

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

Kansas City Power & Light )  
Company's Request for Authority to )  
Implement a General Rate Increase for )  
Electric Service )

File No. ER-2016-0285

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**REPLY BRIEF OF THE UNITED STATES DEPARTMENT OF ENERGY AND  
FEDERAL EXECUTIVE AGENCIES**

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COMES NOW, the United States Department of Energy (“the Department” or “DOE”) and the Federal Executive Agencies (“FEA”) and, by and through their counsel, submit this Reply Brief in the above-referenced docket, pursuant to 4 CSR 240-2.140. In this Reply Brief, DOE/FEA responds to the Initial Post-Hearing Briefs of Commission Staff (“Staff”), Kansas City Power & Light (“KCP&L”), the Midwest Industrial Energy Customers (“MIEC”), the Midwest Energy Consumers Group (“MECG”) and the Office of Public Counsel (“OPC”) on the issues of the allocation of demand-related production and transmission plant costs and intra-class rate design for the LGS and LPS rate classes.

**INTRODUCTION**

The Department adheres to the principle that electric rates should be just, reasonable and cost-based so that rates send accurate price signals to customers. DOE/FEA recommends that the Missouri Public Service Commission (“Commission” or “PSC”) adopt the Four Coincident Peak (“4CP”) cost allocation methodology to allocate production plant costs to the customer classes because it most reasonably begins to align rates with cost of service.<sup>1</sup> DOE/FEA also urges the Commission to reject both KCP&L’s proposed Average and Peak (“A&P”) cost allocation method and Staff’s Base, Intermediate and Peak (“BIP”) methods because, respectively, they violate cost causation principles and contradict Missouri law which requires that rates be just and reasonable.<sup>2</sup>

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<sup>1</sup> See DOE/FEA Initial Brief at 6. Production plant is the single, largest component cost to allocate to the classes within the study. As such, the production allocator has the most impact on the outcome of the CCOS study. See KCP&L Initial Brief at 57, fn. 24.

<sup>2</sup> Mo. Ann. Stat. §393.150.

In addition, DOE/FEA recommends that the Commission adopt the 4CP method for allocating transmission plant costs.<sup>3</sup> Staff proposes the 12CP cost allocation method to allocate transmission plant costs. DOE/FEA urges the Commission to reject both KCP&L's A&P and Staff's 12CP methods for allocating transmission costs because both methods under-allocate costs to KCP&L's summer months when transmission system capacity is most needed.

In moving customer class rates toward cost-based levels, it is important to consider the effects that will be felt by all classes of customers. DOE/FEA witness Dr. Michael R. Schmidt takes customer class impacts into account with his gradualism proposal,<sup>4</sup> which the Commission should adopt in lieu of the equal percentage class revenue increases proposed by the Company, which would only exacerbate the inequities in KCP&L's existing rate structure.

Finally, DOE/FEA recommends that the Commission reject MIEC's proposal to both freeze tail block energy rates for the Large Power Service ("LPS") and Large Generator Service ("LGS") customer classes and limit the increase in those classes' second, or intermediate block energy rate, thereby forcing other customers within those rate classes to absorb additional revenue requirement obligations. This intra-class rate design proposal should be tabled until such time as the Company studies intra-class cost causation and presents the Commission and all parties with evidence upon which to appropriately base intra-class cost allocation decisions.<sup>5</sup>

None of the arguments offered by any party in their respective Initial Post-Hearing Briefs alters these recommendations and, if anything, party briefs strengthen DOE/FEA's arguments in support of the 4CP method and against the A&P and BIP methods.

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<sup>3</sup> DOE/FEA, MIEC, and KCP&L each recommended using their respective methods for allocating both production and transmission plant costs.

<sup>4</sup> See DOE/FEA Initial Brief at 6.

<sup>5</sup> See MIEC Ex. 853 at 33:3-7.

## ARGUMENTS

### I. No Party Criticized the 4CP Method in Initial Briefs.

It is critical to note that no party that proposed alternate class cost of service studies (“CCOSS”) in this case criticized the 4CP methodology in Initial Briefs. Both MIEC and MECG are supportive of the 4CP cost allocation method.<sup>6</sup> KCP&L does not mention the 4CP method in its Initial Brief, nor does it discuss the relative merits of the various CCOSS methodologies, indicating instead that “each CCOS study holds value” and that CCOSS results should only serve as a guide.<sup>7</sup> OPC did not submit a CCOSS nor did it discuss the merits of the proposed CCOSS’ in its Initial Brief. Rather, OPC referred to KCP&L’s CCOSS results as “not unreasonable” and stated that “OPC’s recommendation would be aligned with the Staff’s proposal to shift to Large Power Services.”<sup>8</sup> But this recommendation is not based on any independent analysis or presentation of record evidence, and comes immediately after reproducing OPC Witness Marke’s Table 1, which confirms that three out of the four CCOSS submitted in this case demonstrate a significant subsidy to the Residential class.<sup>9</sup> Staff does not mention the 4CP method. The Sierra Club and Missouri Division of Energy did not take positions on CCOSS issues outside of intra-class rate design matters within the Residential class.

