed in this case direct testimony which has now been

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1 marked as Exhibit 44?

2 A. Yes, I am.

3 Q. Do you have any corrections, additions, or
4 changes to be made to that testimony at this time?

5 A. No, I don't.

6 Q. Now, Mr. Cox, the testimony as filed
7 includes both what we would consider a traditional revenue
8 requirement issue and some testimony which pertains to the
9 termination of the steam system issue; is that correct?

10 A. That's correct.

11 Q. And the first about two and a half pages
12 deal with the traditional revenue requirement issue which is
13 no longer before us; is that correct?

14 A. That is correct.

15 Q. And so your testimony on this issue begins
16 on Page 3 at approximately Line 17?

17 A. Yes.

18 Q. Do you adopt Exhibit 44 as your testimony in
19 this case?

20 A. Yes, I do.

21 Q. If I were to ask you the questions that
22 appear therein, would your answers be the same?

23 A. Yes, they would.

24 MS. YOUNG: Staff would tender the witness
25 for cross-examination.

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1 EXAMINER HOGERTY: Ms. Bjelland.

2 MS. BJELLAND: No questions.

3 EXAMINER HOGERTY: Mr. Finnegan.

4
5 MR. FINNEGAN: No questions.

6 EXAMINER HOGERTY: Mr. Kennett.

7 MR. KENNETT: No questions.

8 EXAMINER HOGERTY: Ms. Latz.

9 CROSS-EXAMINATION BY MS. LATZ:

10 Q. In your prefiled direct testimony, you
11 indicate, do you not, that the failure of Kansas City
12 Power & Light to earn a reasonable rate of return on its
13 steam operations is due to the fact that the company has
14 sought inadequate rate relief in the past?

15 A. Yes, that's part of the problem.

16 Q. Do you address anything other than that in
17 your testimony, other than the accounting issues?

18 A. No. I would like to point out, though, that
19 rate relief isn't the first alternative that the company
20 should seek. It also should maximize its revenues and
21 minimize its expenses as a means of increasing its earnings.

22 Q. But your direct testimony did state that you
23 believe the failure of KCPL to earn a reasonable rate of
24 return from its steam operations was due to the fact the
25 company sought inadequate rate relief in the past?

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1 A. Yes, that's true.

2 Q. Can you attribute the customer decline in
3 the steam system over the past several years to your alleged
4 failure of KCP&L to request adequate rates to cover its cost
5 of service?

6 A. I have no knowledge of why they left the
7 system specifically.

8 Q. If Staff's revenue deficiencies over the
9 past few years had been included in rates, do you know what
10 the level of steam rates would be today?

11 A. Well, you'd have to look at both short-term
12 and long-term rates. In the short term, at any point rates
13 might have been higher; but, if the company had earned a
14 rate of return which was reasonable, they could have
15 reinvested it in capital improvements, improved marketing.
16 They could have done things which would in the long term
17 have minimimized rates.

18 Q. If rates had been higher during these past
19 few years in Kansas City, how do you think that would have
20 affected steam's competitiveness with other than heating
21 sources in the area?

22 A. Given that rates would be higher?

23 Q. If steam rates had been higher?

24 A. They would have been less competitive, I
25 would imagine.

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1 MS. LATZ: I have no further questions.

2 EXAMINER HOGERTY: Redirect.

3 REDIRECT EXAMINATION BY MS. YOUNG:

4 Q. Mr. Cox, is it true that the genera' purpose
5 of the analysis that you performed and included on Pages 3
6 through the end of your testimony is, as stated on Page 3,
7 that you are providing a perspective of the operating
8 conditions and the reason is stated further in that
9 paragraph; is that correct?

10 A. That's correct.

11 MS. YOUNG: No further questions.

12 EXAMINER HOGERTY: Ms. Bjelland.

13 MS. BJELLAND: No questions.

14 EXAMINER HOGERTY: Mr. Finnegan.

15 MR. FINNEGAN: No questions.

16 EXAMINER HOGERTY: Mr. Kennett.

17 MR. KENNETT: No questions.

18 EXAMINER HOGERTY: Ms. Latz.

19 MS. LATZ: No.

20 EXAMINER HOGERTY: Thank you.

21 (Witness excused.)

