Exhibit No.	
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Witness:	**Daniel C. Dennis**
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Sponsoring Party:	**Veolia Energy Kansas City Inc.**
Case No.	**HR-2011-0241**
Date Testimony Prepared:	**April 22, 2011**

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

DANIEL C. DENNIS

VEOLIA ENERGY KANSAS CITY, INC.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF DANIEL C. DENNIS
ON BEHALF OF VEOLIA ENERGY KANSAS CITY, INC.
CASE NO. HR-2011-0241

Q. Please state your name and business address.

A. My name is Daniel C. Dennis and my business address is Veolia Energy Kansas City, Inc., 115 Grand Boulevard, Kansas City, MO 64106.

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

A. I am employed by Veolia Energy North America, LLC, as Vice President & General Manager of Veolia Energy Kansas City, Inc., (referred to in this document as "Veolia" or the "Company").

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Bachelor of Science in Mechanical Engineering from the University of Missouri-Rolla in 1983. Furthermore, I am a registered Professional Engineer in the State of Missouri. I began my career as an engineer with Monsanto Chemical Company in Sauget, Illinois, where I served first as a project engineer and later in the operational management of the central power plant. From 1992 – 1997, I worked at Kaiser Aluminum and was in charge of operation of a large gas-fired combined heat and power plant serving an alumina refinery in Gramercy, LA. In 1997, I worked with Trigen-St. Louis Energy Corporation as VP & GM. In 2005, I went to Thermal Energy Corporation,

where I served as VP of Operations of the district energy system serving the Texas Medical Center. In 2010, I returned to Trigen-St. Louis Energy Corporation as VP & GM and eventually expanded my duties to include VP & GM of Veolia Energy Kansas City, Inc. and Veolia Energy Missouri, Inc. Veolia

Q. Have you ever testified before this Commission or any other regulatory commission?

A. No.

Q. Please summarize the purpose and content of your testimony.

A. The purpose of my testimony is to discuss the nature of Veolia's steam service in Kansas City, provide a history of the district steam heating business in Kansas City, present technical aspects of the system, describe characteristics of our customer base, discuss recent developments relating to the system, including the significant progress achieved despite challenges facing the system, and summarize the need for requested relief in the form of increased tariff revenue. I am also sponsoring the Company's minimum filing requirements ("MFRs").

MINIMUM FILING REQUIREMENTS

Q. How did Veolia satisfy the minimum filing requirements set forth in the Commission's rules for purposes of this case?

A. In order to address the specific requirements of 4 CSR 240-3.030, the following information associated with the filing of this case was prepared by me or under my direction and supervision:

A: Letter of transmittal (Schedule DCD -1)

B: General information, including:

1. the amount of dollars of the aggregate annual increase and the percentage of increase over current revenues which are proposed (Schedule DCD-2);
2. names of the counties and communities affected (Schedule DCD-1);
3. the number of customers to be affected in each general category of service and in all rate classifications (Schedule DCD-2);
4. the average change requested in dollars and percentage change from current rates for each general category of service and for all rate classifications (Schedule DCD-2);
5. the proposed annual aggregate change by general categories of service and by rate classification (Schedule DCD-2);
6. a summary of reasons for the proposed changes (Schedule DCD-3).

These MFRs are attached to this testimony as the schedules referenced above.

Q. Has a proof of revenue analysis been prepared by you or under your direction for purposes of quantifying the aggregate annual rate increase requested by the Company as well as the impact on each rate classification?

A. Yes. A proof of revenue analysis has been prepared which supports the amount and percentage rate increases set forth on Schedule DCD-2.

OVERVIEW OF VEOLIA'S RATE FILING

Q. Please summarize the rate relief sought by Veolia in this proceeding.

A. Veolia was last before this Commission in 2008 to seek a rate increase. Prior to that, Veolia had never sought a rate increase since the acquisition of the system in 1990. Despite the increases in fuel, operating and maintenance costs over those years, as well as changes to Veolia's plant and system, the increases in the Company's costs have far outpaced its increase in revenue over the same period. As evidenced by the calculated revenue deficiency (Schedule SCC-3 sponsored by Company witness Steven C. Carver) and the Class Cost of Service Study (CCOSS) based on the overall revenue requirement (Schedule JAH-3 sponsored by Company witness Joseph A. Herz), Veolia's revenue deficiencies are substantial for the services it provides. While Veolia understands that rate increases are not welcomed by customers, it is worthy to note that Veolia is only requesting rate relief on a portion of the deficiencies presented by these witnesses. Furthermore, we are proposing to better align our revenue deficiencies and rate changes within and across customer classes.

The Company has conservatively approached the quantification of overall revenue requirement in this proceeding and has employed a historical test year for the twelve months ended December 31, 2010, updated for significant known and measurable changes through mid-2011.

