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Issue: Rate Design/ Class COS
Witness: Michael R. Schmidt
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Sponsoring Party: U.S. Department of Energy
Case No.: ER-2014-0370
Date Testimony Prepared: June 5, 2015

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2014-0370

SURREBUTTAL TESTIMONY

OF

MICHAEL R. SCHMIDT

ON BEHALF OF

THE UNITED STATES DEPARTMENT OF ENERGY

AND THE FEDERAL EXECUTIVE AGENCIES

JUNE 5, 2015

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael R. Schmidt. My business address is 3322 SW Rolling Ct., Topeka, Kansas 66610.

Q. ARE YOU THE SAME MICHAEL SCHMIDT WHO HAS PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I previously filed direct testimony in this proceeding on April 16, 2015 and rebuttal testimony on May 7, 2015 regarding class cost of service and rate design issues on behalf of the U.S. Department of Energy ("DOE") representing the Federal Executive Agencies ("FEA") served by Kansas City Power & Light Company ("KCPL" or "Company").

Q. IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN THOSE TESTIMONIES?

A. Yes. This information is included in Appendix A to my direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to rebut the Staff's position on the use of the base-intermediate-peak ("BIP") methodology that is addressed in the rebuttal testimony of Sarah Kliethermes. In response to the rebuttal testimony of Company witness Tim Rush, I also clarify my position that my recommended four coincident peak ("4CP") methodology for allocating fixed production costs applies only to production capacity and not energy. Finally, I respond to criticisms of my rate design gradualism proposal set forth in the rebuttal testimony of Staff witness Michael Scheperle.

Q. PLEASE SUMMARIZE YOUR PRIMARY FINDINGS AND CONCLUSIONS.

A. My surrebuttal testimony may be summarized as follows:

- Staff's BIP methodology does not reflect the realities of operating an electrical system, and its added complexity demonstrates nothing with regard to reasonably allocating KCPL's production-related costs to the rate classes. My recommended 4CP methodology for allocating fixed production costs more closely reflects actual system operation.

- I disagree with Ms. Kliethermes' statement that a kilowatt ("kW") produced by each type of production plant is not the same. The generation portfolio is operated as a whole with combinations of plants operating at any one time. No one type of plant is operated to serve a particular class of customers. Ms. Kliethermes' observation that the installed cost of types of generating units can differ is not relevant to production cost allocation. This argument ignores the fact that a system operator utilizes the entire available resource portfolio to meet system demands.

- Company witness Tim Rush assumed that I used the 4CP methodology for allocating energy-related production costs. This assumption is not correct. The 4CP allocator was only used to allocate demand-related production costs.

- Staff witness Michael S. Scheperle inaccurately describes my proposed revenue spread as "drastic" when it is well within the boundaries of inter-class

revenue allocations adopted by the Commission in KCPL's most recent general rate case.

I. PRODUCTION COST ALLOCATION

Q. PLEASE STATE YOUR DISAGREEMENT WITH STAFF WITNESS SARAH KLIETHERMES.

A. Staff witness Sarah Kliethermes defends the BIP cost allocation methodology to allocate production costs to the classes in her rebuttal testimony and criticizes other cost allocation methodologies for not taking into account differences in the installed cost of various types of generating plants. I disagree with Ms. Kliethermes because when it comes to actual electric system operations and keeping the lights on, the installed cost of capacity is irrelevant and a kilowatt is a kilowatt to electric system operators. Layering complexity into production cost allocations under the false pretense that the BIP methodology reflects reality is misguided.

Q. PLEASE GENERALLY DESCRIBE ELECTRIC SYSTEM OPERATIONS.

A. Based on my past work in the electric utility industry, I have become familiar with electric system operations and the role of an electric utility system operator. The primary role of an electric utility system operator is to keep the lights on. They dispatch the portfolio of supply and demand-side resources available to them, including utilization of transmission lines and purchases from other sources, to meet the real-time demands placed on the system, including the requirement to maintain reserves. The various types of plants are not necessarily operated only due to pre-defined time periods—off-peak, intermediate peak, and peak; rather, their operation is dictated by real-time operating conditions, which vary during the day or season.

Q. DO SYSTEM OPERATORS CONCERN THEMSELVES WITH THE INSTALLED CAPACITY COST OF DIFFERENT GENERATING UNITS WHEN OPERATING AN ELECTRIC SYSTEM TO MEET REAL-TIME DEMANDS?

A. No, they do not. First and foremost, they ensure that they have available to them sufficient generating capacity and transmission import capability to meet anticipated peak demands plus reserves so that the electric system can be operated reliably. Differences in the installed cost of a nuclear plant or a combustion turbine, which are sunk costs, simply are not relevant to a system operator charged with keeping the lights on. In this regard, a kilowatt is a kilowatt to a system operator.

Q. CAN YOU RELATE THE CHALLENGES FACED BY A SYSTEM OPERATOR CHARGED WITH KEEPING THE LIGHTS ON TO THE ISSUE OF PRODUCTION COST ALLOCATION IN THIS CASE?

A. Operating an electric system is complex. Ultimately, the task is one of keeping the lights on, and the biggest challenges a system operator faces outside of major system disturbances—typically weather-related disturbances—are meeting the system peak demands, which for KCPL occur in the four summer months of June through September. A system operator relies on the entire portfolio of available capacity and all of the operating characteristics of those capacity resources to accomplish that task. The system operator may call on any of the plants in the portfolio depending on plant outages, transmission constraints, plant availability, cost of economy energy, fuel cost, and fuel availability.