22

23 EXAMINER HOGERTY: Ms. Young.

24 MS. YOUNG: Staff's next witness is

25 Deborah Ann Bernsen.

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(Witness sworn.)

DEBORAH ANN BERNSEN testified as follows:

DIRECT EXAMINATION BY MS. YOUNG:

Q. Please state your name for the record.

A. Deborah Ann Bernsen.

Q. By whom are you employed?

A. By the Missouri Public Service Commission.

Q. And are you the same Deborah Ann Bernsen who has caused to be filed in this docket prepared direct testimony which has now been marked as Exhibit No. 45?

A. I am.

Q. And if I were to ask you the questions that appear in that document today, would your answers be the same?

A. Yes, they would.

Q. And you don't have any corrections or additions to make; is that true?

A. No, I do not.

Q. Do you adopt that document as your direct testimony in this case?

A. Yes, I do.

MS. YOUNG: Staff would tender the witness for cross-examination.

EXAMINER HOGERTY: Ms. Bjelland.

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MS. BJELLAND: No questions.

EXAMINER HOGERTY: Mr. Finnegan.

MR. FINNEGAN: No questions.

EXAMINER HOGERTY: Mr. Kennett.

MR. KENNETT: No questions.

EXAMINER HOGERTY: Ms. Latz.

CROSS-EXAMINATION BY MS. LATZ:

Q. Ms. Bernsen, you allege in your prefiled testimony that prior to 1982 the company was negligent in its management responsibilities. Do you know of any steam customers who left the system during this time period prior to 1982 due to this alleged mismanagement?

A. No. I don't believe my testimony specifically talked about that subject.

Q. Do you know of any?

A. I was not involved in--personally in any interviews of those steam customers.

Q. In your testimony you criticize the amount of time management spent with its steam operations. You indicate, do you not, that through your interviews you determined that during the 1970s the steam operations only consumed 10 percent of management's time and attention?

A. Could you refer me specifically in the testimony to where you are referring?

Q. Page 8, beginning on Line 10, the sentence

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1 that begins in Line 10.

2 A. Yes. That was determined through Staff
3 interviews with company personnel. Those were estimates
4 that company personnel took.

5 Q. Given that the steam operation is only about
6 2 percent of the company's business, what percentage of time
7 do you think management should have devoted to steam
8 operations?

9 A. It would be very difficult to give a
10 specific percentage. However, no matter what percentage of
11 revenues that these operations actually contribute toward,
12 the company still does very much have a responsibility to
13 manage those operations just as importantly as they do their
14 other operations.

15 Q. At what cost?

16 A. At an efficient effective cost.

17 Q. How much is that?

18 A. I don't believe you could really place a
19 dollar on it, but the company has a responsibility to manage
20 those operations to the extent that they are providing
21 service that is reliable and that is safe to those
22 customers.

23 Q. Would that be 50 percent of the company's
24 time?

25 A. I believe I've already stated that it would

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1 be very difficult to give an exact dollar figure or an exact
2 percentage of time figure. I don't believe the issue here
3 is a percentage of time. The issue is simply that some
4 basic management control systems were not installed.

5 With the installation of such systems, the
6 company, again, may not have had to spend 50 percent time or
7 60 percent time. But the installation existence and
8 utilization of those systems would have helped to assure
9 them that they were actually managing the system, reacting
10 in a timely fashion to the problems and providing that
11 efficient safe, reliable service.

12 Q. Do you have any evidence that the service
13 they were providing was not safe?

14 A. I do not have any evidence of that, no.

15 Q. You also criticized management in your
16 testimony, did you not, for failure to orderly replace or
17 repair the aged steam pipes?

18 A. Yes. Could you refer me to the page?

19 Q. Page 12, beginning on Line 10.

20 A. I think there I was specifically addressing
21 the absence of any kind of long-range plan that looked at
22 those kinds of repair replacement decisions.

23 Q. Do you know or have you done any analysis on
24 what the cost of such a program is?

25 A. I haven't personally, but I haven't managed

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1 the steam system. It's the company's responsibility to have
2 conducted such analysis and then on the basis of that
3 analysis to have made a decision and to have implemented
4 that decision.

5 Q. Do you have any basis to believe the company
6 did not know approximately how much it would have cost to
7 replace the pipes in their system since they were replacing
8 and repairing all the time?

