

Exhibit No.: 503
Issue: Rate Design/Class COS
Witness: Michael R. Schmidt
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: U.S. Department of Energy
Case No.: ER-2016-0285
Date Testimony Prepared: January 27, 2017

FILED²

MAR 2 2017

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

Missouri Public
Service Commission

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement) Case No. ER-2016-0285
A General Rate Increase for Electric Service)

SURREBUTTAL TESTIMONY

OF

MICHAEL R. SCHMIDT

ON BEHALF OF THE

UNITED STATES DEPARTMENT OF ENERGY

AND FEDERAL EXECUTIVE AGENCIES

January 27, 2017

DOE Exhibit No. 503
Date 2.23.17 Reporter mm
File No. ER-2016-0285

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

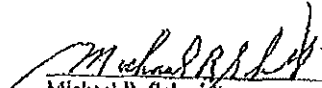
In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement) Case No. BR-2016-0285
A General Rate Increase for Electric Service)

AFFIDAVIT OF MICHAEL R. SCHMIDT

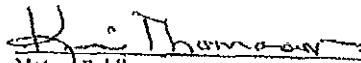
STATE OF KANSAS)
) SS
COUNTY OF SHAWNEE)

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

1. My name is Michael R. Schmidt. I am an independent utility 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 24th day of January, 2017.


Notary Public

My commission expires 12-26-17



1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

6 A. Yes. I previously filed direct testimony in this proceeding on December 14, 2016, a
7 corrected version on December 19, 2016, and rebuttal testimony on January 6, 2017
8 regarding class cost of service and rate design issues on behalf of the U.S. Department
9 of Energy ("DOE") representing the Federal Executive Agencies ("FEA") served by
10 Kansas City Power & Light Company ("KCP&L" or "Company").

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

13 A. The purpose of my testimony is to rebut Staff's position on the use of the base-
14 intermediate-peak ("BIP") methodology that is addressed in the Rebuttal Testimony of
15 Sarah L. Kliethermes. I will also comment on the Rebuttal Testimony of KCP&L
16 witness Marisol E. Miller as it relates to the BIP methodology.

17 Q. MS. KLIETHERMES REFERENCES THE COMMISSION'S DECISION TO
18 ADOPT THE BIP COST ALLOCATION METHODOLOGY IN CASE NO.
19 ER-2014-0351 ON PAGES 2-3 OF HER REBUTTAL TESTIMONY. DO
20 YOU FIND IT OF PARTICULAR SIGNIFICANCE THAT THE
21 COMMISSION ADOPTED STAFF'S CLASS COST OF SERVICE STUDY
22 IN CASE NO. ER-2014-0351 FOR THE PURPOSE OF ALLOCATING THE
23 APPROVED REVENUE REQUIREMENT TO THE RATE CLASSES?

24 A. I do not. The Commission properly recognized that more movement toward cost-based
25 residential rates was appropriate in Case No. ER-2014-0351 (the "Empire District" case)

1 than the settling parties had agreed to in the *Non-Unanimous Stipulation and Agreement*
2 *on Certain Issues* ("Stipulation").¹ Having rejected the settling parties' proposal to
3 increase residential rates by less than 1 percent more than the system average percentage
4 increase, the Commission selected a class cost of service study that would: (1) justify a
5 more meaningful move toward cost-based residential rates; and (2) serve as a basis for
6 reallocating revenues among the other rate classes. Of the various class cost of service
7 studies submitted in that case, all of which indicated that the residential rates were well
8 below cost-based levels, the Commission selected Staff's class cost of service study to
9 serve as an illustrative reference point for cost-based residential revenues. Staff's study
10 suggested that residential revenues would have to increase by 8.06 percent in addition
11 to the system average percentage increase to reach cost-based levels.² The Commission
12 then determined that moving one-quarter of the way toward that reference point would
13 be reasonable and adopted an approximately 2 percent revenue increase (25 percent of
14 8.06 percent) for the residential class in addition to the system average percentage
15 revenue increase.

16 Q. WHAT WOULD THE RESULT HAVE BEEN HAD THE COMMISSION
17 ADOPTED THE CLASS COST OF SERVICE STUDY PROPOSAL FROM
18 THE MIDWEST ENERGY CONSUMER GROUP ("MECG") IN THE
19 EMPIRE DISTRICT CASE?

20 A. By comparison, had the Commission selected MECG's class cost of service study as a
21 reference point and applied a one-quarter move toward cost-based residential rates, the
22 residential class' revenue increase would have been only slightly higher, or a 2.5 percent
23 (25 percent of 10.10 percent) increase in addition to the system average percentage

¹ Report and Order in Case No. ER-2014-0351, p. 19, stating "[a] 2% revenue neutral adjustment for the residential rate class is not punitive to the residential class and helps to eliminate any residential subsidy in a shorter timeframe."

² Case No. ER-2014-0351, *Initial Posthearing Brief of Midwest Energy Consumers Group*, May 15, 2015, p. 10.

1 increase.³ Alternatively, the Commission could have justified its adopted additional
2 2 percent revenue increase for the residential class by moving one-fifth of the way
3 toward MECG's class cost of service study's reference point for cost-based revenues
4 (20 percent of 10.10 percent). Once the Commission determined that it was equitable
5 to increase residential revenues by more than the system average percentage revenue
6 requirement increase, either Staff's or MECG's class cost of service studies provided
7 the justification necessary for that decision, and nearly equally so for all practical
8 purposes.

