

Exhibit No.: _____
Issue(s): Economic Considerations
Witness/Type of Exhibit: Meisenheimer/Direct
Sponsoring Party: Public Counsel
Case No.: ER-2012-0175

DIRECT TESTIMONY
OF
BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT GREATER
MISSOURI OPERATIONS COMPANY**

CASE NO. ER-2012-0175

August 9, 2012

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


In the Matter of Kansas City Power & Light)
Greater Missouri Operations Company's)
Request for Authority to Implement A General)
Rate Increase for Electric Service) File No. ER-2012-0175

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am a Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.




Barbara A. Meisenheimer

Subscribed and sworn to me this 9th day of August 2012.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My commission expires August 23, 2013.

**Kansas City Power & Light
Greater Missouri Operations Company**

Class Cost of Service and Rate Design

ER-2012-0175

**Direct Testimony
of
Barbara Meisenheimer**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

3 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
4 P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for
5 William Woods University.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

7 A. I hold a Bachelor of Science degree in Mathematics from the University of
8 Missouri-Columbia (UMC) and have completed the comprehensive exams for a
9 Ph.D. in Economics from the same institution. My two fields of study are
10 Quantitative Economics and Industrial Organization. My outside field of study is
11 Statistics.

12 I have been with the Office of the Public Counsel since January 1996. I have
13 testified before the Missouri Public Service Commission (Commission) on
14 economic issues and policy issues in the areas of telecommunications, gas, electric,
15 water and sewer. In rate cases my testimony has addressed class cost of service,

1 rate design, miscellaneous tariff issues, low-income and conservation programs and
2 revenue requirement issues related to the development of class revenues, billing
3 units, low-income program costs, incentive programs and fuel cost recovery.

4 Over the past 15 years I have also taught courses for the following
5 institutions: University of Missouri-Columbia, William Woods University, and
6 Lincoln University. I currently teach undergraduate and graduate level economics
7 courses for William Woods University.

8 **Q. HAVE YOU TESTIFIED IN PAST KANSAS CITY POWER & LIGHT RATE CASES?**

9 A. Yes. I testified on class cost of service and rate design issues in Kansas City Power &
10 Light (KCP&L or the Company) Case No. ER-2006-0314, Case No. ER-2007-0291
11 and Case No. ER 2010-0355. I also testified in Case No. ER-2005-0436 and Case
12 No. ER-2010-0356 regarding class cost of service and rate design for KCP&L's
13 Greater Missouri Operations (GMO) service area previously acquired from Aquila
14 Inc. and on class cost of service and rate design in Aquila Inc. Case No. EO-2002-
15 384.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. My direct testimony addresses economic and public policy issues the Commission
18 should consider in determining the appropriate level of revenue requirement for
19 KCP&L GMO. In recent years Missouri's economy has been plagued by slow
20 growth, high unemployment, under-employment and only marginal wage growth.
21 Consumers are finding it increasingly difficult to make ends meet, some to the point

1 of crisis. In this testimony I explain that the Commission can and should treat rate
2 affordability as a key factor in determining the Company's revenue requirement.

3 **Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS**
4 **CASE?**

5 A. In this case, Public Counsel urges the Commission to decide issues in a manner that
6 recognizes the economic challenges faced by households in KCP&L GMO's service
7 area and reasonably minimizes the rate impact on consumers. The Commission
8 should also focus on allowing customers greater control over their electric bills.

9 **Q. SHOULD THE COMMISSION CONSIDER THE ECONOMIC CLIMATE AND FACTS SUCH**
10 **AS UNEMPLOYMENT RATES AND PREVIOUS RATE INCREASES WHEN DETERMINING**
11 **WHAT RATES ARE JUST AND REASONABLE?**