9 A. I have no basis to know that they did know
10 those costs.

11 Q. So since they--you do not believe that the
12 fact that they were maintaining and repairing the system
13 they would not know what the basis of costing--of the costs
14 of replacing pipe was or repairing pipe?

15 A. Could you restate the question? I don't
16 think it's clear.

17 Q. Given that the company was maintaining this
18 system and was ongoingly repairing the system, do you not
19 believe that they would know how much it costs to repair and
20 replace pipe?

21 A. I would assume that the company should know
22 but that they should make those decisions on the basis of
23 evaluating all those costs. I did not see any evidence of
24 that.

25 Q. Because you did not see a written memoranda

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1 to that effect, then are you concluding that the company
2 does not make ongoing decisions about how much of its pipe
3 to replace due to the cost?

4 A. Not only because I did not see a company
5 written memorandum. The Staff also asked those kinds of
6 questions in a data request, which I included in my direct
7 testimony the company's response to that. And the company
8 could not provide any type of information to show that they
9 were seriously analyzing and evaluating those kinds of
10 economic factors prior to making decisions.

11 Q. You asked for written information that might
12 be available in old company files on the issue, but do you
13 have any basis to believe that those decisions were not
14 being made on an ongoing basis?

15 A. The decisions to repair or replace were
16 being made. It's the basis on which those decisions were
17 being made upon that I have no verification how the company
18 was making those, if they were actually taking all of those
19 factors into effect.

20 Q. But you cannot say for a fact, can you, that
21 the company was not making these decisions?

22 A. Obviously the company had to make decisions
23 every day on whether to repair something. Unfortunately,
24 without that kind of backup analysis, though, those
25 decisions can simply represent a bandaid approach to the

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1 daily operations of the system, daily operations of
2 management.

3 Q. Do you know whether or not this was a
4 bandaidd approach to maintain the system?

5 A. I believe without that type of analysis that
6 it does somewhat represent a bandaidd approach to problems as
7 they occur, simply fixing them quickly and possibly in some
8 cases the easiest way.

9 Q. But you really don't know, do you, what
10 decisions have been made during previous years on whether or
11 not and how to repair the company facilities?

12 A. The company could not tell me that
13 information either, though, in interviews with some of the
14 personnel that were responsible for those steam operation
15 systems in prior years.

16 Q. But they did tell you, did they not, that
17 they were repairing the system and had been repairing the
18 system?

19 A. They obviously had to repair a leak, a major
20 leak as it occurred. The steam comes out through the
21 ground. The company had to react to those kinds of things.
22 That, however, is not a good way to conduct your maintenance
23 activities.

24 Q. Are you a maintenance expert?

25 A. I am certainly not a maintenance expert

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1 specifically on steam, but I've looked at a number of
2 maintenance systems at companies across the state.

3 Q. Have you ever done any studies to indicate
4 the benefits of replacing certain amounts of pipe or
5 repairing certain amounts of pipe? Do you have any kind of
6 a cost/benefit analysis?

7 A. I have not personally done that; however, I
8 have not managed the maintenance activities of a company.
9 The company's management has a responsibility to do that.

10 Q. Your testimony criticizes the company
11 management. Can you put dollar sign on that?

12 A. Within the context of this case and the
13 activities that I conducted during discovery, at this point
14 I could not put a specific dollar amount upon that.

15 MS. LATZ: I have no further questions.

16 EXAMINER HOGERTY: Redirect.

17 MS. YOUNG: Thank you.

18 REDIRECT EXAMINATION BY MS. YOUNG:

19 Q. Ms. Bernsen, the testimony on Page 12 that
20 you were cross-examined on dealing with the company's
21 approach to maintenance practices and the failure to conduct
22 an ordinarily replacement or repair process was based on
23 interviews with company personnel; isn't that correct?

24 A. Yes, that's true.

25 Q. And attached to your testimony are the

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1 interview notes with the individuals of the company that you
2 met with on that subject, right?

3 A. Yes, they are.

4 Q. And doesn't that testimony state that even
5 the company personnel involved felt that they needed to
6 replace more of the pipe than they did?