The fact that no party attacked the 4CP method bolsters its credibility as a well-regarded, industry-adopted cost allocation methodology. As noted in DOE/FEA’s Initial Brief, the

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<sup>6</sup> See MIEC Post-Hearing Brief at 5-6 (“Both the CP and the A&E cost allocation methods are in the mainstream and regularly used by utility commissions; either method was acceptable to Brubaker...”); See also MECG Initial Post-Hearing Brief at 48 (“Given the flaws inherent in both the KCPL and Staff approach, the Commission should choose either the DOE 4CP methodology or the MIEC A&E methodology.”)

<sup>7</sup> See KCP&L Post-Hearing Brief at 59-60 (“bill impacts, revenue stability, rate stability and public acceptance must be considered.”)

<sup>8</sup> See OPC Post hearing Brief at 38.

<sup>9</sup> See id at Table 1.

advantage of the 4CP method is its recognition that all electric utilities plan and construct generation and transmission plant, and purchase power, to meet peak demand.<sup>10</sup> The 4CP method also recognizes that KCP&L is summer-peaking; and because demand-related production and transmission costs are fixed costs, they are incurred regardless of electricity sales to customers.<sup>11</sup> System peak demands drive the need for production and transmission capacity; and it logically follows that customer contributions to system peaks should be the primary factor used to allocate fixed production and transmission costs to the customer classes.

## **II. Staff Arguments in Support of the BIP Method are not Compelling and Create Confusion.**

Staff argues that while parties have suggested that BIP is not commonly used among regulatory agencies, that in fact it is mentioned in NARUC's cost allocation manual and "is regularly used by the Commission in Texas."<sup>12</sup> As MIEC points out:

The fact that a particular method is noted in the NARUC Manual simply means that the individuals who prepared the NARUC Manual included it because it had been recommended by participants in one or more rate cases at or near the time the NARUC Manual was published – 1992. There are a number of allocation methods that are described in the NARUC Manual that are not commonly used and that have not found wide support in the industry.<sup>13</sup>

This clearly is the case with the BIP methodology as pointed out in DOE/FEA's Initial Brief.<sup>14</sup>

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<sup>10</sup> See DOE/FEA Initial Brief at 16.

<sup>11</sup> See *id.* at 17.

<sup>12</sup> See Staff's Post-hearing Brief at 67.

<sup>13</sup> See MIEC's Post-Hearing Brief at 6 (citing MIEC Ex. 854 at 4:15-21).

<sup>14</sup> See DOE/FEA Initial Brief at 16.

Furthermore, it is incorrect for Staff to state that the BIP methodology is regularly used by the Texas Public Utility Commission. It clearly is not.<sup>15</sup> The example of Texas's adoption of BIP in no way supports, and in fact argues against Commission adoption in this case. As Dr. Schmidt clarified at hearing:

Well, in Texas, as you probably know, it's an isolated system. They are not interconnected with the other states. They are a utility pool line of their own. So, consequently, the BIP method, to some extent, can be considered there because they are the traditional base, intermediate and peak type utility. They're not interconnected such as Kansas City Power & Light with the -- with the Southwest Power Pool.<sup>16</sup>

There simply is no commonality between the Texas municipal utility example posited by Staff—the sole example identified on the record in this case—and KCP&L, due to its participation in the SPP-IM.

Staff insinuates that other parties' reliance on the Company's CCOSS, while Staff conducted its own CCOSS, explains the differences in results between Staff's and the other parties' studies; and also that Staff's CCOSS will be the most accurate at the time the true-up completed.<sup>17</sup> These claims misconstrue the rate case process. It is common practice within the

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<sup>15</sup> In its Order on Rehearing in Southwestern Public Service Company's last litigated rate case, the Texas Public Utility Commission approved the Company's use of the AED-4CP cost allocation methodology. ("In this case, SPS reasonably allocated costs separately to the individual C&I classes using the AED-4CP allocation factors, and then it performed the class revenue increase distribution by calculating the class revenue targets based on that same approach...SPS's allocation approach is reasonable because it allocates costs more consistently with cost-causation principles than the method it used in prior cases." See Order on Rehearing, Case No. 43695 at ¶¶'s 332-334. (February 22, 2016)); See also, *Entergy Texas*, Order on Rehearing, Case No. 39896 at ¶¶'s 183-184 (Nov. 2, 2012). ("The Average and Excess (A&E) 4CP method for allocating capacity-related production costs, including reserve equalization payments, to the retail classes is a standard methodology and the most reasonable methodology... The A&E 4CP method for allocating transmission costs to the retail classes is standard and the most reasonable methodology.")