Q. Is Veolia seeking to recover its entire revenue deficiency by means of this rate case? If not, why?

A. The Company has not filed tariffs seeking to increase rates to cover the entire calculated revenue deficiency. Veolia's rate case filing supports a calculated revenue deficiency of about $3,692,253. Veolia is requesting, and the new tariffs filed by the Company would result in, a more modest rate increase of $1,379,210. Veolia believes it is prudent to limit the amount of the rate change we are imposing on our business customers through this rate proceeding for several reasons. First, at the time of the last rate increase, Veolia opted to recover an amount that was less than our actual revenue deficiency in hopes that maintaining a lower rate during the ensuing years would promote growth on the system resulting in additional economies of scale. While that has occurred to a certain degree, anticipated growth on the system has not materialized to fill the deficiency. Additionally, changes in the cost of operation to serve our customer base have increased since the last rate case. As before, we continue to believe that moderate increases allow customers to adapt to the new cost structures while providing an opportunity for Veolia to recover its required revenues for the business.

Second, we also identified a need to modernize our tariff structure and related billing determinants. During the last rate case, Veolia added two new rate classes and closed one of them to new customers. The Interruptible Heating Service (IHS) class was added and two Alternative Heating Source (AHS) classes (small and large) were eliminated. However, the IHS tariff was created to serve existing AHS customers and did not allow new customers to utilize this tariff. As part of the ongoing efforts to match up cost of service with the revenue recovery from the classes being served, we have continued this movement in this filing by increasing the capacity charge component of the IHS tariff while retaining the demand charge component or contribution to fixed charges in the other classes (Large Commercial Service and Standard Commercial Service). Included across all rate classes is an increase in the usage charge which reflects an increase in both fuel and variable operating costs.

Third, we continue to work on other strategies (e.g., efforts to reduce costs, add new customers, increase sales, etc.) that are expected to produce future benefits and further mitigate our need for rate relief. Rather than rely on our existing regulated customers as the first source of covering our earnings shortfall, it has been and continues to be our goal and objective to implement additional strategies before seeking additional rate relief beyond our pending filing. We have had success on these fronts in recent years. We are optimistic that continuing success with these pro-active measures will in itself serve to further reduce the earnings

shortfall of their own accord, and with reduced need for future regulated rate relief.

Unlike many other regulated services, Veoliamust compete with other available options for 100% of the heating service it provides to its customers. Veoliais therefore limiting its rate increase to moderate the impact on customers and maintain its customer base, ultimately to the benefit of all ratepayers. With all of our customers having other options for space heating supply, we want to do what we reasonably can to retain them.

We would point out, however, that Veolia may find it necessary in some future rate proceeding to seek recovery of its full revenue deficiency. However, any subsequent rate proceeding would be commenced with an eye towards maintaining a high level of customer value and provision of service that is competitive in the marketplace. Obviously, any future rate relief sought by Veolia would be based on a new test year.

Q. How is the Company proposing to implement this rate relief?

A. Veolia is proposing an increase in the usage charge across all rate classes as well as an increase in the demand charge to the IHS customers. Veolia is proposing to recover most of its overall revenue requirement through the usage charge component of the tariff rates. The usage charge component is driven primarily by fuel (i.e., coal and natural gas) and consumable (i.e., water, sewer, electricity, etc.)

costs necessary to produce a unit of steam, but also includes an element for the fixed cost of operation. These fuel and consumable costs have risen somewhat since our last rate case in 2008 and markedly since 1990. For that reason, most of the rate and revenue impact results from a proposed re-setting of the usage charge to reflect the updated reality of the cost to produce steam energy. Veolia further proposes to include a small portion of the fixed cost of operation into the commodity charge. The proposed rate structure will be discussed in further detail below.

Q. Prior to the filing of this rate case, did Veolia notify its customers that the Company would need to seek rate relief at some point in the future?

A. The Company's customers were notified of the rate case by letter on the date of the filing of this case.

VEOLIA'S BUSINESS OPERATIONS

Q. What is the nature of the business of Veolia Energy Kansas City, Inc.?

A. Veolia Energy Kansas City, Inc. owns and operates the district steam system located in the central business district of the City of Kansas City.. Steam, as well as some electricity, is produced at Veolia's Grand Avenue Station in a combined heat and power (cogeneration) process. The combined heat and power process is especially well-suited for providing heating energy from a fossil-fuel efficiency standpoint. Most of the electricity is used to power equipment within the plant with a small portion sold back to KCP&L.

Veolia distributes steam through a network of approximately 6.5 miles of pipe buried in the streets of Kansas City. At the present time, Veolia delivers and sells that steam to approximately 54 retail customers, principally for space heating purposes, within the downtown loop. The steam is also used by Veolia's customers to humidify buildings, heat domestic water and, to a lesser extent, in food service applications. Veolia's retail customers include commercial and governmental office buildings, hotels and owners/managers of multi-unit residential buildings. Included among these customers paying tariff rates for steam service is Veolia Energy Missouri, Inc. (hereafter, "Veolia-Missouri" or "Veolia-MO"), the Company's unregulated affiliate that utilizes steam for the production of chilling service in downtown Kansas City.