Ms. Kliethermes submits that a kW is not a kW, meaning that production cost allocation methods must account for the different cost of generation[1]. In my opinion, the whole discussion in Ms. Kliethermes testimony of whether a kilowatt is a kilowatt, and that the installed cost of types of generating units can differ, simply distracts from the fact that a system operator utilizes the entire available resource portfolio to meet system demands. My recommended 4CP methodology for allocating fixed production costs is logically consistent with the task faced by the system operator—keeping the lights on when system peak demands are at their highest, which occur in the months of June through September for KCPL.

Q. ON PAGES 47-48 OF HIS REBUTTAL TESTIMONY, COMPANY WITNESS TIM RUSH STATED THAT YOU APPEAR TO HAVE CHOSEN TO ALLOCATE FUEL COSTS BASED ON YOUR 4CP DEMAND ALLOCATOR. HAS MR. RUSH STATED YOUR POSITION CORRECTLY?

A. No. The only change that was made in the KCPL class cost of service study was to substitute the 4CP demand allocator for the Company's Average and Peak demand allocator to be used to allocate fixed production-related costs.

[1] Klethermes rebuttal testimony, p. 2.

II. GRADUALISM

Q. WHAT IS YOUR PROPOSAL CONCERNING CLASS REVENUE INCREASES?

A. In my direct testimony filed in this case, I proposed that class revenue increases be capped at the greater of one-third (33 percent) more than the system average percentage rate increase granted in this case, or three percent above that system average percentage increase. That revenue spread proposal will allow for a gradual movement toward cost-based rates in a manner that prevents rate shock.

Staff witness Michael S. Scheperle claims that my revenue spread proposal is a "drastic revenue-neutral adjustment for the Res class of 3.6% (14.3% - 10.7%) which contradicts what the Commission ordered for the Res class in its Report and Order in its last general rate increase case."[2]

Q. WHAT IS YOUR RESPONSE TO THAT REBUTTAL TESTIMONY?

A. Mr. Scheperle's criticism of my revenue spread proposal is incorrect. Cost-based rates are the goal for utilities and their regulatory commissions, and moving rates for all classes toward cost-based levels is equitable, promotes efficient use of electricity, and allows for the design of just and reasonable rates. My revenue spread, contrary to Mr. Scheperle's claim, is in accord with the boundaries established by the Commission. Indeed, this is demonstrated by the Commission's approved revenue spread in the last KCPL case. The revenue allocation approved by the Commission in the very Report and Order from Case No. ER-2012-0174 that Mr. Scheperle cites provided for a revenue allocation to the Large Power Service ("LPS") rate class that

[2] M. Scheperle, Rebuttal Testimony, p. 6.

was 4.37 percent above the 9.64 percent system average increase.[3] In other words, the Commission approved a percentage increase for the LPS class that was 45 percent above the system average percentage increase that it granted in that case.[4] That represents a movement toward cost-based rates that exceeds my gradualism proposal in this case. I certainly would not characterize as "drastic" the Commission-approved movement toward cost-based rates in that case. Likewise, it is inappropriate to characterize as drastic my revenue spread proposal in this case.

Mr. Scheperle, through his criticism of my testimony and that of others in the case, has erected an unnecessary road block in the path of moving toward cost-based rates. For example, the differences between percentage rate increases proposed by MEIC/MECG witness Maurice Brubaker for the commercial rate classes at less than two percent are, in my opinion, both small and well within the range of what should be considered reasonable and gradual movements toward cost-based rates. In fact, those differences are less than differences between increases for the commercial classes ordered by the Commission in Case No. ER-2012-0174, KCPL's last general rate case.

However, Mr. Scheperle expresses concern about rate continuity between KCPL's small, medium, and large general service rate schedules. He raises this concern because KCPL's rate schedules for these rate classes allow customers to shift between rate schedules if it is advantageous to do so. This fact appears to concern Mr. Scheperle because he believes that an analysis is needed to determine how

[3] The Commission approved a 9.64 percent system average increase and a 14.007 percent increase for the LPS rate class. See M. Scheperle's Rebuttal Testimony, p. 8.
[4] 4.37 percent / 9.64 percent ≅ 45 percent.

customers might switch between rate classes for any given proposed revenue spread before that revenue spread can be approved.

Mr. Scheperle would have the Commission place greater weight on rate continuity or the status quo than on achieving cost-based rates. I recommend a more balanced approach. Cost-based rates are the safe harbor for this Commission, and charting a course toward that safe harbor, and making significant progress along that course whenever possible, should be the Commission's primary focus. Shifts in commercial class revenue allocations of less than two percent are not a sufficient reason to deviate from or impede progress along that course.

Q. DOES THIS CONCLUDE YOUR SURREBUTAL TESTIMONY?

A. Yes.

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AFFIDAVIT OF MICHAEL R. SCHMIDT

STATE OF KANSAS)
) SS
COUNTY OF SHAWNEE)

Michael R. Schmidt, being first duly sworn, on his oath states:

1. My name is Michael R. Schmidt. I am an independent utility industry consultant and my principal place of business is 3322 SW Rolling Ct. Topeka, Kansas 66610.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of the United States Department of Energy which was prepared in written form for introduction into evidence in the above-captioned docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Michael R. Schmidt

Subscribed and sworn before me this 2nd day of June, 2015.

Amanda Boyd
NOTARY PUBLIC – STATE OF KANSAS
MY APPT EXP: 4/29/2017

Notary Public

My commission expires: 04/29/2017