9 Q. DID THE COMMISSION IMPLEMENT AN EFFECTIVE GRADUALISM
10 CAP IN THE EMPIRE DISTRICT CASE?

11 A. Yes. Having determined that residential revenues would be subject to a 2 percent
12 gradualism cap above the system average percentage increase, the Commission
13 reallocated the corresponding revenue requirement decreases to the other rate classes in
14 a revenue neutral manner. This is the second of the two steps that I listed above. Having
15 adopted Staff's class cost of service study for implementing the first step in the
16 Commission's gradualism proposal, it made sense to simply use it again to allocate the
17 corresponding revenue requirement decreases to the selected other rate classes. In fact,
18 the Commission did just that, as explained in its *Order Clarifying Report and Order*.⁴
19 Had the Commission instead adopted MECG's class cost of service study for the second
20 step necessary to implement its selected 2 percent gradualism cap, rate design for the
21 non-residential rate classes would have been substantially similar to that adopted by the
22 Commission given the relatively similar results of MECG's and Staff's class cost of
23 service studies.⁵

³ *Id.*

⁴ Case No. BR-2014-0351, *Order Clarifying Report and Order*, July 1, 2015, p. 3.

⁵ *Initial Posthearing Brief of Midwest Energy Consumers Group*, p. 10. Both MECG's and Staff's studies show, on a relative basis, that the general power and large power rate classes should receive more of the revenue

1 In essence, the Commission adopted a 2 percent gradualism cap in the Empire
2 District case, directed its implementation, and, as stated in its *Order Denying Motion*
3 *for Clarification/Reconsideration*, did not “establish a general preference...for a
4 specific methodology to calculate the cost of service for various rate classes.”⁶

5 Q. WHAT DO YOU CONCLUDE CONCERNING THE COMMISSION’S
6 ADOPTION OF THE BIP METHOD IN THE EMPIRE DISTRICT CASE
7 REFERENCED BY STAFF WITNESS KLIETHERMES?

8 A. The Commission’s Order in the Empire District case does not support Staff’s BIP
9 recommendation in this case—nowhere does the Order address the incompatibility of
10 the BIP method with generation scheduled by the Southwest Power Pool (“SPP”).

11 The Commission’s Order in the Empire District case does, however, support the
12 cost of service and gradualism recommendations I present in this case. My
13 recommendations, like the Commission’s Order in the Empire District case, recognize
14 the need to move further towards cost of service and the use of gradualism to avoid rate
15 shock.

16 Q. IN HER REBUTTAL TESTIMONY, WITNESS KLIETHERMES IMPLIES
17 THAT STAFF’S BIP METHODOLOGY, AND ITS ENERGY-RELATED
18 ALLOCATIONS BASED ON AN ASSIGNMENT OF TIME-
19 DIFFERENTIATED PRICING, REFLECT “REALITY” MORE SO THAN
20 OTHER CLASS COST OF SERVICE STUDIES SUBMITTED IN THIS
21 CASE. DO YOU HAVE ANY COMMENTS ON STAFF’S POSITION?

22 A. I do. As I pointed out in my Rebuttal Testimony, the Company’s participation in SPP’s
23 Integrated Marketplace (“IM”) defeats the basis for Staff’s BIP methodology. KCP&L

requirement reduction necessary to offset the shift in revenues to the residential class, and both studies show that the commercial rate classes should receive less of that reduction.

⁶ ER-2015-0351, *Order Denying Motion for Clarification/Reconsideration*, July 22, 2015, p. 2.

1 witness Marisol E. Miller concurs with my position that the Company's participation in
2 the SPP-IM negatively impacts the suitability of the BIP methodology for allocating
3 production costs,⁷ as the Company has stopped utilizing that production allocation
4 methodology. Rather than reflecting reality, Staff's BIP methodology actually
5 introduces instability into the rate-setting process because the dynamic wholesale
6 electricity market will dictate how KCP&L's generating plants will operate over time
7 independent of KCP&L's customers' electrical requirements.

8 Q. DO YOU BELIEVE THAT MOVING CLASS REVENUES TOWARD
9 COST-BASED LEVELS SHOULD BE CAPPED AT 2 PERCENT ABOVE
10 THE SYSTEM AVERAGE PERCENTAGE REVENUE REQUIREMENT
11 INCREASE FOR THE CURRENT CASE, CONSISTENT WITH THE
12 COMMISSION'S DECISION IN THE EMPIRE DISTRICT CASE?

13 A. Most state regulatory commissions have great latitude when applying the rate design
14 principle of gradualism in any particular rate case; therefore, I do not have an issue with
15 the Commission's gradualism decision in the Empire District case. However, more
16 movement toward cost-based rates is warranted in this case. With regard to KCP&L, it
17 has been far too long since meaningful movement toward cost-based rates has been
18 achieved. My gradualism proposal is for no less than a 3 percent cap on increases above
19 the system average percentage rate increase. That cap would be expanded to one-third
20 of the system average percentage revenue requirement increase if that increase exceeds
21 9 percent (one-third of the system average percentage revenue requirement increase
22 below 9 percent would be less than 3 percent, so my proposed minimum 3 percent
23 gradualism cap would apply). If anything, I consider my gradualism proposal to be

⁷ Rebuttal Testimony of Marisol E. Miller at p. 7, lines 20-22.

1 somewhat conservative and believe that even more movement toward cost-based rates
2 in this case could be justified.

3 Q. WHY DO YOU BELIEVE THAT YOUR GRADUALISM PROPOSAL IS
4 CONSERVATIVE?

5 A. Based on my recommended class cost of service study, my gradualism proposal would
6 move the residential class less than one-quarter of the way toward cost-based rates, or
7 less than that adopted by the Commission in the Empire District case.

8 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

9 A. Yes, it does.