Steam is also sold to two relatively large industrial process steam users with physical locations outside of the downtown loop. One is located in North Kansas City and the other within the City of Kansas City. Steam is metered and sold to these industrial process customers inside Veolia's plant, and is purchased by each customer (i.e., metered) before it leaves Veolia's plant premises. Steam purchased by these customers is routed through separate, dedicated pipelines serving only those customers. All steam to these users is supplied under the terms of negotiated contracts between each customer and Veolia. The process steam customers are discussed in greater detail later in my testimony.

Q. Please describe Veolia's steam heating business in downtown Kansas City.

A. As indicated previously, Veolia's service territory is largely confined to the downtown loop or central business district of Kansas City, MO. Stated another way, Veolia's services are available in the area roughly defined as being within the I-35/I-70/I-670 highway loop; plus the River Market district; plus a four-block wide extension from the southeast edge of the loop to the "Hospital Hill" area. This latter area was appended to Veolia's service territory in 2006 pursuant to this Commission's ruling in Case No. HA-2006-0294.

Veolia's territory is 100% overlapped by both Missouri Gas Energy ("MGE") and Kansas City Power & Light ("KCPL"). The Company's service also competes with customer self-production of heating energy using one or the other of these utilities' services. Veolia itself happens to be a significant customer of both of these utilities. The converse is not true, however, save for the small amount of excess co-generated electricity that KCPL purchases from Veolia.

Veolia's steam production plant is located in the River Market district at 115 Grand Boulevard. Bituminous coal from seams in the Missouri/Kansas and Illinois Basin regions is the primary fuel source, and natural gas is the secondary fuel source. Steam production capacity at the Grand Avenue Station is greater than 1.2 million lbs/hour, and is delivered from the four boilers on site. Roughly half of this capacity is capable of being fueled by coal. Given equipment

redundancy, the reliability of Veolia's steam service has been historically extremely high.

Q. With regard to Veolia's regulated steam heating operations, please describe the Company's current mix of customers and general load characteristics.

A. Veolia's regulated customer base is a mix of commercial office, government/institutional facilities, hospitality, and event venue customers that are served according to tariff rates. Although Veolia's commercial customers also include owners/managers of multi-unit residential buildings, the Company does not provide steam service directly to any residential customers.

In most cases, tariff customers use steam service primarily for space heating. Tariff customers in general experience their greatest steam demand and usage in the winter months.

Within the tariff customer base, variations in load characteristics exist. Some buildings, such as event spaces or conference centers, are at one extreme, in that they tend to have relatively high peak demands relative to overall energy usage. Others have multiple uses for steam in addition to space heating. As such, their energy usage is spread more evenly throughout the year, as well as around the clock.

Q. Is Veolia also engaged in district cooling efforts?

A. No. However, Veolia's affiliate, Veolia-Missouri, provides chilling service to a number of buildings in downtown Kansas City.

Q. What is the nature of the business relationship between Veolia and Veolia-Missouri?

A. Veolia's relationship to Veolia-MO is essentially that of a lessor-lessee and vendor-customer relationship. Veolia-MO owns four chilling compressor units located at Veolia's Grand Avenue Station. Veolia-MO also operates five chillers at the Bartle Hall Convention Center Complex. Two chilling distribution loops, termed the east loop and the west loop, are routed in the public rights-of-way. These originate at the respective production sites and are also owned by Veolia-MO.

Because the east loop chillers occupy plant space at Veolia's Grand Avenue Station, Veolia collects a lease payment from Veolia-MO keyed to the space requirements used at Grand Avenue. Further, Veolia-MO shares employees with Veolia. Timekeeping records are kept to allocate personnel costs between the companies. Operating and maintenance costs associated with running the Veolia-MO equipment are directly charged to Veolia-MO. Finally, Veolia sells steam to Veolia-MO for motive power to run the chilling equipment at full tariff rates. The specifics of cost allocation to maintain the separation of these separate business entities can be found in Veolia's Cost Allocation Manual, which is submitted annually to the Commission.

Q. Do any synergies exist between Veolia and Veolia-MO that would inure to the benefit of Veolia's customers?

A. As a winter-peaking utility, Veolia benefits from the improvement in load factor presented by Veolia-MO's complementary steam consumption, which takes place largely in the summer. Similar to the salutary effect that the process customers offer to the Veolia system and existing customers in terms of off-season, off-peak load, Veolia-MO also helps to flatten Veolia's steam load, while not imposing significant sustained additional peak demand requirements on steam plant assets in the high (winter) season. While the steam-driven chilling machines are in fact used to some extent in the winter, the nature of chilling load requirements in the winter months generally has an inverse relationship to heating (that is, steam demand) needs. Therefore, deployment of these steam machines is subject to greatly reduced use, and a high level of steam plant flexibility. For example, non-peak heating times and periods of warm, mild winter weather is generally the only time this chilling equipment sees use during the heating season. Operation of steam-driven chilling equipment in the non-cooling (winter) season is furthermore highly controllable by operators who ensure that chilling machines do not operate coincident with times of high space heating steam demand, rendering the effect of winter chilling steam demand inconsequential. Moderate customer chilling demand and the operating characteristics of Veolia-MO's chillers ensure that steam capacity for space heating customers, is not unduly affected by Veolia-MO's requirements.

