

October 12, 2006

**BY HAND DELIVERY**

Ms. Cully Dale  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
Governor Office Building  
200 Madison Street  
Jefferson City, Missouri 65101

Re: Case No. ER-2006-0314

Dear Ms. Dale:

Attached for filing in the above-referenced case are an original and eight (8) copies of Wal-Mart Stores East, LP's Prehearing Brief and Position Statement.

Thank you for your assistance in bringing this filing to the attention of the Commission, and please call me if you have any questions.

Very truly yours,



Edward F. Downey  
EFD:lan

Attachments (9)

cc: All Parties

**FILED<sup>2</sup>**  
OCT 12 2006  
Missouri Public  
Service Commission

**Bryan Cave LLP**

Riverview Office Center  
221 Bolivar Street  
Jefferson City, MO 65101-1574  
Tel: 573.556.6620  
Fax: 573.556.6630  
www.bryancave.com

Hong Kong  
Irvine  
Jefferson City  
Kansas City  
Kuwait  
Los Angeles  
New York  
Overland Park  
Phoenix  
Riyadh  
Shanghai  
St. Louis  
United Arab Emirates  
Abu Dhabi  
Doha  
Washington, DC

*In Association With*  
*Bryan Cave (Illinois)*  
Chicago

*and Bryan Cave*  
*A Multinational*  
*Partnership*  
London

FILED<sup>2</sup>

OCT 12 2006

Missouri Public  
Service Commission

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

In the Matter of the Application of )  
Kansas City Power & Light Company )  
for Approval to Make Certain Changes ) Case No. ER-2006-0314  
in its Charges for Electric Service to )  
Begin the Implementation of Its Regulatory Plan. )

**PREHEARING BRIEF AND POSITION STATEMENT  
OF WAL-MART STORES EAST, LP**

COMES NOW Wal-Mart Stores East, LP ("Wal-Mart"), by and through counsel, and respectfully submits this Pre-hearing Brief and Position Statement as directed in the Order Setting Prehearing Schedule issued by the Missouri Public Service Commission ("Commission") in the above-captioned docket on March 29, 2006. Pursuant to the March 29, 2006 Order, Wal-Mart provides this summary of the testimony of its witness James T. Selecky and the position statement of the relevant issues discussed in Mr. Selecky's testimony in the format followed in the Issues List filed by Commission Staff on October 6, 2006.<sup>1</sup>

**I. SUMMARY OF TESTIMONY OF JAMES T. SELECKY**

Mr. Selecky's direct, rebuttal and surrebuttal testimony supports and follows the underlying principle in cost of service analyses, that of matching costs to the customers who cause those costs. Given this fundamental principle, Mr. Selecky reviewed Kansas City Power & Light Company's ("KCP&L") cost-of-service ("COS") study and allocation of revenue requirements to customer classes and determined that certain aspects of KCP&L's COS study fail to meet the cost causation principle of matching costs to the customers who cause those costs. Specifically, KCP&L's proposed revenue allocation moves rates further away from COS.

---

<sup>1</sup> Notwithstanding, for those issues Wal-Mart has not addressed herein, Wal-Mart reserves its right to address any issues provided in the issues list in through the hearing and in posthearing briefs in this proceeding.

KCP&L's methodology of utilizing the average and peak ("A&P") method for purposes of allocating production and transmission costs fails to reflect cost causation principles because it double counts energy consumption (or the average demand component) and fails to recognize appropriate trade offs between production and transmission fixed costs to the rate classes.

In examining KCP&L's COS study, Mr. Selecky recognized three basic flaws in KCP&L's A&P method.<sup>2</sup> First, KCP&L's A&P method double counts energy because average demand is a component of the coincident peak demand. Double counting occurs because the average demand, which is the equivalent of the year round energy consumption divided by 8,760 hours, is also a component of the coincident peak demand. Accordingly, because certain capital costs are allocated relative to average demand and coincident peak demand, energy is double counted.<sup>3</sup> Second, KCP&L's A&P method fails to appropriately recognize trade-offs between capital and operating costs, because it focuses on the allocation of production fixed costs, without adjusting for operating expenses such as fuel cost differentials associated between base load plants and peaking unit plants (*i.e.*, each class is allocated the same per unit fuel cost).<sup>4</sup> Third, KCP&L's A&P method oversimplifies the utility planning process, because a utility's investment decisions consider capital costs, operating costs, existing generation mix, availability of a suitable site for plant, environmental restrictions, fuel diversification and numerous other factors.<sup>5</sup>

Given the flaws in the KCP&L's A&P methodology, the Commission should reject KCP&L's use of the A&P method in allocating production and transmission fixed costs to

---

<sup>2</sup> Selecky Direct Testimony at p. 10.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at p. 11.