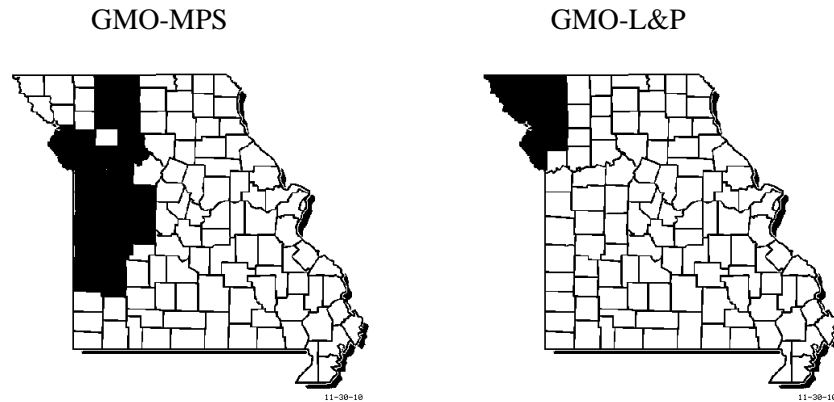
12 A. Yes. It is the Commission's job to set just and reasonable rates. Public Counsel
13 has argued and the Commission has recognized that in addition to cost of service,
14 other relevant factors to consider in setting rates include the value of a service, the
15 affordability of service, rate impacts, and rate continuity.

16 **Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN KCP&L GMO'S SERVICE**
17 **AREA.**

18 A. According to information submitted as part of the Company's minimum filing
19 requirements, as illustrated below, KCP&LGMO serves portions of 24 counties in
20 Western and Northern Missouri through its MPS system and serves portions of 10
21 Northwestern counties through its L&P system.

1

Diagram 1.



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Q. WHAT ECONOMIC FACTORS HAVE AN IMPACT ON RATE AFFORDABILITY?

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A. Output growth, often measured as a change in Real Gross Domestic Product, the levels of unemployment and under-employment and inflation in consumer prices all impact the general affordability of rates.

5

6

Q. PLEASE DESCRIBE THE RECENT PERFORMANCE OF OUTPUT GROWTH.

7

A. Real Gross Domestic Product (RGDP) measures the inflation-adjusted value of all new, final goods and services produced within a geographic area. Diagram 2 which is based on data compiled by the U.S. Department of Commerce Bureau of Economic Analysis (BEA) and reported by the Saint Louis branch of the Federal Reserve, illustrates that Missouri's RGDP remains stagnant below the December 2007 level. As I will discuss later in this testimony, the reduction in output since December 2007 shown in Diagram 2 corresponds to a period of significant unemployment throughout Missouri.

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Diagram 2.



1 BEA data for the Kansas City Metropolitan Statistical Area which includes portions
2 of Missouri and Kansas indicates negative RGDP growth for the period 2007-2009,
3 with positive but below average growth over the period 2009-2010.

4 Also significant is that prior to the recent recession, Missouri had
5 experienced moderate but relatively steady growth as illustrated by the pre-
6 December 2007 trend shown in Diagram 2. Relatively steady economic growth over
7 time promotes confidence leading to new investment, increased employment
8 opportunities and wage growth. It is still unclear if the recession was only a
9 temporary shock that can be overcome or if there will be a more harmful long-term
10 impact on Missouri households.

1 Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN KCP&L'S GMO SERVICE
 2 AREAS.

3 A. As illustrated in Table 1. and Table 2., according to the U.S. Bureau of Labor
 4 Statistics (BLS) Quarterly Census of Employment and Wages, every KCP&L GMO
 5 service area county experienced an increase in unemployment between 2006 and
 6 2011.

Table 1.