GENERAL RATE STRUCTURE

Q. Are you sponsoring the rate structure proposed by Veolia?

A. Yes.

Q. How does the Company's existing rate structure compare to the structure of the rates proposed in this rate case?

A. Veolia has endeavored to keep the new rate structure similar to the old rate structure. The only material changes are associated with the percentage increases in the usage charge of the rates for all rate classes and the demand charge for the IHS customers as shown in Schedule DCD-2. We have slightly modified the language in the LCS rate qualification language to allow customers to remain qualified for LCS service in the event that there is a single year reduction in their consumption that would otherwise disqualify their eligibility to receive service under the LCS tariff. We have included similar language in the SCS tariff. Additionally, we have included clarifying language should a request arise from an existing, former or potential customer seeking emergency steam service on a short term basis.

Q. You previously indicated that Veolia is proposing to recover most of the revenue requirement through a usage, or volumetric charge component, which is closely related to the variable cost of generating each unit of steam. Explain the reasoning behind this statement.

A. Veolia currently charges a flat commodity rate (usage charge) $6.52 per thousand pounds (hereinafter “mlb” or “MLB”) of steam sold to district customers. This commodity (termed an “energy charge” or “usage charge” in the existing tariffs) charge has remained fixed since 2008 and has not changed nor been adjusted for general inflation, changes in fuel and consumable costs, or for any other reason, consistent with Commission rules.

Under both existing and proposed rates, this component of the Company’s tariffs was and is intended to recover the variable cost of commodities in the form of fuel (chiefly coal, natural gas and electricity), and consumables (mainly water, sewer charges, and water treatment chemicals) necessary to produce a unit of thermal energy for delivery to the customer as well as a portion of the other cost of operation that varies with increasing or decreasing loads, otherwise known as variable operation and maintenance costs (variable O&M). An example of a variable non-consumable cost is maintenance requirements on a coal mill. Although it is often considered a fixed cost, the wear on a coal mill, and hence a portion of the maintenance cost, will vary with the amount of coal that it must process.

Since our last rate case in 2008, we have experienced an increase in the unit cost of most of our key cost elements. Veolia has seen the price of coal increase by more than 10% since 2008. The story is similar for the other variable costs that Veolia incurs to produce steam. Veolia’s delivered costs for water and water

treatment, purchased electricity and sewer service have all increased. As an example, even a small increase of 3.5% annually results in an increase of more than 10% over a three-year period, which is the amount of time elapsed since our last rate case. Veolia's proposed usage charge reflects the cumulative effect of these cost increases.

Q. Please describe the usage charge component of the proposed rates?

A. Veolia has proposed a usage charge of $8.41 for each unit of steam sold to tariff district heating customers – a rate that covers the variable fuel and consumable costs and the variable O&M costs.. To be clear, $8.41 represents the cost of energy, consumables, and the estimated variable O&M necessary to produce one mlb of steam. This amount does not cover any fixed cost of labor, maintenance, other overhead costs or provide any return on our plant investment. The usage charge is a per-mlb charge that is billed to all customers. It appears as a separate charge under the LCS and IHS tariff, and it is incorporated into a volumetric structure as a component of the SCS tariff steam charges.

Q. Please explain this distinction between how the higher usage charge will be reflected in the overall rate structure?

A. All classes of customer would pay the usage charge of $8.41 for each mlb consumed. Customers receiving service under the LCS and IHS tariffs (described below) see this directly as a line item on their bill. Customers receiving service under the SCS tariff also pay $8.41 per mlb consumed, but this usage charge

component is integrated with the customer's contribution to fixed charge recovery. The integrated volumetric charge is known as the "steam charge". The monthly bill for a SCS customer is made up of this steam charge and a monthly meter charge. The rate structures are discussed in greater detail in the Rate Design section of this testimony.

Q. Are you proposing any other changes to the tariffs, specifically changes that are not directly related to the rates charged, and if so, describe the proposed changes?

A. There are only two proposed changes to the tariffs that are not directly related to the change in rates. The first change is a clarification and relates to a customer's minimum annual steam consumption needed to qualify for the Large Commercial Service (LCS) rate class. Whereas the tariff previously stated that a customer's minimum consumption required to qualify for LCS was 5,000 mlbs. of steam, it did not specify the time period for establishing that usage. We have added language to allow a customer to use either the immediately preceding twelve month time period from April 1 to March 31 or the prior year's April 1 to March 31 period. In essence, this will allow a customer to establish a volume to qualify over either of the last two years. We have made this change to allow for year-to-year variation in customer load. A similar change is proposed for the Standard Commercial Service (SCS) tariff for the very same reasons. The second clarifying change pertains to the Minimum Term of the Standard Customer Service tariff. This change will allow customers requiring service to sign up under this tariff for less than one year in the event of an emergency.