7 A. Yes, they did.

8 Q. Now, when you were cross-examined about the
9 company's knowledge or shouldn't the company know the cost
10 of a replacement program, if those costs were based on the
11 methods that the company was utilizing, which was doing
12 repairs and replacements only on an emergency basis
13 involving work outside of regular business hours, on weekends,
14 and in evenings, isn't it possible that if the costs were
15 based on those assumptions that it might be higher than what a
16 planned maintenance and replacement program would have cost?

17 A. Yes. I think we can very definitely say
18 that a planned orderly maintenance program is certainly
19 always more cost effective than a system of responding to
20 problems simply as they crop up.

21 Q. Now, your comment on Page 8 regarding the
22 percentage of time dedicated to steam operations, was this
23 also based on interviews with company personnel?

24 A. Yes. That information was determined during
25 the interviews.

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1 Q. Now, did you interview all of the company's
2 management personnel, like the chairman of the board and
3 chief executive officer, Mr. Doyle, and vice-presidents in
4 various areas? Is this 10 percent figure 10 percent of what
5 all the management at KCPL devotes to steam?

6 A. No, it was not. These interviews were held
7 at some of the manager and supervisor levels, people that
8 had prior manager and supervisor responsibilities for steam.
9 So they are simply their best estimate or guess of how much
10 time they actually spent on those activities.

11 Q. And that estimate did not relate to anyone's
12 time other than their own; is that correct?

13 A. That's true.

14 Q. And these were people--just for clarity,
15 when you say "responsible for management" there, you mean
16 responsible for steam system management?

17 A. That's correct.

18 Q. So the people who had the primary
19 responsibility in the company for management of the steam
20 system were spending 10 percent of their time on steam?

21 A. That's true.

22 Q. Were the notes that are attached to your
23 testimony confirmed by the company individuals with whom you
24 have met?

25 A. Yes, they were confirmed. They were

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1 confirmed by the Staff attaching a data request form and
2 sending them to the company personnel to review. And these
3 were confirmed.

4 Q. And returned?

5 A. Yes.

6 MS. YOUNG: No further questions.

7 EXAMINER HOGERTY: Ms. Bjelland.

8 MS. BJELLAND: No questions.

9 EXAMINER HOGERTY: Mr. Finnegan.

10 MR. FINNEGAN: No questions.

11 EXAMINER HOGERTY: Mr. Kennett.

12 RECROSS-EXAMINATION BY MR. KENNETT:

13 Q. Ms. Bernsen, on Page 8 of your testimony,
14 you quote from a memorandum from Mr. J. R. Miller to
15 Mr. Arthur Doyle. Mr. Miller states that the steam system
16 is a stepchild of the company and treated with less interest
17 and priority than other operations.

18 You have testified that the people you
19 interviewed assigned to the steam systems, that they spent
20 minimal amount of time managing this system. In your
21 opinion, is it fair to say that if nobody is in charge of
22 the store, the store does not run very well?

23 A. That's probably a fair statement.

24 MR. KENNETT: Thank you. I have no further
25 questions.

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1 EXAMINER HOGERTY: Ms. Latz.

2 RECROSS-EXAMINATION BY MS. LATZ:

3 Q. Could I refer you to one of the--to the
4 interviews that you're referring to as attached to your
5 testimony Schedule 5-5, please.

6 Isn't it correct when you said that the
7 interviewees said they would like to have seen more pipe
8 been replaced, that they also stated that from an economical
9 standpoint and a practical point this couldn't be done?

10 A. Where are you referring to on the memo?

11 Q. First paragraph of Schedule 5-5.

12 A. Yes, it--they're paraphrased in the notes.
13 I attended that meeting, and Mr. Wiehe indicated that he
14 would have liked to have seen all of the pipe replaced.

15 Q. And he also stated, though, that from an
16 economical standpoint and practical standpoint that couldn't
17 be done?

18 A. That's true, to replace all of the pipe in
19 the ground.

20 MS. LATZ: No further questions.

21 EXAMINER HOGERTY: Thank you, Ms. Bernsen.

22 (Witness excused.)

23 -----
24 MS. YOUNG: Staff would offer Exhibit No. 45
25 into the record.

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1 EXAMINER HOGERTY: Exhibit 45 is received.
2 (EXHIBIT NO. 45 WAS RECEIVED IN EVIDENCE AND
3 MADE A PART OF THIS RECORD.)