<sup>5</sup> *Id.* at p. 13.

KCP&L's rate classes. Instead, Mr. Selecky demonstrates that the appropriate methodology utilizes a coincident peak or average and excess demand to allocate production and transmission fixed cost to the rate classes because they are consistent with cost causation principles.<sup>6</sup> In order to ensure that cost causation principles are satisfied, KCP&L's proposal to use the A&P method should be rejected and revised using a coincident peak or average and excess demand methodology. Additionally, Mr. Selecky demonstrates that KCP&L uses an energy allocation factor in its Administrative and General Expenses instead of using a Salary/Wages allocator as supported by the National Association of Regulatory Commissioners in their Electric Utility Cost Allocation Manual.<sup>7</sup> Following revisions to KCP&L's COS study and revisions to KCP&L's Administrative and General expenses, any allocation of revenue requirements should be based on moving rates closer to actual class cost-of-service.<sup>8</sup>

## II. STATEMENT OF POSITION

### A. Class Cost-of-Service

**1. On what basis should distribution costs be allocated to classes? Should the allocation of primary distribution costs include any customer-related component? What type of demand should be used to allocate the cost of distribution substations and distribution lines?**

Distribution costs should be allocated to classes on a cost of service basis, where they are functionalized to accurately reflect a portion as demand/capacity related costs and a portion as customer-related costs.<sup>9</sup> The demand related costs should be allocated on a basis that recognizes each class' responsibility for the company's need to build the plant to serve demands imposed on

---

<sup>6</sup> Selecky Direct Testimony at p. 14 - 17.

<sup>7</sup> *Id.* at p. 18.

<sup>8</sup> *Id.* at p. 22.

<sup>9</sup> *Id.* at p. 5.

the system.<sup>10</sup> The customer related costs should be allocated based on the number of customers in each class, weighted to account for the complexity in serving the different customer classes.<sup>11</sup>

**2. On what basis should production capacity and transmission costs be allocated to classes?**

In order to accurately reflect cost causation principles, production capacity and transmission costs should be allocated using a coincident peak method or the average and excess (“A&E”) demand method.<sup>12</sup> Both the coincident peak and A&E demand method more appropriately reflect the contribution of each customer class to the demands that cause the utility to incur those demand or capacity related costs.

The coincident peak method is superior to the A&P method because it more accurately reflects the operating characteristics of the loads that are served by using each customer class’ coincident peak demand to allocate the production and transmission fixed costs. Production and transmission investments by utilities are sized to meet the maximum simultaneous demands of all customers on the system.<sup>13</sup> These investments are not rated by average demand or the amount of energy that is consumed during the year. Rather, production units and transmission lines are normally rated by their maximum capability in MVA (Mega-Volt-Ampere). The coincident peak method allocates the appropriate production and transmission fixed costs based on each customer’s contribution to the predominant peaks.<sup>14</sup> As demonstrated in Mr. Selecky’s Schedule

---

<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at pp. 5 – 6.

<sup>12</sup> Selecky Direct Testimony at p. 14.

<sup>13</sup> *Id.* at p. 15. *See also* Selecky Rebuttal Testimony at p. 2.

<sup>14</sup> *Id.* at p. 16.

JTS -3, the coincident peak method demonstrates the amount of under and over collections above or below each class' cost of service.<sup>15</sup>

The A&E method also is superior to the A&P method because it recognizes that a utility plant capacity serves dual purposes and therefore allocates costs to the rate classes utilizing an average demand component and an excess demand component.<sup>16</sup> The average demand component is the total kWh usage by rate class divided by the total number of hours in the year and assumes that each class uses energy at a constant 100% load factor.<sup>17</sup> The excess demand component provides for the allocation of costs that represents each class' peak usage or contribution to peak in excess of average demand. The A&E method allows allocation of additional production capacity costs of the system in proportion to the peaks that each customer class imposes that are in excess of their average demand.<sup>18</sup> As shown in Schedule JTS – 4, utilizing the A&E in the class COS demonstrates the over and under collection from each rate class from the costs of providing such service.<sup>19</sup>

**3. To what extent, if any, are current rates for each customer class generating revenues that are greater or less than the cost of service for that customer class.**

As demonstrated in Schedule JTS – 1, even utilizing KCP&L's proposed class COS study, current rates for each customer class are generating revenues both greater than and less than the cost of service for the respective customer classes.<sup>20</sup> Additionally, as demonstrated in Schedule JTS – 3 and JTS – 4, which more accurately reflect cost causation principles, all classes

---

<sup>15</sup> *Id.* at p. 17 and Schedule JTS – 3.