RATE DESIGN

Q. Please list the rates that Veolia makes available to its customers.

A. Veolia offers three rates to eligible tariff customers. They are the Large Commercial Service (LCS), the Standard Commercial Service (SCS), and the Interruptible Heating Service (IHS).

Q. Please describe the LCS tariff.

A. For the larger customers, defined as those customers taking greater than 5,000 mlb on average in a calendar year, we meter and record hourly demand data, which is used to determine each LCS tariff customer's peak hour demand charge. This peak-hour based demand charge is billed in equal monthly installments over the course of the year. The demand charge component is used to set the fixed rate component. The demand charge installment, in addition to the usage charge applied to metered steam volumes, and the meter charge, are included in each LCS customer's monthly bill.

It should be pointed out that the demand meters are, generally speaking, best-suited to those customers with relatively larger overall steam requirements. By extension, these customers are the ones to whom a demand-based rate applies. For some customers with usage patterns below a certain volume, installation and proper registration of demand meters can be impractical or perhaps impossible.

In other cases, it may be technically possible, but economically unattractive due to installation cost, relative to steam volumes.

Further in support of the demarcation for the availability of demand meters, and therefore demand-based rates, is the possibility that demand exerted by larger users may materially affect Veolia's capacity to deliver steam. A corollary is that if these larger customers were to more proactively and effectively manage demand, the customer's impact on the Veolia system would be moderated and such effect would be reflected on the customer's steam bill.

As set forth above, in many cases, demand-registering steam flow meters are either impractical or not economically justified, so drum (condensate) meters remain in service for many customers. These devices cannot be economically refitted to measure a customer's true steam demand and work best as an accurate metering device for registering volumetric usage.

The fixed portion of the LCS rate is a function of steam demand. It follows that these generally larger customers that have demand meters in place (or are capable of having them fitted) have their fixed rate portion keyed to steam demand.

Q. Please describe the SCS tariff.

A. The mechanism for the balance of the customers not currently receiving service under the LCS or under the Interruptible Heating Service (IHS) tariff is to receive

steam under the Standard Commercial Service tariff. As pointed out above, these customers are not fitted with meters that register demand, and utilize only a condensate (drum) meter(s). Therefore, SCS customer contribution to fixed cost recovery is not keyed to steam demand. Rather, Veolia's existing and proposed SCS tariff rate enables recovery of costs related to steam capacity through a volumetric steam charge.

An advantage of this structure is that it ties these smaller customers' bills more closely in time to that period when actual units of steam are used. We believe this more simplified system has been attractive to our smaller customers since its introduction in the last rate case, as they receive a bill with charges assessed closer in time and magnitude to the actual usage than existed under our old rate structure. For all classes of customers, Veolia is also proposing that the applicable meter and/or customer charges continue to be assessed to accounts on a monthly basis.

Q. Please explain the "Interruptible Heating Service" (IHS) tariff and the changes proposed to this customer class.

A. Previously, Veolia had tariffs known as the Alternate Heating Source, or AHS, tariffs, which essentially offered a steep base usage charge discount to customers that maintained a boiler in standby condition. While the historical purpose for this rate is not known for certain, it was most likely instituted as a means to attract and retain customers for the Veolia system that had already invested capital in

their own boiler system and could not economically switch to district steam without consideration for their capital investment. In the last rate case, the AHS tariffs were discontinued and customers were migrated to the IHS tariff.

The IHS rate, while continuing to offer customer cost advantages relative to the SCS and LCS rates, requires electing and qualifying customers to, in turn, provide a benefit back to the overall steam system and customer base. This benefit is in the form of the availability of system demand relief afforded by the qualifying customer, in the event of capacity constraints experienced by Veolia., The IHS customer is required to have fully operable boilers. Despite a rate increase implemented during the last rate case, this class of customers has continued to enjoy a steeply discounted rate for steam, as evidenced by the CCOSS. Veolia proposes to increase the IHS capacity charge as well as the usage charge that is applied to all customers. This increase is being implemented as a direct result of the CCOSS which identified a substantial deficiency between the revenue requirement of and the revenues recovered from this customer class relative to the SCS and LCS classes.

Notwithstanding any lack of eligibility for IHS service, Veolia believes its proposed rate tariffs, whether Standard Commercial Service (SCS) or Large Commercial Service (LCS) as the case may be, will be sufficiently attractive to retain similarly-situated district heating customers.

INDUSTRIAL PROCESS STEAM & RETAIL TARIFF CUSTOMERS

Q. Besides commercial building customers located in the downtown district that purchase steam service primarily for space heating and related uses, Veolia also serves industrial process customers with significantly different uses for the steam. Which customers are these?

A. National Starch and Chemical Co. ("NSCC") and Cargill, Inc. each operate industrial processing plants that make significant use of Veolia steam for their respective purposes. At present, the two are the largest consumers of Veolia's steam for their respective processes. NSCC has been a customer since the mid-1970's, and Cargill has been a customer since mid-2006.

