

STATE OF MISSOURI
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

IN THE MATTER OF KANSAS CITY)
POWER & LIGHT COMPANY'S)
REQUEST FOR AUTHORITY TO) CASE NO. ER-2012-0174
IMPLEMENT A GENERAL RATE)
INCREASE FOR ELECTRIC SERVICE)

SURREBUTTAL TESTIMONY

OF

DWIGHT D. ETHERIDGE

ON BEHALF OF THE

UNITED STATES DEPARTMENT OF ENERGY

OCTOBER 8, 2012

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044

STATE OF MISSOURI
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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INTRODUCTION AND SUMMARY

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Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Dwight D. Etheridge. I am a Principal and Vice President with Exeter Associates, Inc. (“Exeter”), an economics consulting firm specializing in the economics of regulated industry. My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. On August 2, 2012, I submitted Direct Testimony on behalf of the U.S. Department of Energy (“DOE”), which is a major customer of Kansas City Power & Light Company (“KCP&L” or the “Company”).

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

3 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Kansas
4 City Power and Light Company (“KCP&L” or the “Company”) witnesses Wm. Edward
5 Blunk and Tim M. Rush regarding KCP&L’s proposed treatment of off-system sales
6 (“OSS”) margins and interim energy charge (“IEC”), and request for an Accounting
7 Authority Order (“AAO”) related to the 2011 Missouri River flood (the “Flood”). I will
8 also touch upon concerns expressed in rebuttal testimony by other witnesses regarding
9 those subjects, including: Staff witnesses Cary G. Featherstone, Lena M. Mantle, and
10 Mark L. Oligschlager, and Office of Public Counsel (“OPC”) witness Ted Robertson.
11 Finally, I refer back to proposals made by the Midwest Industrial Energy Consumers
12 (“MIEC”) and the Midwest Energy Consumers Group (“MECG”) in the direct testimony
13 of Greg R. Meyer and Nicholas L. Phillips.

14 Q. ARE YOU CHANGING YOUR RECOMMENDATIONS BASED UPON
15 OTHER PARTIES’ REBUTTAL TESTIMONIES?

16 A. I am not. I continue to recommend that the Commission maintain the status quo with
17 respect to OSS margins, and that the Company’s proposal to be compensated for lost
18 OSS margins during the Flood should be denied.

19 In response to the Staff’s rebuttal testimony—if the off-system sales tracker is to
20 be eliminated, a reasonable level of OSS margins must be included as an offset to
21 KCP&L’s revenue requirement, and that level should represent the 50th percentile of the
22 Company’s forward-looking probabilistic analysis, or some other justifiable normalized
23 level.

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1 **OFF-SYSTEM SALES MARGINS DURING THE 2011 MISSOURI RIVER FLOOD**

2 Q. WHAT WAS YOUR RECOMMENDATION REGARDING THE COMPANY'S
3 PROPOSAL TO BE COMPENSATED FOR LOST OFF-SYSTEM SALES
4 MARGINS DURING THE 2011 MISSOURI RIVER FLOOD?

5 A. I recommended that the Commission deny that proposal.

6 Q. DID THE COMPANY TAKE ISSUE WITH THAT RECOMMENDATION?

7 A. Yes. In addressing my recommendation Company witness Blunk again restates the
8 Company's long-standing position that it is unhappy with the status quo regarding OSS
9 margins.¹

10 Q. WHAT IS THE STATUS QUO REGARDING OFF-SYSTEM SALES
11 MARGINS?

12 A. OSS margins are used as an offset to the Company's fuel and purchased power costs to
13 lower the Company's revenue requirement in general rate cases. The Commission has
14 approved using the 40th percentile of the Company's probabilistic analysis to establish the
15 level of OSS margins used to calculate the revenue requirement.² Since the Regulatory
16 Plan was first implemented, realized OSS margins above the Commission-approved level
17 are refunded to customers using an OSS margin tracker, with any OSS shortfalls borne by
18 the Company.³

19 Q. DOES MR. BLUNK'S REBUTTAL TESTIMONY PROVIDE ANY
20 PERSUASIVE REASONS TO CHANGE THE COMMISSION'S CONSISTENT
21 TREATMENT OF OFF-SYSTEM SALES MARGINS?

22 A. No. A Regulatory Plan was agreed to and implemented by the Commission over four
23 consecutive rate cases. While KCP&L may not be happy with status quo regarding OSS

¹ Rebuttal Testimony of Wm. Edward Blunk, pp. 6-8.

² Case No. ER-2010-0355, *Report and Order*, April 22, 2011, p. 136.

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1 margins, it nonetheless represents the balance that has been struck between customers
2 and shareholders as determined by the Commission with respect to this issue and all other
3 aspects of the Regulatory Plan, both good and bad from either's perspective, e.g., excess
4 generating capacity in rate base. In my opinion, the balance of risk had been struck and
5 holding the Company responsible for OSS margin shortfalls is reasonable.

6 Q. ARE ANY PARTIES JOINING WITH THE DEPARTMENT OF ENERGY IN
7 OPPOSITION TO THE COMPANY'S PROPOSAL TO RECOVER LOST OFF-
8 SYSTEM SALES MARGINS DURING THE FLOOD?

9 A. Yes. MIEC-MECG witness Meyer,⁴ Staff witness Oligschlaeger,⁵ and OPC witness
10 Robertson⁶ also recommend that the Company's proposal be rejected.

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12 **INTERIM ENERGY CHARGE**

13 Q. DID YOU PREVIOUSLY TAKE A POSITION ON KCP&L'S PROPOSED
14 INTERIM ENERGY CHARGE?

15 A. I did not. However, I did recommend that the issue of OSS margins be addressed
16 separate and independent of KCP&L's IEC proposal.