<sup>16</sup> Selecky Direct Testimony at p. 18.

<sup>17</sup> *Id.* at p. 19.

<sup>18</sup> *Id.* at p. 20.

<sup>19</sup> *Id.* and Schedule JTS – 4.

<sup>20</sup> *Id.* at pp. 14 – 15, and Schedule JTS – 1.

of service, with the exception of the residential class of service, are paying above their actual class cost of service. Specifically, utilizing a coincident peak method in the class COS study (Schedule JTS – 3) demonstrates that the Large General Service and the Large Power Service rate classes are paying rates far exceeding their customer class-of-service.

**4. What is the appropriate basis for allocating Administrative and General Expense Account Numbers 920, 922, 923, 930.2, and 931 among Missouri retail customer classes?**

The Salary/Wages allocator is the appropriate basis for allocating Administrative and General Expense Account Numbers 920, 922, 923, 930.2 and 931 among Missouri retail customer classes. Allocating these rates using the Salary/Wage allocator is consistent and supported by the National Association of Regulatory Commissioners in the Electric Utility Cost Allocation Manual.<sup>21</sup>

**5. Should revenue adjustments among classes be implemented in order to better align class revenues to class cost-of-service? If so, what percentage increase or decrease should be assigned to each customer class?**

In order to meet cost of service principles, further the cause of revenue stability, conservation, efficiency and fairness, revenue adjustments among classes should be implemented in order to better align class revenues to class cost-of-service as demonstrated in Schedules JTS – 3 and JTS – 4. Based on a class COS study which utilizes the coincident peak methodology or an A&E demand methodology, the percentage increase or decrease that should be assigned to each customer class solely on a cost of service analysis, is as follows:

<b>Rate Class</b>	<b>Class Cost of Service Using Coincident Peak Percentage Increase (+)/Decrease (-)</b>	<b>Class Cost of Service Using Average and Excess Demand Percentage Increase (+)/Decrease (-)</b>
<b>Residential</b>	+21.73%	+20.72%

<sup>21</sup> Selecky Direct Testimony at p. 18.

<b>Rate Class</b>	<b>Class Cost of Service Using Coincident Peak Percentage Increase (+)/Decrease (-)</b>	<b>Class Cost of Service Using Average and Excess Demand Percentage Increase (+)/Decrease (-)</b>
<b>Small General Service</b>	-4.6%	-0.65%
<b>Medium General Service</b>	-12.22%	-10.66%
<b>Large General Service</b>	-11.85%	-12.41%
<b>Large Power Service Lighting</b>	-14.71%	-14.78%
<b>Lighting</b>	-9.31%	-9.31%

**6. Should class revenue adjustments be implemented even if no increase or decrease in revenue requirement is granted?**

Yes, class revenue adjustments should be implemented even if no increase or decrease in revenue requirement is granted to bring all classes closer to their class cost of service.

**7. Should revenue adjustments be phased-in over multiple years?**

Although Wal-Mart has not addressed this issue in its direct, rebuttal, or surebuttal testimony, Wal-Mart understands that because KCP&L's current rates and rate allocation so substantially deviates from actual class cost-of-service (as demonstrated in Schedule JTS – 1), revenue adjustments for residential customers may need to be phased-in over multiple years to mitigate rate impacts to residential ratepayers. However, any phase-in of revenue adjustments for residential ratepayers need to accurately and effectively move all classes towards actual class cost-of-service to further the principles and goals of cost-based rates. Moving towards cost based rates will ensure that rates for all ratepayers (regardless of class) are fair and reasonable.



Additionally, cost based rates promote conservation and efficiency by providing customers the appropriate price signals in determining how to manage their consumption of energy.<sup>22</sup>

**8. Should revenue adjustments among the non-residential classes be applied uniformly or non-uniformly?**

Revenue adjustments should be applied to bring all customer classes closer, if not to their actual class cost-of-service. Accordingly, although all non-residential classes are paying rates above their class cost-of-service, non-residential customers are paying at different levels above their class cost-of-service. Therefore, decreases to the non-residential classes should be applied based on the percentage (or amount) they are paying above their customer class cost-of-service as determined from the A&E class COS study (Schedule JTS – 4).<sup>23</sup> Additionally, any reduction from the requested amount should be allocated to those classes whose rates are above cost-of-service or have a rate of return in excess of the overall rate of return that KCP&L is requesting. This moves all rates closer to their class cost of service. Further, if a reduction from the requested amount is sufficient to bring all rates to cost of service, then any additional reduction should be allocated based on rate base to all classes.<sup>24</sup>

**9. How should any increase in the revenue requirement be implemented?**

Any increase in the revenue requirement should be implemented in a manner that moves all rates to cost-of-service.<sup>25</sup>

---

<sup>22</sup> *Id.* at p. 4.