Q. Could you explain the distinction between industrial process steam customers and district heating customers?

A. Yes. The process customers utilize Veolia's steam to produce an agricultural end-product, for example corn starch in the case of NSCC and soybean oil or biodiesel in the case of Cargill, rather than for space heating. In that sense, consumption is dictated by process requirements. This is in contrast to tariff-based space heating loads which, generally speaking, tend to be driven by ambient weather conditions, and the resulting need to heat the occupied spaces of buildings.

The nature of these agricultural product processes is such that steam is generally used around the clock virtually 365 days per year, at relatively large volumes, with more or less steady loading characteristics. With some notable exceptions,

district tariff customers use steam predominantly during business hours in the winter season, with off-season and nighttime usage trailing off considerably. The primary exception to this would be tariff steam sold to Veolia's affiliate (Veolia-Missouri) as an energy source to drive chilling compressors. As explained earlier in my testimony, chilling service demand is naturally highest in the summer when air conditioning demand is at its peak. Among other tariff customers, hospitals, hotels and residential buildings have nighttime usage and some level of off-season usage for some miscellaneous purposes such as domestic hot water heating, laundry, sterilization or, in some cases, for their own chilling equipment.

Q. Explain the key differences in terms of delivery of service between process and district (tariff) customers.

A. Tariff customers are physically located and use steam within Veolia's certificated service territory. All steam is provided to these customers according to tariff rates, rules and regulations approved by this Commission. As noted previously, tariff customers predominantly use steam for space heating purposes. Process steam customers, on the other hand, use the steam for a quite different purpose, as described above.

From Veolia's perspective, these two process customers, while employing very different processes that use the steam internally, are very similar in that they both take steam in comparable quantities and conditions. The steady steam consumption and load factor advantages imparted to Veolia's system for decades

by NSCC have been compounded by the addition of Cargill. As Messrs. Carver and Herz will establish elsewhere, Veolia's tariff customers are helped by the contribution to fixed cost recovery by the process steam customers.

Further, it is important to note that these process steam customers are not connected to Veolia's steam distribution network. Veolia's steam distribution system originates at Grand Avenue Station. Steam is delivered to a piping network that resides underneath public downtown rights-of-way, serving Veolia's tariff customers. The process steam customers purchase and take delivery of their steam directly from Veolia's Grand Avenue production facilities, according to terms and conditions arrived at through bilateral agreement between the parties.

Referring again to these customers not being connected to Veolia's steam distribution network, an important aspect of process steam sales is that such steam is metered and purchased inside Veolia's Grand Avenue Station. This means that the process steam customers bear the risk of line losses associated with delivery of steam to their premises, unlike the retail tariff steam customers. The process customers also enter into long term agreements (upwards of ten to twenty years) that include fuel-related charges indexed by some means to Veolia's actual cost of fuel. At present, features such as these are unavailable to tariff customers.

Q. Earlier, you discussed the Company's provision of steam service to retail tariff customers and to industrial steam customers. How do the general load

characteristics of Veolia's industrial process steam customers compare to its mix of retail steam customers?

A. These customers consume large quantities of steam virtually around the clock, 365 days a year. The process steam users are Veolia's largest in terms of steam consumed by a significant margin. In 2010, the two process steam customers purchased more steam than all tariff customers combined, by a significant margin.

Q. How have the process steam sales been treated for ratemaking purposes in this case?

A. Veolia has taken the "revenue crediting" approach with regard to the process steam customers. That is to say that the margins generated under the process steam service contracts have been recognized in quantifying overall revenue requirement for purposes of this rate filing. In our financial modeling for this case, we have anticipated that both contracts will generate positive margins, thereby reducing our overall revenue requirement. However, if the process steam contracts were to cost more to perform than the fees they generate, the Company would not seek recovery of any resulting deficiency through our proposed retail revenue requirement. Instead of the revenue crediting approach, another alternative could have been used to remove the margins and allocate/ assign costs to the industrial process steam customers. Because of the complexity of this process, the Company elected to continue the revenue crediting methodology proposed in the last rate case in an attempt to further simplify this case and

provide the regulated ratepayers with equitable treatment. Mr. Steven Carver of Utilitech will speak to this issue in greater detail.

Q. Does the presence of the process customers impart any positive effect upon Veolia, and how do Veolia's tariff customers benefit from Veolia's service to the process customers?

A. The presence of the process customers relative to the provision of steam heating service to the tariff-based district customers is wholly beneficial. Without the steady, year-round requirements of the process loads, Veolia would not have the steam loading necessary to support consistent coal combustion, forcing primary use of higher-cost fuel much of the time and/or idling of coal capacity for as many as eight months out of each year, due to the seasonal (winter) nature of the district customers' usage. In other words, the presence of the process customers provides a relatively constant base-load demand, enabling Grand Avenue Station to operate in a more efficient load range and lower unit cost-of-production mode over the entire year.

The presence of the process customers further serves to spread the fixed costs associated with owning, operating and maintaining power plant assets. As this Commission is aware, the energy utility business is capital and labor-intensive. This reality manifests itself in terms of a utility's fixed cost. The greater the number and larger the size of customers that can be connected to the system

inures to the benefit of all customers by reducing each customer's share of fixed costs, thereby mitigating rate impact on existing tariff customers.