Local Area Unemployment Statistics GMO-MPS

	Annual 2006	Annual 2007	Annual 2008	Annual 2009	Annual 2010	Annual 2011	Increase 2006-2011
Barton	5.20%	8.60%	9.00%	10.80%	10.90%	9.90%	90%
Bates	5.60%	6.00%	6.90%	10.80%	11.00%	10.40%	86%
Benton	5.40%	5.90%	6.70%	10.10%	10.40%	10.10%	87%
Buchanan	4.50%	4.40%	5.00%	8.60%	8.30%	7.40%	64%
Carroll	4.60%	5.00%	6.80%	10.60%	10.60%	10.10%	120%
Cass	4.60%	4.90%	5.70%	9.70%	9.60%	8.60%	87%
Cedar	5.10%	5.60%	6.30%	9.30%	8.40%	8.10%	59%
Clay	4.30%	4.30%	5.00%	8.60%	8.50%	7.70%	79%
Clinton	4.90%	5.10%	5.70%	10.00%	10.40%	10.00%	104%
Dade	4.60%	5.20%	6.10%	9.00%	9.00%	9.00%	96%
Daviess	4.40%	4.40%	5.20%	9.10%	9.50%	8.90%	102%
Grundy	4.50%	4.80%	5.40%	7.80%	7.60%	7.20%	60%
Harrison	4.60%	4.50%	4.70%	7.80%	8.40%	7.90%	72%
Henry	5.10%	5.60%	6.50%	9.70%	9.90%	9.40%	84%
Jackson	5.70%	5.80%	6.70%	10.30%	10.70%	9.60%	68%
Johnson	4.00%	4.60%	5.10%	8.60%	8.80%	8.40%	110%
Lafayette	4.80%	5.10%	5.90%	9.90%	10.30%	9.80%	104%
Livingston	4.20%	4.40%	5.00%	7.90%	8.10%	8.10%	93%
Mercer	4.30%	4.10%	4.70%	7.40%	7.80%	6.40%	49%
Pettis	5.00%	5.20%	6.00%	8.90%	8.70%	8.30%	66%
Platte	3.90%	3.90%	4.60%	7.80%	7.80%	7.20%	85%
Ray	5.20%	5.30%	6.10%	10.20%	10.70%	9.90%	90%
St. Clair	5.60%	6.50%	6.80%	9.90%	10.90%	10.30%	84%
Vernon	4.40%	4.80%	5.40%	8.00%	7.70%	7.20%	64%

Table 2.

Local Area Unemployment Statistics GMO-L&P

County	Annual 2006	Annual 2007	Annual 2008	Annual 2009	Annual 2010	Annual 2011	Increase 2006-2011
Andrew	4.00%	3.90%	4.60%	7.80%	7.30%	6.30%	58%
Atchison	3.90%	4.30%	4.60%	7.50%	7.60%	7.30%	87%
Buchanan	4.50%	4.40%	5.00%	8.60%	8.30%	7.40%	64%
Clinton	4.90%	5.10%	5.70%	10.00%	10.40%	10.00%	104%
DeKalb	5.30%	5.10%	6.10%	9.60%	8.90%	8.30%	57%
Gentry	4.00%	4.00%	4.30%	6.40%	7.30%	6.70%	68%
Holt	4.00%	5.00%	4.90%	7.20%	7.30%	6.90%	73%
Nodaway	3.40%	3.70%	4.10%	6.50%	6.80%	6.80%	100%
Platte	3.90%	3.90%	4.60%	7.80%	7.80%	7.20%	85%
Worth	3.80%	4.50%	5.30%	7.70%	7.00%	6.20%	63%

1 For the KCP&L GMO-MPS service area, Mercer County which experienced the
2 smallest increase, saw a 49% increase in unemployment. Carroll County, Johnson
3 County and Lafayette County experienced the greatest increases in unemployment -
4 more than doubling in each county. For the KCP&L GMO-L&P service area,
5 DeKalb County, which experienced the smallest increase, saw a 68% increase in
6 unemployment. Clinton County, Nodaway County and Atchison County
7 experienced the greatest increases in unemployment.

8 **Q. DO THE UNEMPLOYMENT STATISTICS REPORTED BY THE BLS REFLECT THE**
9 **ACTUAL LEVEL OF UNDER-EMPLOYMENT?**

10 A. No. The unemployment statistics reported by the BLS are limited in that the
11 derivation of those statistics treats a person who works any number of hours for pay
12 as employed. For example, a person who works only one hour for pay would be
13 treated as employed and would not be reflected in the unemployment rate. To gauge
14 under-employment requires consideration of additional information. Measures of

1 workers' wages or annual pay can provide additional information on the level of
2 under-employment because they reflect changes over time in total worker
3 compensation.

