

**Exhibit No.:**

**Issue(s):**

**Witness/Type of Exhibit:**

**Sponsoring Party:**

**Case No.:**

Rate Design  
Hong Hu/Rebuttal  
Public Counsel  
ER-2001-672

# **REBUTTAL TESTIMONY**

**OF**

**HONG HU**

**FILED**<sup>3</sup>  
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Missouri Public  
Service Commission

Submitted on Behalf of the Office of the Public Counsel

**UtiliCorp United Inc.**  
**Case No. ER-2001-672**

January 8, 2002



**REBUTTAL TESTIMONY**  
**OF**  
**HONG HU**

**UTILICORP UNITED, INC.**

**CASE NO. ER-2001-672**

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

2     A.     Hong Hu, Public Utility Economist, Office of the Public Counsel, P. O. Box  
3             7800, Jefferson City, Missouri 65102.

4     **Q.     HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?**

5     A.     Yes, I submitted direct testimony on the issue of cost of service and rate design.

6     **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7     A.     The purpose of my rebuttal testimony is to present OPC's updated class cost of  
8             service (CCOS) study. I will also discuss the rate design recommendations  
9             provided by all parties in this case, including the rate design recommendation the  
10            Public Service Commission Staff (Staff) presented in its complaint case against  
11            UtiliCorp United Inc. d/b/a Missouri Public Service (UtiliCorp, the Company).

1       **Q.     PLEASE EXPLAIN WHY YOU UPDATED YOUR CCOS STUDY.**

2       A.     In his supplemental direct testimony, Staff witness Steve Traxler presented the  
3             Staff's updated accounting schedules supporting the Staff's updated revenue  
4             requirement recommendation. The Staff determined that the Company's revenue  
5             exceeds of its revenue requirement by approximately \$37.2 million. This amount  
6             is estimated by the Staff to be reduced by up to \$17 million as a result of true-up.  
7             In other words, the Staff's trued up estimate of the annual excess  
8             earnings/revenues of the Missouri Public Service division of the Company is  
9             approximately \$20 million. The Staff has filed a complaint case against UtiliCorp  
10            United Inc. d/b/a MPS and has moved to consolidate the current rate case with the  
11            pending complaint case.

12           I have updated OPC's CCOS study to reflect the Staff's accounting data associated  
13           with its recommended revenue requirement. The results of my revised CCOS  
14           study are shown in schedule HH REB-1. The overall results are essentially  
15           unchanged from the previously filed study.

16       **Q.     IS THERE ANY CHANGE IN YOUR RATE DESIGN RECOMMENDATION IN VIEW OF**  
17       **THE STAFF'S RECOMMENDED REVENUE REQUIREMENT REDUCTION?**

18       A.     No. OPC still holds the position that a detailed and up to date company-wide cost  
19             of service study that reflects the many changes in the Company's cost structures,  
20             including, for example, the merger effects, is necessary before any inter-class  
21             revenue shift may be warranted. However, to date no party has been able to  
22             present such a CCOS study in this case. Therefore, if the Commission determines  
23             that a revenue reduction is warranted, OPC recommends the Commission order an  
24             equal percentage reduction of revenues for all classes. Also, OPC recommends

1 the Commission order a subsequent cost of service/rate design docket to  
2 investigate the Company's cost of service and determine whether any changes in  
3 the Company's current rate structure are appropriate.

4 **Q. PLEASE SUMMARIZE OTHER PARTIES RATE DESIGN RECOMMENDATIONS IN THIS**  
5 **CASE.**

6 **A.** In his direct testimony, Company witness Mr. Matt Tracy recommended an equal  
7 percentage increase in revenue requirement for all but a few miscellaneous rate  
8 tariff charges. The witness of Sedalia Industrial Energy Users Association (the  
9 industrials), Mr. Maurice Brubaker, recommended any allowed increase or  
10 decrease be allocated on an equal percentage basis across-the-board to all rate  
11 schedules. Mr. Brubaker has also commented on the absence of a reasonable cost  
12 of service study and recommended that a separate cost of service/rate design  
13 docket to be opened. In his direct testimony in Case No ER-2001-672, Staff  
14 witness Dr. Michael Proctor recommended that any additional revenue  
15 requirement resulting from the rate case be applied as an equal percentage  
16 increase to all classes and to all rate components for each rate schedule or tariff.  
17 He further commented on the lack of current and reliable load research data for  
18 purposes of performing a current CCOS study and recommended that the  
19 Commission establish an EO docket for the purpose of investigating the class cost  
20 of service and rate design for the MPS and SJLP districts of UtiliCorp.

21 The Staff has not addressed the case of a revenue requirement reduction in its  
22 direct testimony in the current rate case. However, in his direct testimony in the  
23 Staff filed complaint case, Case No. EC-2002-265, Dr. Michael Proctor  
24 recommended that any decrease in revenue requirement resulting from the  
25 complaint case be applied as an equal percentage decrease to all non-residential

1 classes with the residential class receiving 50% of the percentage decrease going  
2 to the non-residential classes.

3 Mr. Proctor has not recommended making any inter-class revenue shift if there is  
4 no revenue requirement increase or decrease as a result of the current rate case.

5 **Q. WHAT IS OPC'S RESPONSE TO PARITES RATE DESIGN RECOMMENDATION?**

6 A. OPC agrees with the recommendations that any revenue increase or decrease  
7 should be applied to all customer classes on an equal percentage basis and that a  
8 separate cost of service/rate design docket should be opened to investigate the  
9 class cost of service and rate design for the MPS and SJLP districts of UtiliCorp.  
10 OPC has made the same recommendations. OPC does not agree with the Staff  
11 that the residential class should receive a smaller percentage decrease in revenue  
12 requirements than other classes if the result of the rate case is a reduction in the  
13 Company's total revenue requirement.

