

Exhibit No.:
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Requirements-Rate
Design; Aries Unit
Ratemaking
Witness: Michael S. Proctor
Sponsoring Party: MO PSC Staff
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Case Nos.: ER-2001-672 &
EC-2002-265
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

FILED³

JAN 22 2002

SURREBUTTAL TESTIMONY

OF

**Missouri Public
Service Commission**

MICHAEL S. PROCTOR

**UTILICORP UNITED, INC.
D/B/A/ MISSOURI PUBLIC SERVICE**

CASE NOS. ER-2001-672 & EC-2002-265

**Jefferson City, Missouri
January 2002**

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1 there would be no issue because we agree that all classes should be allocated an equal
2 percentage of any increase in revenue requirements. However, we are not in agreement
3 with respect to how to allocate a decrease in revenue requirements to the various classes
4 of service. It appears from Ms. Hu's answer at the top of page 5 of her rebuttal testimony
5 that she believes whenever there is not a "current and reliable company-wide" class cost
6 of service study, the appropriate allocation of a rate decrease is an equal percentage
7 decrease to all classes of service.

8 Q. Do you agree with Ms. Hu's conclusion?

9 A. For several reasons, I do not agree with Ms. Hu's conclusion. First,
10 Ms. Hu gives no reason for an equal percentage decrease (or for that matter increase) to
11 result in just and reasonable rates when there is not a "current and reliable, company-
12 wide" class cost of service study. Instead, Ms. Hu simply assumes that an equal
13 percentage is a just and reasonable allocation of either a rate increase or rate decrease. In
14 direct testimony in the rate case, I provided a cost justification for an equal percentage
15 increase to all classes of service. In direct testimony for the complaint case, I revised and
16 made current the class cost of service study and used the results of that study as a cost
17 justification for not following an allocation of an equal percentage decrease to all classes.
18 Thus, the Staff's proposal provides evidence to support its recommendation for not
19 allocating the rate decrease on an equal percentage basis to all classes.

20 Second, Ms. Hu is incorrect in her statement concerning the lack of availability of
21 a "current and reliable" class cost of service study. Ms. Hu confuses a lack of reliable
22 load research data for a specified period with a lack of reliable results from a class cost of
23 service study. As indicated in my direct testimony for the rate case, the primary concern

1 from not having reliable load research data for a current period is the significant changes
2 that can occur within the non-residential classes of service (small general service, large
3 general service and large power service), as well as within the rate classes included in
4 each of these cost of service classes (especially rate classes 310, 311, 320, 325, 330, 335,
5 340 and 345). All of the problems the Staff found for the most current load research data
6 were for these various non-residential rate classes, but were not for the residential classes.
7 As a consequence, the Staff relied on less current load research data as the basis for an
8 estimate of class loads in the complaint case, but those estimates were based on sales and
9 customers corresponding to the Staff's normalized levels for the complaint case. Also, I
10 included the Staff's position prior to true up for the costs in the complaint case. Thus, the
11 class loads and costs to be allocated are current.

12 Third, Ms. Hu also requires that the class cost of service study be "company
13 wide." By this, I am unsure whether Ms. Hu means that it must include all divisions and
14 regulated services offered by UtiliCorp, or her comment is limited to the Missouri Public
15 Service (MPS) and St. Joseph Light & Power (SJLP) divisions' cost of providing
16 electricity to their customers. In either case, it does not matter. What the Staff's cost of
17 service represents is both jurisdictional and divisional allocations of costs. Both
18 jurisdictional and divisional allocations of costs are necessary prerequisites to all class
19 cost of service studies, whether they be for one specific division, for MPS and SJLP
20 electric or for all regulated services, including natural gas and steam.

21 Q. At page 5 of her rebuttal testimony Ms. Hu states that your
22 recommendation that the residential class receive 50% of the percentage decrease going

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1 to non-residential classes "may be putting too much burden on the residential class even
2 according to the Staff's own calculation." Do you agree?