<sup>16</sup> See Transcript, Vol. 12 at 1096:7-18 (February 23, 2017).

<sup>17</sup> See Staff's Post-Hearing Brief at 67-69.

electric utility industry for state regulatory commissions to authorize revenue requirements or CCOSS' that materially differ from those proposed by utility applicants (e.g., in the case of revenue requirements, due to large differences in return on equity; and in the case of CCOSS' due to changes in the revenue requirement). Furthermore, KCP&L's compliance filing following the Commission's Order will afford all parties an opportunity to ensure that the tariffs proposed by the Company accurately reflect all of the Commission's decisions. These facts do not favor one proposal over another.

Staff asserts in its Initial Brief that its CCOSS method is the only one that "recognizes the disparity in capacity and fuel costs"; "best accounts for KCPL's participation in the SPP integrated market"; and is able to "most accurately allocate the capacity costs of plants."<sup>18</sup> Staff also suggests that MIEC witness Brubaker mischaracterizes its use of dollar-weighted capacity costs arguing that Staff does not separately allocate each type of plant, but rather "uses dollar weighted capacity costs to allocate the costs of all plants."<sup>19</sup>

To the extent Staff attempted to support these contentions on the record, and clarify its application of the BIP method, the record remains confused and unclear. Chairman Hall attempted to clarify Staff's position at hearing, but to no avail:

Q But you are or you're not characterizing the plants in those three categories?

A No. You -- I'm sorry. You divide the plants into those three categories to come up with those three types of average costs.

Q Okay. Does it make sense to divide plants up on that categories even though KCP&L has -- is now part of the integrated marketplace?

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<sup>18</sup> See Staff's Post-Hearing Brief at 66-67.

<sup>19</sup> See id at 67.

A It's better than the A&E.

Neither this interaction nor Staff's explanation of its application of BIP in testimony or in its Initial Brief clarify Staff's application of its own methodology. What is known about Staff's application of BIP in this case is that it allocates more production costs to relatively energy-intensive rate classes than even KCP&L's A&P methodology, which the Commission has already rejected, as MIEC states, "because it double counts class energy usage."<sup>20</sup> No amount of unsubstantiated praise by Staff for the BIP method, or obfuscation, can veil this fact.<sup>21</sup> Further, Staff's application of BIP in this case relies significantly on dispatch assumptions that do not comport with KCP&L's actual generating plant operations as a participant in the SPP-IM.<sup>22</sup> This application of BIP is misguided, as KCP&L's participation in the SPP-IM relieves it of any control over which of its plants get dispatched over which hours of the year.<sup>23</sup> Attempts to clarify Staff's application of BIP at hearing were unsuccessful and Staff's Initial Brief failed to address this confusion.

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<sup>20</sup> See MCEG Initial Post-hearing Brief at 48. See also DOE Initial Post –Hearing Brief at 21 (citing Report and Order, Docket ER-2014-0258 (*Ameren Missouri*) at 70-71 ¶6, April 29, 2015. Reviewing the Table at the top of page 48 of MCEG's Initial Post-Hearing Brief (and setting aside the final revenue requirement determination in this case), KCP&L's A&P method would increase the Residential and LPS class revenue allocations relative to other classes, i.e., those two classes would receive greater than the system average percentage increase granted in this case and all other classes would receive less than the system average percentage increase. Staff's BIP method creates a much worse result for the LPS rate class (which includes KCP&L's most energy intensive customers) because of the BIP method's extraordinary reliance on class energy usage to allocate KCP&L's production plant costs.

<sup>21</sup> MIEC characterizes Staff's application of the BIP method as unfair because it "allocates the expensive base load plants on the basis of class energy usage rather than at least some measure of demand." See MIEC Post-Hearing Brief at 7.

<sup>22</sup> See DOE/FEA Post-hearing Initial Brief at 13-14. ("First, to allocate production costs, Staff assumes that KCP&L uses the Missouri-allocated portion of all of KCP&L's generation facilities primarily to produce electricity for KCP&L's retail customers. In addition, to establish class revenue responsibilities for production cost and expenses, Staff relied on assumptions about the relationship between KCP&L's generation fleet characteristics and its load characteristics." Citing Staff Ex. 202 at 12-13).