4 **Q. PLEASE COMMENT ON HOW WAGES HAVE CHANGED.**

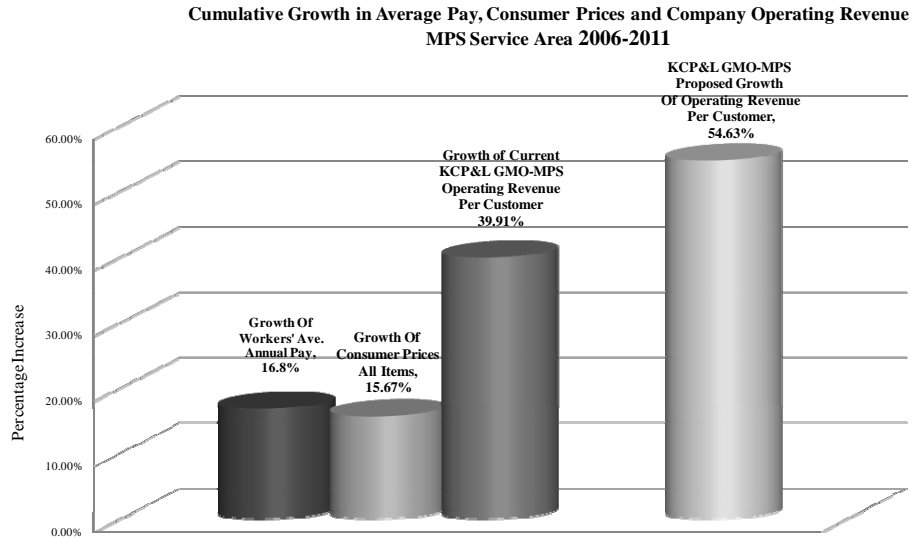
5 A. Based on data obtained from the US Bureau of Labor Statistics, between 2005 and
6 2011 for counties served by KCP&L's GMO-MPS, the growth in average annual
7 pay ranged from an increase of about 1.8% in Mercer County to 25.5% in Harrison
8 County. The un-weighted average growth in annual pay for KCP&L's GMO-MPS
9 service area counties was 16.8% for the same period. Between 2005 and 2011 for
10 counties served by KCP&L's GMO-L&P, the growth in average annual pay ranged
11 from an increase of about 13.9% in Gentry County to 20.3% in Atchison County.
12 The un-weighted average growth in annual pay for KCP&L's GMO-L&P service
13 area counties was 17.5% for the period.

14 **Q. HOW DOES THE GROWTH IN PAY COMPARE TO THE GROWTH IN COMPANY**
15 **REVENUE?**

16 A. From 2006, when new rates were implemented in ER-2005-0436, through 2011,
17 KCP&L's GMO-MPS current revenue per customer grew 39.91% which is higher
18 than the growth in average annual pay for all KCP&L GMO-MPS service area
19 counties. If KCP&L GMO is granted the increase it has requested in this case for
20 the MPS system, the Company's revenue per customer will have grown 54.63%
21 over that period. Diagram 3, shown below, presents these comparisons. The
22 diagram illustrates that KCP&L's GMO-MPS growth rate of revenue per customer

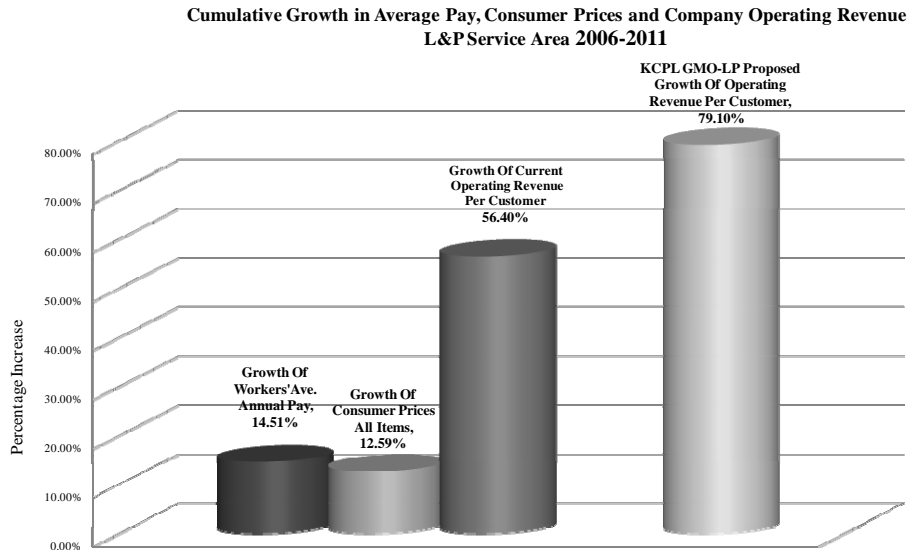
1 is outpacing the average growth in workers' annual pay. This disparity will increase
2 substantially if the Company is granted the full increase it has requested.

