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Issues: Residential Rate Design; Time-Differentiated Rates; Advanced Metering Infrastructure; Greenwood Solar Facility
Witness: Martin Hyman
Sponsoring Party: Missouri Department of Economic Development – Division of Energy
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2016-0156

MISSOURI PUBLIC SERVICE COMMISSION

KCP&L GREATER MISSOURI OPERASTIONS COMPANY

CASE NO. ER-2016-0156

SURREBUTTAL TESTIMONY

OF

MARTIN R. HYMAN

ON

BEHALF OF

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DVISION OF ENERGY

Jefferson City, Missouri

September 2nd, 2016

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Martin R. Hyman. My business address is 301 West High Street, Suite 720,
4 PO Box 1766, Jefferson City, Missouri 65102.

5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Missouri Department of Economic Development – Division of
7 Energy (“DE”) as a Planner III.

8 **Q. Have you previously filed testimony in this case before the Missouri Public Service
9 Commission (“Commission”) on behalf of DE or any other party?**

10 A. Yes.

11 **II. PURPOSE AND SUMMARY OF TESTIMONY**

12 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

13 A. My testimony responds to Rebuttal Testimony on the following topics from certain
14 witnesses of KCP&L Greater Missouri Operations Company (“GMO” or “Company”),
15 the Commission Staff (“Staff”), and the Office of the Public Counsel (“OPC”):

16 1. Residential Rate Design: GMO witness Mr. Bradley D. Lutz;¹

17 2. Time-differentiated rates:

18 a. Staff witness Mr. Michael L. Stahlman;²

19 b. GMO witness Mr. Lutz;

¹ Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company’s Request for Authority to Implement A General Rate Increase for Electric Service*, Rebuttal Testimony of Bradley D. Lutz on Behalf of KCP&L Greater Missouri Operations Company, August 15, 2016.

² Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company’s Request for Authority to Implement A General Rate Increase for Electric Service*, Rebuttal Testimony of Michael L. Stahlman on Behalf of the Commission Staff Division, August 15, 2016.

1 3. Advanced metering infrastructure (“AMI”): OPC witness Mr. J. Richmond
2 Burdge;³ and,

3 4. Greenwood solar facility: OPC witness Mr. Donald Johnstone.⁴

4 **III. RESIDENTIAL RATE DESIGN**

5 **Q. How does Company witness Mr. Lutz respond to Staff’s residential customer charge**
6 **proposal?**

7 A. Mr. Lutz claims⁵ that the customer charge includes the types of costs identified by the
8 Commission in its Report and Order in Kansas City Power & Light Company’s
9 (“KCP&L”) recently concluded rate case (ER-2014-0370).⁶

10 **Q. Mr. Lutz disagrees with the recommendations of DE and Staff to move towards**
11 **flatter residential winter block rates.⁷ What are his objections?**

12 A. Mr. Lutz raises several objections, including:

13 1. Declining block rates recover “relatively fixed” costs in the first rate block, to the
14 extent they are not recovered in the customer charge.⁸

15 2. Declining block rates do not send an incorrect price signal.⁹

³ Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company’s Request for Authority to Implement A General Rate Increase for Electric Service*, Rebuttal Testimony of J. Richmond Burdge Submitted on Behalf of the Office of the Public Counsel, August 15, 2016.

⁴ Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company’s Request for Authority to Implement A General Rate Increase for Electric Service*, Prepared Rebuttal Testimony of Donald Johnstone on Behalf of the Office of the Public Counsel, August 15, 2016.

⁵ Lutz Rebuttal, page 12, lines 11-23.

⁶ Missouri Public Service Commission Case No. ER-2014-0370, *In the Matter of Kansas City Power & Light Company’s Request for Authority to Implement a General Rate Increase for Electric Service*, Report and Order, September 2, 2015, page 88, paragraph 205.

⁷ Lutz Rebuttal, page 15, lines 13-15.

⁸ *Ibid*, pages 13-14, lines 16-23 and 1-5.

⁹ *Ibid*, pages 14 and 15, lines 13-22 and 1-12.

1 3. Under inclining block rates, “Higher usage customers would subsidize lower use
2 customers.”¹⁰

3 **Q. Is it appropriate to recover all of the “fixed” costs of a utility in customer charges?**

4 A. No. Customer charges should only recover customer-related costs, i.e., those which are
5 directly incurred as a result of adding a new customer. The Commission recognized this
6 in its order in ER-2014-0370 when it rejected KCP&L’s request to recover local
7 distribution network-related costs through the residential customer charge.¹¹

8 **Q. Do costs unrelated to the customer charge have to be recovered in the first block of
9 a declining block rate?**

10 A. No. It is reasonable that use in every block be assessed a share of fixed costs because
11 facilities are sized in part to meet peak demand and energy use throughout the year.
12 Therefore, failure to recover capacity-related costs from all blocks of use inappropriately
13 shifts cost-recovery onto lower use customers. Customer charges serve the principle of
14 cost causation only inasmuch as they recover customer-related costs.