FINANCIAL STATUS AND PROSPECTS FOR THE FUTURE

Q. Describe Veolia's progress to date and plans to improve its financial situation.

A. Since the last rate case in 2008, Veolia has seen the addition of Truman Medical Center, an expansion at Cargill and the return of the Federal Bolling Building as a steam customer. The changes have resulted in a commensurate rise in revenues and margins. This organic growth is the primary element of Veolia's nascent turnaround.

Also significant to Veolia's improvement plan is this rate case itself. Having held rates (i.e., tariff rates and depreciation rates) unchanged for the last three years and having taken only partial rate relief over the previous 18 years, the Company has found itself earning far less than its revenue requirement.

This further emphasizes the critical importance of the strong sales growth of the past several years. Through the successful efforts to attract these substantial customers, Veolia has greatly mitigated potential rate increases for existing tariff customers. By adding these loads and associated revenues, Veolia has been and will continue to be able to spread its fixed costs over a broader base of customers, and continue to achieve fuel efficiencies by operating Grand Avenue at higher load levels. In sum, Veolia has worked hard to provide value, without the

recurring annual need for regulatory relief. One could say that Veolia has grown out of much of its earnings difficulties, largely through its own efforts. Both Veolia and its existing, long-time steam tariff customers benefit from these successful efforts to reduce the revenue deficiency.

Q. You mentioned increasing steam loads that included adding Cargill as a process steam customer as well as the new Truman Medical Center. Please describe how you have addressed the steam capacity situation at Grand Avenue, before and after the addition of these significant new customer loads.

A. It is true that Veolia is producing and selling steam in far greater physical volumes than ever recorded in Veolia's 21 year history. Steam sales (physical volumes) in 2010 are more than double those of 2005, which were roughly comparable to the flat-to-declining annual sales volumes experienced the prior fifteen years. This, therefore, raises the valid question of adequacy of steam capacity going forward.

Even in light of the strong growth achieved in the recent years, Veolia's installed capacity is more than ample to serve the new loads, while maintaining consistent and reliable service to Veolia's longstanding customer base. Veolia maintains more than 1,250,000 pounds per hour ("lb/hr") steam capacity at Grand Avenue Station. On a system peak load day following addition of the new customer loads, we have not experienced a total system demand exceeding 500,000 lb/hr steam production. On the distribution side, Veolia benefits from an extensive network

of steam pipes that are sized, operated and maintained to ensure steam is reliably delivered to customers at specified temperatures and pressures.

Nevertheless, with an eye toward the future and the long planning cycles required by utilities, Veolia introduced an interruptible rate (described above) in our previous rate case. This rate allows us to call on our customers to assist Veolia in shaving peaks or otherwise reduce steam demand to achieve overall system savings, should it become necessary. To date, we have never had to call on these customers to reduce load. Nonetheless, implementation of this rate schedule allows for integration of a valuable feature that exists in some buildings, into a system-wide benefit, in return for rate treatment that recognizes this benefit.

Q. What other positive factors do you anticipate which may affect the business in the near future?

A. Growing customer awareness of the environmental impact of their energy supply choices is generally favorable for Veolia. Veolia utilizes combined heat and power, perhaps the most resource-efficient means to make use of fossil fuel, particularly in the realm of space heating and process thermal requirements.

Recognition of the superior environmental benefits of combined heat and power is real and growing. The US DOE, for example, encourages and promotes utilization of combined heat and power. Veolia believes that growing awareness of the need for conservation will raise the public's awareness and help drive the

expanded deployment of combined heat and power technology, and encourage customers to choose Veolia.

With much of the current focus on demand-side (i.e., customer-driven) efficiency gains, such as use of compact fluorescent lights and other consumer-side energy savings measures, it is interesting to note that cogeneration as practiced by Veolia is a very powerful and significant *supply-side* driver of efficiency. In large part, by virtue of heating production through fossil-fuel cogeneration, Veolia has accomplished a great deal of energy-conversion savings before the energy is even delivered to the customer. We believe that Veolia's inherently fuel-efficient process makes it a wise alternative, and recognition of this fact will grow over time.

Q Despite the favorable trends in the business at present, what are the challenges that Veolia faces going forward?

A. Veolia acknowledges that it is a very small niche player, relative to its competitors, and that we lack the scale and resources these other participants wield. Even though regulated by this Commission, each and every one of Veolia's customers has a competing option for space heating. Recognition that every customer has a choice motivates Veolia to provide the best value for our customers' energy dollars. Our success in essentially doubling the size of the business in only a few years, in the face of intense and highly resourceful

competition, would seem to indicate some measure of success in getting this message across.

Given the nature of competition, Veolia's story of the past several years is not marked only by successes. Veolia by no means is able to connect every customer it pursues, and does experience some customer turn-over. Depending upon the attractiveness of deals, incentives or terms offered to prospective and/or existing steam customers by our competitors, Veolia will in some instances be unsuccessful in adding new customer loads, and/or retaining existing ones. Generally speaking, though, Veolia has been able to hold its own and, for the most part, sustain the advantage against its rivals, by demonstrating superior value for provision of space heating service to building owners and managers in downtown Kansas City.