14 **Q. WHY DOES OPC DISAGREE WITH THE STAFF THAT THE RESIDENTIAL CLASS**  
15 **SHOULD RECEIVE A SMALLER PERCENTAGE DECREASE THAN OTHER CLASSES?**

16 A. The Staff's rate design recommendation in its filed complaint case is based on the  
17 result of the Staff's updated CCOS study. As Dr. Proctor indicated in his direct  
18 testimony in the current rate case (No. ER-2001-672), this CCOS study was filed  
19 in MPS's last Case No. ER-97-394 and was an update from the study performed in  
20 the previous Case No. ER-93-37. As I already discussed in my direct testimony,  
21 many factors may have changed since earlier studies were completed and the  
22 current class cost structure of the Company may very well be different (due in part  
23 to the recent merger of MPS & SJLP) from the class cost structure of one division

1 of the Company (MPS) almost ten years ago. Without a more current and reliable  
2 company-wide CCOS study, OPC believes that it is inappropriate to conclude that  
3 any class should receive a smaller or greater percentage increase or decrease in its  
4 revenue requirement than any other class.

5 **Q. DO YOU HAVE ANY COMMENT ON STAFF'S SPECIFIC RECOMMENDATION THAT**  
6 **THE RESIDENTIAL CLASS SHOULD RECEIVE 50% OF THE PERCENTAGE REVENUE**  
7 **DECREASE GOING TO THE NON-RESIDENTIAL CLASSES?**

8 A: In his direct testimony in Case No. EC-2002-265, Dr. Proctor indicated that "the  
9 percentage decrease for residential as a ratio of the percentage decrease for non-  
10 residential varies depending on the overall level of costs." I believe the 50%  
11 percentage Dr. Proctor proposed is corresponding to the Staff's estimate of the  
12 true-up impact related to the Aries plant capacity costs, which is approximately 17  
13 million. My understanding is that the Staff does not have a final position yet on  
14 how it plans to value the Aries capacity contract. However, it will likely be  
15 something less than 100%. From the scenario analysis that Dr. Proctor presented,  
16 the ratio of residential percentage of revenue reduction versus that of the non-  
17 residential classes is likely to be higher than 50% if the true-up impact is less than  
18 \$15 million above the Staff's base case. In other words, the recommendation that  
19 the residential class receives 50% of the percentage decrease going to the non-  
20 residential classes may be putting too much burden on the residential class even  
21 according to the Staff's own calculation.

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

23 A. Yes.

## COST OF SERVICE SUMMARY

COST OF SERVICE SUMMARY		CUSTOMER CLASSES					
		JURISDICTIONAL	Small GS		Large GS	Large Power	Schools & Churches
		TOTAL	RESIDENTIAL				
1	TOTAL RATE BASE	579,037,689	337,647,457	86,677,242	69,411,954	78,035,213	7,265,823
2							
3	O & M EXPENSES	172,014,252	88,340,170	26,801,872	23,935,340	30,518,861	2,418,009
4	DEPREC. & AMORT. EXPENSE	30,617,778	15,022,944	3,946,372	3,185,618	3,638,575	324,499
5	TAXES	26,041,448	14,263,466	3,737,945	3,011,516	3,410,972	474,889
6							
7	Subtotal - Expenses and Taxes	\$228,673,478	\$117,626,580	\$34,486,188	\$30,132,474	\$37,568,408	\$3,217,397
8							
9	CURRENT RATE REVENUE	288,713,124	\$153,224,648	\$48,541,963	\$38,982,937	\$44,619,612	\$3,343,964
10	CLASS % OF CURRENT REVENUE		53.07%	16.81%	13.50%	15.45%	1.16%
11							
12	MISCELLANEOUS REVENUE CREDIT	2 0	0.0	0.0	0.0	0.0	0
13	OTHER REVENUE	2 0	0.0	0.0	0.0	0.0	0
14	Total Offsetting Revenues	0	\$0	\$0	\$0	\$0	\$0
15							
16	IMPLICIT RATE OF RETURN	10.37%	10.54%	16.22%	12.75%	9.04%	1.74%
17							
18	REQUIRED OPERATING INCOME	60,039,646	38,300,419	9,832,074	7,873,617	8,851,781	824,185
19							
20	TOTAL COST OF SERVICE	288,713,124	155,926,999	44,318,262	38,006,091	46,420,189	4,041,582
21							
22	COS LESS OFFSETTING REVENUES	288,713,124	155,926,999	44,318,262	38,006,091	46,420,189	4,041,582
23							
24	COS INDICATED RATE REVENUE NEUTRAL SHIFT	0	2,702,351	(4,223,701)	(976,846)	1,800,577	697,619
25	COS REQUIRED % RATE REVENUE NEUTRAL SHIFT		1.76%	-8.70%	-2.51%	4.04%	20.86%
26	CLASS % OF REVENUE AFTER COS REQUIRED REVENUE SHIFT		54.01%	15.35%	13.16%	16.08%	1.40%
27							
28	OPC RECOMMENDED 1/2 REVENUE NEUTRAL SHIFT		1,351,175	(2,111,851)	(488,423)	900,288	348,809
29	OPC RECOMMENDED % RATE REVENUE NEUTRAL INCREASE		0.88%	-4.35%	-1.25%	2.02%	10.43%
30	CLASS % OF REVENUE RECOMMENDED BY OPC		53.54%	16.08%	13.33%	15.77%	1.28%