15 **Q. Does DE agree that inclining block rates send an “incorrect” price signal?**

16 A. No. A rate design which provides less incentive to conserve (e.g., a declining block rate)
17 provides an incorrect price signal. This is clear from the fact that higher amounts of use
18 are charged at a lower rate, encouraging additional consumption.

¹⁰ *Ibid*, page 14, lines 21-22.

¹¹ ER-2014-0370, Report and Order, page 89.

1 **Q. Please address Mr. Lutz's claim that higher use customers subsidize lower use**
2 **customers under inclining block rates.**

3 A. Mr. Lutz's claim mischaracterizes the nature of a "subsidy." So long as no customer pays
4 below marginal cost while another pays above marginal cost, there is no subsidy. Mr.
5 Lutz provides no substantial evidence to indicate that subsidization would occur under
6 inclining block rates.

7 If anything, the colloquial concept of a subsidy would apply to declining block rates.
8 Under declining block rates, higher use customer pay less as lower use customers pay
9 relatively more for each unit of energy, effectively reducing the cost of energy charged to
10 higher use customers. This is not an equitable result given that greater use incurs higher
11 costs to all customers as utilities invest more to meet increased demand; the result is also
12 inequitable considering that most lower income customers use less electricity.¹²

13 **Q. While Mr. Lutz, "... support[s] discussion concerning rate designs and finding**
14 **appropriate methods to structure our rates," he objects to focusing on inclining**
15 **block rates.¹³ How do you respond?**

16 A. As noted above, there are few reasons to conceptually object to an inclining block rate,
17 and the Commission itself has expressed interest in flatter or inclining block rate
18 designs.¹⁴ A working group would allow stakeholders to address the revenue adequacy

¹² See: U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services, Division of Energy Assistance. 2014. "LIHEAP Home Energy Notebook for Fiscal Year 2011." Appendix A, page 93, Table A-2. https://www.acf.hhs.gov/sites/default/files/ocs/fy2011_hen_final.pdf

¹³ Lutz Rebuttal, page 15, lines 21-23.

¹⁴ See, for example: Missouri Public Service Commission Case No. ER-2016-0023, *In the Matter of The Empire District Electric Company for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in The Company's Missouri Service Area*, Transcript of Proceedings, vol. 6, June 8, 2016 pages 190-193, lines 1-25, 1-25, 1-25, and 1-18.

1 and demand elasticity concerns expressed by Mr. Lutz¹⁵ with a thoughtful examination of
2 customer use as related to pricing. If, as Mr. Lutz states, time-of-use or real-time rates
3 could meet ratemaking objectives more appropriately,¹⁶ then the Company's proposal to
4 freeze its current time-differentiated rates¹⁷ without marketing or advertising them¹⁸
5 makes little sense. His citation of MEEIA programs as a means to address efficiency¹⁹
6 only confirms the need to appropriately design rates which provide the best efficiency-
7 inducing price signals.

8 **IV. TIME-DIFFERENTIATED RATES**

9 **Q. What is Staff witness Mr. Stahlman's position regarding the Company's time-**
10 **differentiated rate proposal?**

11 **A.** Mr. Stahlman states that GMO should be required to propose generally available time-of-
12 use rates in its next rate case, i.e., after the Company has collected one year of load
13 research data. He also states that, given that requirement, Staff would not oppose freezing
14 the Company's time-differentiated rates and eliminating GMO's optional time-of-use
15 rider.²⁰

¹⁵ Lutz Rebuttal, pages 16-17, lines 17-20 and 1-9, and pages 17-18, lines 18-20 and 1-5.

¹⁶ *Ibid*, page 18, lines 6-9

¹⁷ *Ibid*, page 28, line 19.

¹⁸ See Company response to Data Request DED-DE 203.

¹⁹ Lutz Rebuttal, page 18, lines 10-12.

²⁰ Stahlman Rebuttal, page 6, lines 9-19.

1 **Q. Does Company witness Mr. Lutz also address time-of-use rates in his Rebuttal**
2 **Testimony?**

3 A. Yes. Mr. Lutz repeats his recommendation to freeze the rates because of the lack of
4 participation, the fact that they are allegedly, "... not working as intended ...,"²¹ and the
5 need to understand the implications of new technologies with respect to a time-of-use
6 rate.²² He also notes similar requests which have been approved in the other jurisdictions
7 of Great Plains Energy Inc., GMO's parent company,²³ and that a time-of-use rate should
8 "complement" the company's Integrated Resource Plans and MEEIA programs.²⁴
9 However, he offers that GMO could study time-of-use rates in association with the
10 KCP&L study of these rates.²⁵

11 **Q. Does DE agree that the Company's time-differentiated rates should be frozen?**

12 A. No. As discussed in my Rebuttal Testimony, the Company should not be allowed to
13 freeze its time-differentiated rates; time-of-use rates require no AMI or sophisticated
14 billing systems, and the Company has not attempted to market its time-differentiated
15 rates. Instead, GMO should be required to market its current rates and propose any new
16 designs in the rate case following the completion of its study with the Electric Power
17 Research Institute.²⁶

²¹ Lutz Rebuttal, page 28, lines 19-21.