3 A. No, I disagree with this statement. What is true is that any allocation
4 method that does not precisely track the Staff's class cost of service study will result in
5 differences from the results of the study. The only proposal that would exactly track the
6 Staff's class cost of service study would be one that exactly matches that class cost of
7 service once the components making up the overall revenue requirement have been
8 determined by the Commission. In this regard, the Staff has recommended that a class
9 cost of service study be performed on exact cost components in an EO rate design case
10 subsequent to the determination of an overall revenue requirement in either this rate case
11 or the complaint case. Even when cost of service studies are performed on the exact
12 costs corresponding to tariffed rates, it is not unusual to recommend something other than
13 exactly following costs when there are unreasonable rate impacts (rate shock) on certain
14 classes from strictly following the results of the class cost of service study.

15 What is important to the Commission's decision in this case is the relative impact
16 of correcting class contribution to revenue requirements in the EO rate design case that
17 would occur after applying an equal percentage decrease versus giving the residential
18 class 50% of the percentage decrease that would go to other classes. This impact is
19 shown on Schedule 1 attached to my surrebuttal testimony.

20 There are two tables on Schedule 1. Table 1 is in dollar changes and Table 2 is in
21 percentage changes. The first two columns of both tables of Schedule 1 show total
22 revenue requirements and the associated decrease in total revenue requirements. The
23 third column shows the associated cost of service decreases (and increases) for the

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1 residential class. The differences in revenue requirements correspond to the scenarios
2 discussed in my direct testimony in the complaint case and assume varying levels of
3 production capacity costs for purposes of allocating these differences to the classes. The
4 fourth and fifth columns represent what would happen if the residential class is allocated
5 an equal percentage decrease and how that compares to the cost of service decrease.
6 Notice that the equal percentage decrease always allocates a greater rate decrease than
7 cost of service to the residential class and as the rate decrease gets larger, this over
8 allocation gets larger. Thus, when the issue is addressed in the EO rate design case, to
9 adjust residential rates to cost of service after giving an equal percentage decrease in this
10 case will mean a significant rate increase for the residential class. It is poor policy, to
11 unnecessarily give a class a rate decrease and then follow that with a significant rate
12 increase.

13 The last two columns represent what would happen if the residential class is given
14 50% of the percentage decrease that would go to the non-residential classes. First, notice
15 that the potential impacts from moving to cost of service on the residential class are
16 smaller than in the case of an equal percentage decrease. Also, notice that as the size of
17 the decrease gets larger, the impacts from moving to cost of service get smaller up to a
18 \$25 million decrease. If the decrease is above \$25 million, allocating 50% of the
19 percentage decrease going to other classes does result in the residential class receiving
20 less than its cost of service decrease. I believe this is the concern that Ms. Hu meant to
21 express in her rebuttal testimony. The opposite concern could be expressed for the non-
22 residential classes for rate decreases below \$25 million, but this really isn't the point.
23 The point is how the two compare.

1 Q. How do the equal percentage decrease and residential receiving 50% of
2 the percentage decrease that would go to non-residential classes compare?

3 A. The equal percentage decrease always results in the residential class being
4 further from class cost of service than the alternative of giving the residential class 50%
5 of the percentage decrease going to the non-residential classes. In the range of up to a
6 \$25 million decrease, both allocation methods result in the residential class receiving a
7 greater than cost of service decrease. However, while the equal percentage allocation
8 method widens the gap from class cost of service, the 50% method closes that gap.

9 Q. Are the final revenue requirements in this case likely to result in a
10 decrease in revenue requirements that exceed \$25 million?

11 A. I doubt that they will. This is because the Staff must true up the demand
12 charges included for purchase power from those that were expensed in the test year.
13 Since generation capacity is being added as a part of the true up, it is almost certain that
14 the final decrease will be less than the Staff's initial filing in the complaint case.

15 Q. In summary, why do you argue against the Commission adopting
16 Ms. Hu's position of allocating a rate decrease to the classes on an equal percentage
17 basis?

18 A. If an equal percentage decrease in revenues result in the residential class
19 paying too little for its electricity service, then in the next rate case or rate design case,
20 the Commission will have to make an adjustment to rates that will require a larger
21 increase for the residential customers than for the non-residential customers. From the
22 perspective of rate impact, it is more difficult to make adjustments that require a greater
23 increase in rates than to make adjustments that require a lesser decrease in rates. From a

1 rate impact perspective, a rate decrease is the most reasonable situation in which to make
2 unequal adjustments in class rates.