<sup>23</sup> See *id.* at 26.



In the alternative, the 4CP cost allocation methodology offers a clear, well-regarded and transparent way to allocated demand-related production costs to the various customer classes. The 4CP cost allocation methodology allocates *all* production plant costs during the peak period, not just the costs of peaking plant. As such, an allocation based on 4CP picks up the cost of all of the production.<sup>24</sup> Further, the 4CP cost allocation methodology does not seek separate allocators for each type of production plant. Rather, it creates one allocator to allocate the total cost of Company-owned generation. It also properly emphasizes relative class contributions to KCP&L's summer peak demands in the allocation of those production plant costs. This method is superior to the proposed BIP and A&P methods and should be adopted by the Commission in this case.

### **III. Proposed Changes to Intra-class Cost Responsibilities Should be Studied and Scrutinized before Being Adopted.**

MIEC supports inter-class revenue allocation shifts in the LGS and LPS customer rate classes that would freeze the energy charge in the tail blocks of the LGS and LPS rates and to assign 75 percent of the classes' overall rate increase to the energy charge for the intermediate block.<sup>25</sup> MIEC acknowledges that this proposal would push additional costs onto those classes' remaining charges "above the classes' overall rate increase to compensate for the lower than average impact to the intermediate and tail block rates."<sup>26</sup>

MIEC reasons that this intra-class reallocation of cost responsibility is due to the current charges in those two blocks being very high relative to the variable costs of production.<sup>27</sup> But

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<sup>24</sup> See *id.* at 18 (citing DOE Ex. 502 at 7:13-16.)

<sup>25</sup> See MIEC Post-Hearing Brief at 4.

<sup>26</sup> *Id.*

<sup>27</sup> See *id.*

the Company did not submit any evidence onto the record in this case that supports the appropriate level of any intra-class shift, nor indicates that an intra-class shift within the LGS and LPS customer classes is appropriate at all. In fact, both KCP&L and Staff support an equal percentage increase to all customers within each rate class.<sup>28</sup> MIEC's proposal is based upon the adoption of an identical proposal in KCPL's last rate case before the Commission as a stipulated agreement – a proposal adopted without the benefit of record evidence.<sup>29</sup>

Rather than further pushing additional class costs onto relatively lower-usage customers within a customer class, DOE/FEA recommends adopting an equal percentage increase to each rate element, i.e., customer, demand and energy charge, for the LGS and LPS classes, as recommended by Staff and the Company, and revisiting the matter once the Company has examined the intra-class cost causation and rate design for these classes.

#### **IV. CONCLUSION**

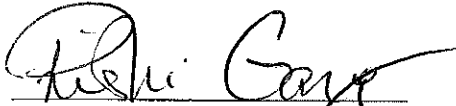
WHEREFORE, based upon the arguments contained herein, DOE/FEA respectfully requests that the Commission adopt the 4CP cost allocation methodology and gradualism proposal proposed by DOE/FEA, and adopt an equal percentage increase to all blocks in the LGS and LPS customer classes.

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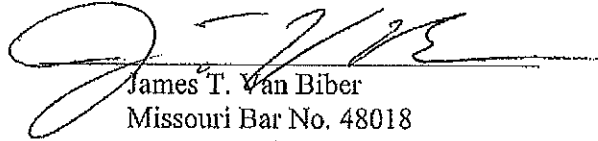
<sup>28</sup> See KCP&L Initial Post-Hearing Brief at 70. (“KCP&L believes there should be an across the board percentage increase to all rate elements, including the rates of the LGS and LPS class. The Commission should reject the proposals of MIEC to increase the LGS rates and LPS in the manner suggested by MIEC.”); See also Staff's Post-hearing Brief at 73 (“Staff has determined that all rate components should be increased by an equal percentage.”)

<sup>29</sup> See Non-Unanimous Stipulation and Agreement on Certain Issues, Docket No. ER-2014-0370 at 3, June 16, 2015.

Respectfully Submitted,



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#### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 4<sup>th</sup> day of April 2017, the foregoing Reply Brief was:

- (1) formally placed on the Commission's website via the Commission's Electronic Filing and Information System ("EFIS") in accordance with applicable procedure; and
- (2) served via electronic mail on all of the entities and individuals, and all of the legal representatives of all of the entities and individuals, including Commission Staff, whom the EFIS at this date identifies as parties or petitioners for intervention herein.



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