4 EXAMINER HOGERTY: Does that conclude Staff
5 witnesses for today?

6 MS. YOUNG: I'm sorry. I've been reminded
7 that I did not offer Mr. Cox's direct testimony, Exhibit
8 No. 44.

9 MR. ENGLISH: No objection.

10 EXAMINER HOGERTY: Exhibit 44 is received.
11 (EXHIBIT NO. 44 WAS RECEIVED IN EVIDENCE AND
12 MADE A PART OF THIS RECORD.)

13 MS. YOUNG: Could we go off the record for a
14 moment?

15 EXAMINER HOGERTY: Off the record.

16 (Discussion off the record.)

17 EXAMINER HOGERTY: Back on the record.

18 Mr. English.

19 MR. ENGLISH: Thank you, your Honor. At
20 this time, Kansas City Power & Light Company would like to
21 offer certain exhibits which were identified on Monday.
22 These exhibits have to do with the accounting issues that
23 were stipulated and resolved between Staff and Kansas City
24 Power & Light. At this time, I'd be pleased to offer
25 Exhibits 1, which is the Hearing Memorandum, and also

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1 Exhibits 2, 3, 4, and 5.

2 EXAMINER HOGERTY: Exhibits 1 through 5 are
3 received.

4 (EXHIBIT NOS. 1 TO 5 WERE RECEIVED IN
5 EVIDENCE AND MADE A PART OF THIS RECORD.)

6 MS. YOUNG: At this time, Staff would like
7 to make a similar offer of those pieces of Staff testimony
8 which relate to the issues as resolved in the Hearing
9 Memorandum. That would be Exhibit 6, 7, 8, 9, 10, and 11.

10 EXAMINER HOGERTY: Exhibits 6 through 11 are
11 received.

12 (EXHIBIT NOS. 6 TO 11 WERE RECEIVED IN
13 EVIDENCE AND MADE A PART OF THIS RECORD.)

14 EXAMINER HOGERTY: The company may call its
15 next witness.

16 MR. ENGLISH: Your Honor, the company
17 recalls Mr. Graham to the stand to stand cross-examination
18 on the rest of his direct and rebuttal testimonies.

19 EXAMINER HOGERTY: Let me remind you that
20 you are still under oath, Mr. Graham.

21 MR. ENGLISH: Your Honor, Mr. Graham has
22 been reminded that he's still under oath; and I tender him
23 for cross-examination.

24 EXAMINER HOGERTY: Mr. Walther.

25 TEST BOILERS ISSUE:

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1 ROBERT H. GRAHAM testified as follows:

2 CROSS-EXAMINATION BY MR. WALTHER:

3 Q. Good morning, Mr. Graham.

4 A. Good morning.

5 Q. Mr. Graham, is it true that one of the
6 primary purposes that KCPL had in conducting the energy
7 audits was to provide steam customers with information on
8 energy conservation?

9 A. That was one of the several items, yes.

10 Q. I refer you to the attachment to your direct
11 testimony, which is the report of the energy audit on the
12 Home Savings building, specifically I refer you to Pages 13
13 and 14 which contain the energy conservation
14 recommendations. Is it correct that Pages 13 and 14 contain
15 the energy conservation recommendations for the Home Savings
16 building?

17 A. That's correct.

18 Q. Are the type of recommendations contained on
19 Pages 13 and 14, which I see involve suggestions such as
20 turning fans off, installing storm sashes on windows,
21 blocking up windows and elevator shafts, are these type of
22 things representative of the type of conservation made--
23 conservation recommendations made in the energy audits?

24 A. Well, yes. These are the types of things
25 that were recommended in all of them, some more involved

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1 depending on the particular building, the particular system
2 that building may have had.

3 Q. How much has KCPL spent on these energy
4 audits to date?

5 A. I think I have testified as something over
6 \$400,000.

7 Q. I now refer you to Page 7 of your direct
8 testimony. You list a number of goals or a number of tasks
9 that were to be completed as part of the energy audits. And
10 on the first paragraph of Page 7, there are seven of these
11 things listed. No. 6 states that the energy audits were to
12 make "a determination of size of replacement electric steam
13 boiler or other electric heating equipment." Can you tell
14 me what that involves?