Many challenges remain, and not all are external. Although Veolia will benefit from the expanded customer base in covering system fixed costs, maintenance of the boilers, turbines, balance of plant and distribution assets will continue, requiring ongoing capital investment and upkeep. While not yet fully defined, the EPA's Boiler Maximum Achievable Control Technology (MACT) rules may require Veolia to make significant new investment in major energy production equipment.

FUEL & CONSUMABLES

Q. Are you aware that Veolia's overall revenue requirement includes adjustments that annualize fuel and consumable expense?

A. Yes. Mr. Carver and I have worked closely together in order to develop a reasonably straightforward method to annualize fuel and consumable expense.

Q. Did you provide historical information that was used in the annualization of fuel expense?

A. Yes. I provided Mr. Carver with statistical data regarding historical fuel mix, unit efficiency and line loss. Based on this data, we developed a quantification methodology that considers the key elements of our operations and reflects attainable efficiencies with our expanded steam load.

Q. Did you also provide Mr. Carver with information to support recent delivered costs for coal and gas?

A. Yes. Veolia has not based its fuel annualization on forecast or estimated fuel costs. Instead, we annualized fuel expense based on actual 2011 prices for gas and our currently contracted delivered price for coal.

Q. Is Veolia proposing any type of fuel clause or fuel tracking mechanism be implemented for the Company's retail tariff customers?

A. No. While Veolia's cost for fuel can be somewhat volatile and tends to increase over time, we do not propose to institute a fuel adjustment mechanism in its tariff

rates. However, following implementation of new rates resulting from this proceeding, Veolia may in a future rate proceeding consider a proposal for a fuel tracking or fuel adjustment mechanism.

OTHER MATTERS

Q. Did the Company experience any recent events or transactions that had a unique impact on the revenues or expenses recorded during the 2010 test year?

A. Yes. There were three such events or transactions that impacted operating results in 2010. First, the Company received a request from a former customer that had previously left the steam system in for emergency steam service. Second, a natural gas billing dispute arose between the Company and Missouri Gas Energy ("MGE") in 2010, which continues to negatively impact the fuel expense in 2010. Third, the Company recorded a series of charges to operating expense arising from a past agreement to sell fly ash to a third party for use as fill material for construction of a parking lot. In 2010, the Company recorded a series of charges to operating expense after receiving a notice of violation from the Kansas Department of Health and Environment with regard to this transaction.

Q. Please summarize the circumstances that resulted in the emergency service request from a former customer.

A. The GSA operates the Federal Bolling Building in downtown Kansas City. The building had previously been on the steam loop, but chose to leave the system and generate their own steam by installing electric boilers. In 2010, their boilers

failed catastrophically and were irreparable. They came to us and negotiated in good faith for us to provide service while they decided on their future course of action. We were able to quickly restore service because the piping had been left intact from the time they were previously a customer of Veolia.

Q. Under what tariff did the Company provide emergency steam service to the Bolling Building?

A. The building was brought on under our SCS tariff.

Q. What is the current status of the Company's business relationship with this customer?

A. In 2011, the Company installed a permanent meter and steam connection to the customer and we are in the process of entering into a steam service agreement with the customer under the LCS tariff. For purposes of the 2010 test year, Company witness Carver has quantified an adjustment annualizing a full year of LCS revenues and removing actual SCS sales to this customer.

Q. Please describe the circumstances of the natural gas billing dispute with MGE.

A. Veolia receives natural gas service from MGE. In July 2008, MGE claims that they had an issue with their gas meter that resulted in an under-billing of natural gas service to Veolia. They are seeking payment of the purported under-billing for a 5-year period.

Q. Has the Company actually made any payments to MGE as a result of this dispute?

A. Yes. In order to avoid a shutoff of natural gas service, we have been making payments.

Q. Without disclosing any privileged information, please generally describe the current status of this dispute.

A. We have filed suit in Jackson County court to recover amounts we have had to pay as well as for damages we have incurred on contracts and lost revenues that we could have recovered if we had known we were incurring such charges.

Q. How have the costs incurred by the Company associated with this dispute been reflected in the 2010 rate filing?

A. None of the costs associated with this dispute have been reflected in the 2010 rate filing.

Q. Please provide an overview of the fly ash transaction.

A. The firm that trucks our ash from our site approached us several years ago with an offer to take our ash to use as fill material on his property to make a parking lot. He claimed to have the appropriate permits to do so. Now the Kansas Department of Health and Environment has made a claim that the site must be remediated. We are currently in negotiations with KDHE on this matter.

Q. Did the Company have any reason to believe that this transaction would result in any exposure to environmental claims or financial consequences?

A. No.

Q. How have these costs associated with this matter been reflected in the 2010 rate filing?

A. None of these costs have been included in the rate filing.

Q. Does this conclude your direct testimony?

A. Yes.