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Missouri Public Service Commission

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 the Missouri Industrial Energy Consumers' Prehearing Brief.

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,

Diana Vuylsteke

Diana M. Vuylsteke
DMV:rms

Attachments (9)
cc: All parties

FILED[2]

OCT 1 2 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 in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	)))))	**Case No. ER-2006-0314**

PREHEARING BRIEF OF THE MISSOURI INDUSTRIAL ENERGY CONSUMERS

COMES NOW The Missouri Industrial Energy Consumers ("MIEC") and submits its Prehearing Brief on the issues set forth below. Although the MIEC only addresses certain issues in this Prehearing Brief, it reserves the right to address other issues in this case.

JURISDICTIONAL ALLOCATIONS

Issue: **What is the appropriate method (4 CP vs. 12 CP) to use for allocating generation and transmission costs among jurisdictions?**

Position: As between the 4CP method and the 12CP method, the 4CP method proposed by Commission's accounting and resource planning staffs should be utilized. The 4CP method recognizes the extreme summer peaking nature of the KCPL system and fairly and appropriately allocates fixed investment in generation and transmission costs among jurisdictions.

Issue: **How should A&G expenses be allocated to the Missouri retail, Kansas retail and FERC wholesale jurisdictions?**

Position: Account Numbers 920, 922, 923, 930.2 and 931 should be allocated on salaries and wages.

OFF-SYSTEM SALES

Issue: **What level of off-system sales margin should be included in determining KCPL's cost of service?**

Position: The level of off-system sales margin should be the best estimate of those margins. The specific value should either be the 50%/50% probability estimate provided by KCPL, or the actual/trued-up test year value. These numbers bound the range that is reasonable. KCPL's proposal to set off-system sales margins at a level where it captures for itself a 75% chance that they will actually in fact be higher is ludicrous and should be rejected. If the Commission gives consideration to anything other than the best estimate, then by the same logic that KCPL applies, it should use the 25th percentile on the probability distribution in order to assure consumers that they get the benefit of off-system sales margins at a 75% probability. As initially filed by KCPL, the value of off-system sales margins at this level would be $143 million.

Issue: How should the off-system sales margin be allocated to the Missouri retail, Kansas retail and FERC wholesale jurisdictions?

Position: Off-system sales margins should be allocated using jurisdictional energy sales. KCPL's overly simplistic approach, which ignores many operating and planning factors, should be rejected.

Issue: What parameters does the Commission-approved Stipulation & Agreement in Case No. EO-2005-0329 impose on the treatment of off-system sales revenue in this case?

Position: KCPL explicitly promised not to attempt to retain for itself any of the margin on off-system sales. The probabilistic analysis put forward by KCPL circumvents this pledge.

Issue: Should KCPL's customers receive the benefit of all margins of off-system sales or should it be shared between customers and shareholders? Should a mechanism be adopted to ensure that the benefit is received by the appropriate party or parties? If so, what mechanism?

Position: KCPL's customers should receive the entire benefit of margins on off-system sales. No party has come forward with a mechanism to ensure that the benefit is received by the parties if the actual values deviate from the amounts used to establish rates. Therefore, the best estimate should be used to establish rates.

CLASS COST-OF-SERVICE AND RATE DESIGN

Class Cost-of-Service:

Issue: 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?

Position: The primary portion of the distribution system clearly includes both customer-related and demand-related components. The methodology used by KCPL to classify these costs between demand-related and energy-related is appropriate. Distribution substation costs and the demand-related portion of the primary network should be allocated using class peak demands, and the demand-related portion of the secondary network should be allocated using individual customer peak demands.

Issue: On what basis should production capacity and transmission costs be allocated to classes?

Position: The fixed costs associated with production and transmission should be allocated to classes using a method which recognizes the summer peaking nature of the KCPL system. This would be either the average and excess - three non-coincident peak method or a summer coincident peak method using one to four summer system peak demands. The methods applied by KCPL, the Commission Staff and OPC give far too much weighting to energy consumption and to demands in off-peak months, and should be rejected.

Issue: **What is the appropriate method to use for allocating margins on off-system sales among Missouri retail customer classes?**

Position: Margins on off-system sales should be allocated among retail customer classes using retail customer class energy consumption. KCPL's invented unused energy has no precedent, is theoretically unsound, and should be rejected.

Issue: **Do KCPL's computation of coincident peak demands and class peak demands properly recognize line losses?**

Position: KCPL's demands do appropriately include recognition of line losses.

Issue: **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?**

Position: The residential class is producing returns significantly below costs, while other classes are producing returns significantly above costs. See Schedule 4 attached to the Direct Testimony of Maurice Brubaker for the specific cost of service results.

Issue: **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?**

Position: These A&G expense categories should be allocated among customer classes using salaries and wages. Allocation on an energy basis, as used by KCPL, is not related to cost-causation and should be rejected.

Issue: **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?**

Position: This is the case in which to begin alignment of revenues with costs. The two primary factors to consider are differences from cost and impact on customer classes. See Schedule 9 attached to the Direct Testimony of Maurice Brubaker for the recommended spread of the revenue increase found appropriate by the Commission.

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

Position: Yes, regardless of whether rates are increased or decreased, or how much increased, now is the time to begin moving rates closer to costs.

Issue: **Should revenue adjustments be phased-in over multiple years?**

Position: The Commission should deal, in this case, with just this case and not attempt to establish guidelines for future cases.

Issue: **Should revenue adjustments among the non-residential classes be applied uniformly or non-uniformly?**

Position: There is logic to maintaining the same percentage increase to the Small, Medium and Large General Service customer classes. However, the increase to the Large Power class can be smaller than the increase to the General Service classes.

Issue: **How should any increase in the revenue requirement be implemented?**

Position: See positions regarding preceding issues.

Rate Design:

Issue: **Should a comprehensive analysis of KCPL's class cost-of-service issues and rate design be conducted after the conclusion of the regulatory plan and the in-service date of Iatan 2? Should the cost-basis of general service all-electric rates be included in this analysis?**

Position: A comprehensive review and analysis of class cost of service issues has taken place in this proceeding and the results should be utilized to develop interclass revenue allocations.

Respectfully submitted,

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Attorney for the
Missouri Industrial Energy Consumers

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been sent to all counsel of record this 12th day of October, 2006.

Diana Vuylsteke

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