²² *Ibid*, page 29, lines 3-9.

²³ *Ibid*, pages 28-29, lines 21-23 and 1-2.

²⁴ *Ibid*, page 29, lines 9-11.

²⁵ *Ibid*, lines 13-15.

²⁶ Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service*, Rebuttal Testimony of Martin R. Hyman on Behalf of the Missouri Department of Economic Development – Division of Energy, August 15, 2016, pages 13-14, lines 17-20 and 1-16.

1 **V. ADVANCED METERING INFRASTRUCTURE**

2 **Q. What does OPC witness Mr. Burdge state with respect to AMI?**

3 A. Mr. Burdge indicates the necessity of AMI to facilitate time-of-use rates and demand-
4 response measures, but expresses concern about the potential for data adequacy
5 deterioration in the unlikely event of too many customers opting out of having AMI
6 meters.²⁷ He concludes with the statement that, “While it is unlikely that enough GMO
7 customers would participate in an opt-out program to have such an effect, the burden lies
8 with GMO to show that this is not the case.”²⁸

9 **Q. Would DE oppose an opt-out program for customers not wishing to have AMI**
10 **installed on their premises?**

11 A. No. However, such a rate should recover all costs associated with the opt-out from the
12 customers electing to opt-out. This would exclude instances in which the installation of
13 AMI is not possible for reasons other than customer choice, such as lack of access to
14 residents’ premises during business hours. However, the ability to opt-out of AMI
15 installation should be phased out as AMI penetration increases and opt-out requests
16 decrease.

²⁷ Burdge Rebuttal, page 4, lines 7-14.

²⁸ *Ibid*, lines 12-14.

1 **VI. GREENWOOD SOLAR FACILITY**

2 **Q. Does OPC witness Mr. Johnstone support rate recovery for the Greenwood solar**
3 **facility?**

4 A. No. Mr. Johnstone references OPC's appeal of the Commission's decision authorizing
5 the facility²⁹ and makes an allusion to, "... the perceived future need to offset coal fired
6 generation"³⁰ Similarly, in his Direct Testimony, OPC witness Mr. Charles R.
7 Hyneman noted OPC's appeal and claimed that the Company does not need the facility.³¹
8 Mr. Johnstone recommends that, if the cost of the facility is recovered in rates, recovery
9 should only be allowed based on the facility's fixed cost minus avoided energy costs,
10 with credit for the value of any renewable energy credits.³²

11 **Q. What is DE's position regarding cost recovery for the Greenwood solar facility?**

12 A. Without addressing detailed accounting-related questions, DE supports recovery by the
13 Company of all prudently incurred costs associated with the facility. DE does not agree
14 with disallowing all cost recovery from the facility because of OPC's appeal; the
15 Commission's decision on the facility³³ remains unchanged.

²⁹ Johnstone Rebuttal, page 10, lines 11-17.

³⁰ *Ibid*, page 11, lines 4-5.

³¹ Missouri Public Service Commission Case No. ER-2016-0156, *In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service*, Direct Testimony of Charles R. Hyneman Submitted on Behalf of the Office of the Public Counsel, July 15, 2016, page 31, lines 22-27.

³² Johnstone Rebuttal, page 11, lines 7-12.

³³ Missouri Public Service Commission Case No. EA 2015-0256, *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Permission and Approval of a Certificate of Public Convenience and Necessity Authorizing it to Construct, Install, Own, Operate, Maintain and Otherwise Control and Manage Solar Generation Facilities in Western Missouri*, Report and Order, March 2, 2016.

1 **Q. Does DE agree that the Company does not need the energy from the Greenwood**
2 **facility?**

3 A. No. As recognized by the Commission in its Report and Order in EA-2015-0256, the
4 facility will reduce emissions associated with electricity generation,³⁴ provide a learning
5 opportunity for GMO,³⁵ and address the increased customer desire for solar energy.³⁶ The
6 need for renewable energy resources will only become more pronounced as
7 environmental compliance mandates, such as the Clean Power Plan, are added or
8 strengthened.³⁷

9 **VII. CONCLUSIONS**

10 **Q. Please summarize your conclusions and the positions of DE.**

11 A. DE continues to recommend a transition towards flat and/or inclining residential block
12 rates, as well as the continuation of the Company's time-differentiated rates. DE does not
13 oppose the creation of an opt-out program for AMI installation using cost-based charges,
14 and supports the recovery of prudently incurred costs associated with the Greenwood
15 solar facility.

16 **Q. Does this conclude your Surrebuttal Testimony in this case?**

17 A. Yes.

³⁴ *Ibid*, page 14.

³⁵ *Ibid*.

³⁶ *Ibid*.

³⁷ *Ibid*.