Diagram 3.



3 From 2006, when new rates were implemented in ER-2005-0436, through
4 2011, KCP&L's GMO-L&P current revenue per customer grew 56.40% which is
5 higher than the growth in average annual pay for all KCP&L GMO-L&P service
6 area counties. If KCP&L GMO is granted the increase it has requested in this case
7 for the L&P system, the Company's revenue per customer will have grown 79.10%
8 over that period. Diagram 4, shown below, presents these comparisons. Similar to
9 the results for KCP&L's GMO-MPS service area, KCP&L's GMO-L&P growth
10 rate of revenue per customer is far outpacing the average growth in workers' annual
11 pay and the disparity will worsen if the Company is granted the increase it has
12 requested in this case.

Diagram 4.



1 **Q. HOW DO RATE INCREASES THAT OUTPACE WAGE INCREASES IMPACT CONSUMERS?**

2 A. As electric bills claim an even larger share of wages, many consumers find it more
3 difficult to make ends meet. Some customers might have to work extra hours or two
4 jobs to make ends meet. Some customers might have to make a choice between
5 paying utility bills or buying food and medicine.

6 **Q. PLEASE COMMENT ON RECENT RATE INCREASES THAT HAVE IMPACTED KCP&L
7 GMO'S SERVICE AREA.**

8 From 2006 to 2011, investor owned utility customers in portions of KCP&L GMO's
9 service area have been impacted by significant rate increases in a multitude of utility
10 services. In rate cases, KCP&L GMO increased companywide electric rates four
11 times for a total of almost \$167.5M on the MPS system and almost \$57M on the
12 L&P system. Missouri American Water increased companywide water rates four

1 times for a total of almost \$118.4M impacting communities such as Warrensburg,
2 Platte County and St. Joseph. Missouri Gas Energy, Atmos, Empire District Gas
3 and Laclede have also been granted significant rate increases since 2006.

4 **Q. HAVE CONSUMERS PREVIOUSLY EXPRESSED CONCERNS ABOUT THEIR ABILITY TO**
5 **AFFORD UTILITY RATE INCREASES AND THE FAIRNESS OF RATES?**

6 A. Yes. Customers testifying in past public hearings and customers submitting
7 comments to the Commission have regularly voiced frustration and concern about
8 the burden of additional rate increases given the state of the economy. In the current
9 case the Commission should focus on ensuring rate affordability and fairness for
10 consumers.

11 **Q. HOW CAN THE COMMISSION PROMOTE RATES THAT ARE FAIR AND AFFORDABLE?**

12 A. The Commission can promote rate affordability by carefully scrutinizing the claimed
13 expenses underlying KCP&L GMO's request for a rate increase. Expenses
14 including operations and maintenance expenses, labor expenses and administrative
15 and general expenses make up the largest driver of revenue requirement. The rate of
16 return is another key factor in determining the Company's revenue requirement and
17 ultimately customer rates. In determining the return on investment, the Commission
18 typically recognizes that there is a range of rates of return that can allow a utility the
19 opportunity to earn a reasonable return on investment. To promote affordability the
20 Commission should adopt a rate of return at the bottom of the reasonable range.
21 Setting rates to produce a return at the lower end of the range can provide KCP&L
22 the opportunity to earn a reasonable return while also minimizing the rate increase

1 imposed on consumers. As I will discuss in rate design testimony, the structure of
2 rates is also important in promoting rate affordability. By minimizing mandatory
3 fixed charges, the Commission can promote affordability by providing customers a
4 better ability to manage their electric bills by controlling usage.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes.**