15 A. That involves the size--as it says, the size
16 of the boiler, what the kw would be or the boiler
17 horsepower, what the output would be required of either a
18 steam boiler, or if that were not recommended or was not
19 applicable, then other electric heating equipment.

20 Q. So basically you were measuring for electric
21 equipment, is that--

22 A. That is true. It would be applicable to any
23 other type of heating equipment.

24 Q. No. 7 states that one of the functions of
25 the energy audit was to develop "a schematic of the electric

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1 boiler design and a detailed cost estimate for the
2 recommended conversion." Could you expand a little bit on
3 what that involved?

4 A. I think it is shown later in the audit where
5 there is actually a schematic of how it would be done, how
6 an electric boiler would be connected into the existing
7 steam heating system, where it would be placed in the
8 building. It also, I think, locates any electrical
9 equipment that would be needed.

10 Q. Mr. Graham, is it the purpose of KCPL's
11 steam conversion plan to retain all steam customers as
12 electric heat customers?

13 A. Yes, as many as we can.

14 Q. Would you agree that this purpose could not
15 be accomplished if you provided your customers with gas
16 boilers?

17 A. If we gave them boilers?

18 Q. Gas boilers.

19 A. No. We do not sell gas, so that would not
20 accomplish that purpose or that goal.

21 Q. Was energy audits--was Energy Masters,
22 before they got involved in the energy audits, instructed to
23 look at electric alternatives only?

24 A. Yes, they were.

25 Q. In conjunction with the energy audits, were

Missouri Public Service Commission

1 the customers given any information regarding the gas
2 alternatives or on the cost of gas boilers?

3 A. No, they were not.

4 Q. So then is it true that Energy Masters
5 conducted each energy audit with instructions from KCPL that
6 only electric alternatives were to be examined for replacing
7 the customer's centrally supplied steam?

8 A. It was our intention to be able to supply
9 the customer with an alternate electrically driven system.

10 Q. In your opinion, if KCPL steam customers
11 were placed in the position of choosing an alternate heating
12 source absent the company's conversion plan, do you believe
13 that KCPL is capable of competing with KPL-Gas Service?

14 A. In most instances, yes.

15 MR. WALTHER: Could I please have this
16 marked as Exhibit 46 for purposes of identification.

17 (EXHIBIT NO. 46 WAS MARKED BY THE REPORTER
18 FOR IDENTIFICATION.)

19 MR. WALTHER: Let the record reflect that I
20 am showing Exhibit 46 for purposes of identification to
21 counsel.

22 BY MR. WALTHER:

23 Q. Mr. Graham, I'm handing you what has been
24 marked as Exhibit No. 46 for purposes of identification.
25 Would you please identify that document.

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1 A. This is a memorandum to J. R. Miller and
2 J. A. Mayberry, Conversion of Downtown Steam System, signed
3 by myself, dated August 28, 1984.

4 Q. Did you write the attached memorandum on the
5 subsequent pages to the cover page?

6 A. Yes. I think I put it together.

7 Q. Is that your signature--

8 A. It is.

9 Q. --on the cover page?

10 MR. WALTHER: At this time, I'd like to move
11 that Exhibit No. 46 for purposes of identification be
12 admitted as Exhibit 46.

13 MR. ENGLISH: No objection.

14 EXAMINER HOGERTY: Exhibit 46 is received.

15 (EXHIBIT NO. 46 WAS RECEIVED IN EVIDENCE AND
16 MADE A PART OF THIS RECORD.).

17 BY MR. WALTHER:

18 Q. Mr. Graham, I refer you to the first page of
19 the Downtown--or Conversion of Downtown Steam System, the
20 plan. The first paragraph--

21 A. Yes.

22 Q. Would you agree that there is discussion in
23 that paragraph about the cost of electricity. I'm sorry.
24 --the cost of steam versus the cost of gas, and the possible
25 competitive posture of KCPL if they were going to compete in

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1 that market as an electric provider?

2 A. It says that there is a price advantage of a
3 gas-fired boiler over district steam.

4 Q. I now refer you to the third paragraph.
5 Could you state for the record what was being discussed in
6 that paragraph?

7 A. We're talking about the problems of
8 converting these buildings to either an electric boiler or a
9 gas boiler and the prices.