<sup>23</sup> *Id.* at p. 22.

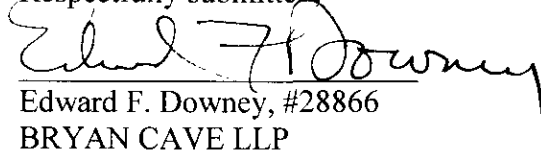
<sup>24</sup> Selecky Direct Testimony at p. 22 – 23.

<sup>25</sup> *Id.* at p. 22. *See also* Selecky Surrebuttal Testimony at p. 2.

### III. CONCLUSION

WHEREFORE, Wal-Mart respectfully requests for the reasons stated herein, that the Commission: (1) reject KCP&L's use of the A&P method in its class COS study; (2) adopt either the coincident peak method or average and excess demand method; (3) adjust the Administrative and General Expenses based on a Salary/Wage allocator; (4) adjust rates for each class to bring all rates closer to their respective class cost-of-service; and (5) in the event the Commission does not grant KCP&L its total requested increase, adjust rates to bring all rates to their class cost-of-service and then allocate any remaining reduction based on rate base to all classes.

Respectfully submitted,



Edward F. Downey, #28866  
BRYAN CAVE LLP  
221 Bolivar Street, Suite 101  
Jefferson City, Missouri 65101  
Telephone: (573) 556-6622  
Facsimile: (573) 556-6630

Gregory K. Lawrence  
Grace C. Wung  
McDermott Will & Emery  
28 State Street  
Boston, MA 02109-1775  
Telephone: (617) 535-4000  
Facsimile: (617) 535-3800

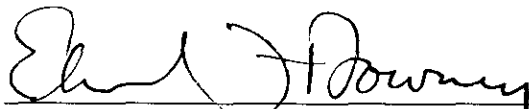
Attorneys for Wal-Mart Stores East, L.P.

Dated: October 12, 2006

### Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Prehearing Brief and Position Statement of Wal-Mart Stores East, L.P. was served electronically, this 12th day of October, 2006, to the following:

General Counsel's Office P.O. Box 360 200 Madison Street, Suite 800 Jefferson City, MO 65102	Lewis R. Mills, Jr. P.O. Box 2230 200 Madison Street, Suite 650 Jefferson City, MO 65102	US Department of Energy NNSA Kansas City Plant Stephanie Bogart P.O. Box 410202 Kansas City, MO 64111
AARP John Coffman 871 Tuxedo Blvd St. Louis, MO 63119	Aquila, Inc. Diana Carter 312 E. Capital Avenue P.O. Box 456 Jefferson City, MO 65102	City of Kansas City, Missouri Mark Comley 601 Monroe Street, Suite 301 P.O.Box 537 Jefferson City, MO 65102-0537
County of Jackson, Missouri Jeremiah Finnegan 1209 Penntower Office Center 3100 Broadway Kansas City, KS 66101	Empire District Electric Company Dean Cooper 312 East Capital P.O. Box 456 Jefferson City, MO 65102	Ford Motor Company Diana Vuylstek 211 N. Broadway St. Louis, MO 63102
Missouri Department of Natural Resources Shelley Woods P.O. Box 899 Jefferson City, MO 65102-0899	Kansas City Power & Light Company William Riggins 1201 Walnut Kansas City, MO 64141	Kansas City Power & Light Company James Fischer 101 Madison - Suite 400 Jefferson City, MO 65101
Praxair, Inc. David Woodsmall 3100 Broadway, Suite 1209 Kansas City, MO 64111	Missouri Gas Energy Diana Carter 312 E. Capital Avenue P.O. Box 456 Jefferson City, MO 65102	Missouri Industrial Energy Consumers Diana Vuylsteke 211 N. Broadway St. Louis, MO 63102
Trigen-Kansas City Energy Corporation Jeffrey Keevil 4603 John Garry Drive, Suite 11 Columbia, MO 65203	Praxair, Inc. Stu Conrad 3100 Broadway Suite 1209 Kansas City, MO 64111	Trigen-Kansas City Energy Corporation Charles Stewart 4603 John Garry Drive, Suite 11 Columbia, MO 65203
		US Department of Energy NNSA Kansas City Plant Paul Phillips 1000 Independence Ave S.W. Washington, DC 20585

  
Edward F. Downey