17 Q. WHY DID YOU MAKE THAT RECOMMENDATION?

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19 Regulatory Plan, and questions of what truly is equitable given the current state of affairs,
20 that any changes to the status quo regarding OSS margins should reflect a stand-alone
21 decision. Further, OSS margins are by no means an interim issue. Achieving the
22 maximum level of OSS margins for the benefit of customers should be a long-term
23 Commission priority because it is the quid pro quo for bearing the costs of Iatan 2.

⁴ Direct Testimony of Greg R. Meyer, p. 3.

⁵ Rebuttal Testimony of Mark L. Oligschlaeger, pp. 3-4.

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1 Q. DID THE COMPANY TAKE ISSUE WITH THAT RECOMMENDATION?

2 A. Yes. Company witness Blunk again restates the Company's long-standing position that it
3 is unhappy with the status quo regarding OSS margins.⁷

4 Q. ARE ANY PARTIES OPPOSING THE COMPANY'S INTERIM ENERGY
5 CHARGE PROPOSAL?

6 A. Yes. OPC and MECG moved to strike the Company's IEC proposal,⁸ and they were
7 joined by Staff.⁹ In addition, MIEC-MECG witness Meyer¹⁰ and Staff witness Mantle¹¹
8 recommend that the Company's proposed IEC be rejected.

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10 **OFF-SYSTEM SALES MARGINS**

11 Q. WHAT IS THE COMPANY'S PROPOSAL REGARDING OFF-SYSTEM
12 SALES MARGINS?

13 A. KCP&L is proposing to set OSS margins at the 40th percentile of its probabilistic analysis
14 and institute a sharing mechanism regarding realized OSS margins above and below that
15 level. Customers would be responsible for one-quarter of any OSS margin shortfalls
16 below the 40th percentile. OSS margins above that level would first be used to offset
17 increases in fuel and purchased power costs with any remaining amount refunded to
18 customers provided, however, that the Company be allowed to retain one-quarter of the
19 OSS margins above the 60th percentile.¹²

20 Q. WHAT IS MIEC-MECG'S PROPOSAL REGARDING OFF-SYSTEM SALES
21 MARGINS?

⁷ Blunk, op. cit., pp. 2-3.

⁸ Office of the Public Counsel and the Midwest Energy Consumers' Group, *Motion to Strike Pre-filed Testimony and Reject Tariffs and Motion for Expedited Treatment*, May 25, 2012.

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¹² Rebuttal Testimony of Tim M. Rush, pp. 26-27.

1 A. MEIC-MECG witness Phillips recommended that OSS margins be set at a normalized
2 level.¹³ MIEC-MECG witness Meyer went on to recommend elimination of the OSS
3 margin tracker, which would allow the Company to retain OSS margins above the
4 normalized level while actual OSS margin shortfalls below the normalized level would be
5 borne by the Company.¹⁴

6 Q. WHAT IS STAFF'S PROPOSAL REGARDING OFF-SYSTEM SALES
7 MARGINS?

8 A. Like DOE, Staff originally proposed that the status quo be maintained.¹⁵ However, in
9 rebuttal, Staff witness Featherstone argues for a return to "traditional ratemaking" where
10 a "proper" level of OSS margins is included as an offset to fuel and purchased power
11 costs in base rates, and the OSS margin tracker is eliminated.¹⁶ Staff's original position
12 was that OSS margins be set at the 40th percentile of the Company's probabilistic
13 analysis, but with its new proposal Staff has not indicated what it feels would be a proper
14 level of OSS margins to be used as an offset to the Company's revenue requirement.

15 Q. WHAT IS YOUR OPINION OF THE STAFF'S PROPOSAL ON REBUTTAL?

16 A. As I previously testified, I am opposed to the Company's proposal to change the status
17 quo in favor of shareholders by allowing the Company to retain a percentage of OSS
18 margins if they exceed expectations and to shift to customers a percentage of the risk if
19 OSS margins fall short of expectations.¹⁷ Now is not the time for such a change. Unlike
20 the Company's proposal, MIEC-MECG's and Staff's proposals could represent balanced
21 movement away from the status quo provided elimination of the OSS margin tracker is
22 coupled with the inclusion of a reasonable level of OSS margins as an offset to KCP&L's

¹³ Direct Testimony of Nicholas L. Phillips, pp. 18-19.

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¹⁵ Staff Report Revenue Requirement Cost of Service, p. 89.

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8 probabilistic analysis as Staff originally proposed because that would provide the
9 Company with a greater than 50-50 chance of retaining OSS margins in excess of the
10 level used to offset the revenue requirement. That would not represent a balanced move
11 away from the status quo.

12 13 **CONCLUSION AND RECOMMENDATIONS**

14 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS?

15 A. I recommend that the Commission:

- 16 • Reject the Company's proposal to be compensated for lost OSS margins during
17 the Flood.
- 18 • Maintain the status quo with regard to OSS margins.
- 19 • Include a reasonable level of OSS margins (e.g., the 50th percentile of the
20 Company's forward-looking probabilistic analysis) as an offset to KCP&L's
21 revenue requirement in this case if the OSS margin tracker is to be eliminated
22 prospectively.

23 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

24 A. Yes.

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AFFIDAVIT OF DWIGHT D. ETHERIDGE

STATE OF MARYLAND)
)
) **SS**
COUNTY OF HOWARD)

Dwight D. Etheridge, being first duly sworn, on his oath states:

1. My name is Dwight D. Etheridge. I am a consultant with Exeter Associates, Inc., having its principal place of business at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044.

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.



Dwight D. Etheridge

Subscribed and sworn before me this 3 day of October, 2012.

DEBORAH M ADAMS
Notary Public-Maryland
Prince George's County
My Commission Expires
2/2015



Notary Public

My commission expires: _____