10 Q. Could you read the last paragraph--I'm
11 sorry. --the last sentence of that paragraph into the
12 record, please.

13 A. "It does not appear that we would be
14 competitive in this market if the customer has to sustain
15 any of the conversion costs and could overcome the stack
16 problem."

17 MR. WALTHER: I have no further questions.

18 EXAMINER HOGERTY: Ms. Bjelland.

19 MS. BJELLAND: No questions. Thank you.

20 EXAMINER HOGERTY: Mr. Finnegan.

21 MR. FINNEGAN: No questions.

22 EXAMINER HOGERTY: Mr. Kennett.

23 MR. KENNETT: No questions.

24 EXAMINER HOGERTY: Ms. Latz.

25 MS. LATZ: Mr. English will be handling

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1 this.

2 REDIRECT EXAMINATION BY MR. ENGLISH:

3 Q. Mr. Graham, do you recall questioning from
4 Staff counsel about Pages 13 and 14 of the energy audit
5 attached to your direct testimony?

6 A. Yes.

7 Q. Are any of the other pages of the audit
8 backup for these two pages of recommendations?

9 A. Yes, certainly.

10 Q. Would you give me an indication of what
11 pages are backup?

12 A. Well, really the whole study supports these
13 recommendations in that they have gone over the building.
14 They have run heat loads. They compared annual cooling loads.
15 They've run this--they have compared this, these loads against
16 the consumption of the building to see if there were any
17 inherent problems. So for the most part, other than just the
18 introduction and that sort of thing, the rest of it supports
19 these recommendations.

20 Q. Staff counsel also asked you some questions
21 based on Page 7 of your direct testimony concerning the
22 various items that Energy Masters was supposed to look at in
23 these energy audits. Why did KCPL have several items attended
24 to by Energy Masters at the same time?

25 A. Well, to give the customer an analysis of his

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1 building, you had to have all these other things. It was our
2 intention to make the customer very aware of what his heating
3 situation was. The only way he could do that was to analyze
4 the complete building and his system.

5 Q. Mr. Graham, why were Items 6 and 7 included?

6 A. Well, Items 6 and 7 tell us that if we were
7 successful or if we were allowed to put this plant in place,
8 the size of the equipment, what the cost would be, and to
9 determine if it is indeed possible to install this
10 equipment, if we were granted permission to do this plan, we
11 had to have preliminary work done so that we could
12 accomplish it in a timely fashion.

13 Q. Mr. Graham, do you recall that under KCPL's
14 conversion plan electric boilers or alternative space heating
15 equipment would be provided to consenting customers at no
16 initial cost?

17 A. That's true.

18 Q. If this plan were accepted, would a customer
19 care what this equipment cost?

20 A. It should make no difference to him.

21 Q. Let me refer you to Exhibit 46, Mr. Graham.
22 Have the opinions and conclusions you've expressed over two
23 years ago changed with time?

24 A. Well, the price of electric heating has
25 stabilized considerably. There seems to be some instability

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1 in the price of gas now; and it seems to have hit bottom and
2 is now going back up, particularly for the retail customer.
3 We would perhaps be in a more competitive situation today than
4 we were in August of 1984.

5 MR. ENGLISH: Thank you, Mr. Graham.

6 EXAMINER HOGERTY: Any recross?

7 MR. WALTHER: No.

8 EXAMINER HOGERTY: Thank you, Mr. Graham.

9 (Witness excused.)

10
11 MR. ENGLISH: Your Honor, this was
12 Mr. Graham's last trip up to the witness stand. And at this
13 time, I would offer Exhibit 15, his direct testimony, and
14 Exhibit 16, his rebuttal testimony.

15 EXAMINER HOGERTY: Exhibits 15 and 16 are
16 received.

17 (EXHIBIT NOS. 15 AND 16 WERE RECEIVED IN
18 EVIDENCE AND MADE A PART OF THIS RECORD.)

19 MR. ENGLISH: Your Honor, that concludes the
20 scheduled list of witnesses for today.

21 EXAMINER HOGERTY: We will be in recess
22 until nine o'clock tomorrow morning.

23 WHEREUPON, the hearing of this case was
24 adjourned until 9 a.m., Friday, April 10, 1987.

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