3 **Ratemaking Treatment of Aries Unit**

4 Q. What is your surrebuttal testimony respecting UCU witness
5 Mr. Jon R. Empson?

6 A. At page 5 of his rebuttal testimony, Mr. Empson quotes from page 7 of my
7 memorandum to the Commission recommending approval of the power supply agreement
8 (PSA) between MPS and Merchant Energy Partners Pleasant Hill, L.L.C. (MEPPH), a
9 subsidiary of UtiliCorp.

10 Mr. Empson cites this portion of my memorandum as evidence that the Staff had
11 in essence recommended pre-approval of the PSA for purposes of ratemaking. In fact,
12 this was explicitly not the case. Moreover, the Staff recommendation was not for
13 ratemaking treatment, but was a recommendation that allowed MPS to enter into a PSA
14 with an affiliate under Section 32(k) of the Public Utility Company Holding Act of 1935
15 (PUHCA) as amended by the Energy Policy Act of 1992. The focus of my memorandum
16 was not on the outcome of the competitive bids, rather it was on the process followed by
17 MPS in soliciting and evaluating the competitive bids.

18 Q. Why did the Staff focus on the process followed by MPS in soliciting and
19 evaluating the competitive bids rather than on the outcome?

20 A. At that time the Commission had six years previously issued rules for
21 electric utility resource planning (4 CSR 240-22) in which the question of pre-approval
22 versus review of the resource planning process had been at issue. Consistent with the
23 prior practice of the Commission, the electric utility resource planning rules adopted by

1 the Commission did not envision pre-approval, rather the purpose was to set and review
2 minimum standards for the electric utility resource planning process. In essence, the
3 commitment of Staff resources for pre-approval would be significantly greater than what
4 would be required for a review of the planning processes being used by a particular
5 electric utility. The Staff's usual procedure for the review of resource acquisition by an
6 electric utility was to focus on the process, not the outcome. Although on May 20, 1999
7 the Commission, pursuant to its acceptance of a Unanimous Stipulation And Agreement
8 in Case No. EO-99-365, granted in Case No. EO-99-544 a variance from the provisions
9 of 4 CSR 240-22 to UtiliCorp United Inc. d/b/a Missouri Public Service, St. Joseph Light
10 & Power Company, The Empire District Electric Company, Union Electric Company
11 d/b/a AmerenUE, and Kansas City Power & Light Company, the Commission has
12 continued to not give preapproval to electrical corporations for the construction of
13 electrical facilities in the electrical corporation's service territory or power supply
14 agreements.

15 In addition, in its application in Case No. EM-99-369, UCU recognized the fact
16 that the Staff would not be making recommendations with respect to ratemaking and the
17 Commission would not be making determinations with respect to ratemaking.
18 Specifically, at page 6 of the MPS application, it states:

19 15. UtiliCorp understands that an order containing the findings
20 required by the PUHCA with respect to the PSA shall in **no way**
21 be binding on the Commission or any party to a future rate case to
22 contest the ratemaking treatment to be afforded the PSA. [UCU's
23 Application in Case No. EM-99-369, p. 6, Emphasis added]
24

25 Given its recognition at the time of its filing that the Commission's approval of its
26 application would not mean pre-approval, it is disingenuous for UCU to now claim that

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1 Staff's recommendation of approval of the PSA for purposes of meeting the requirements
2 of Section 32(k) of PUHCA constituted a pre-approval for purposes of ratemaking or
3 even to suggest that the Staff's review was done for that purpose.

4 Q. What is your surrebuttal testimony respecting the rebuttal testimony of
5 UCU witness Mr. Stephen L. Ferry?

6 A. At page 7 of Mr. Ferry's rebuttal testimony, he states that "both the Staff
7 and Office of Public Counsel ('OPC') acknowledged in their recommendations to the
8 Commission that the MEPPH capacity was the most cost effective supply option for MPS
9 to meet its capacity and energy obligation." I do not agree with this characterization of
10 the Staff's recommendation in Case No. EM-99-369. In fact at page 8 of my
11 memorandum recommendation in that case, I specifically noted the limitations of the
12 determinations made by the Staff:

13 It is important to note that the Staff has not evaluated the two
14 proposals to determine which is least cost or whether accepting
15 either of the two proposals would be a prudent management
16 decision. Moreover, this Commission does not pre-approve the
17 acquisitions of resources by electric utilities. Instead, in its 1993
18 rulemaking on electric resource acquisitions (4 CSR 240-Chapter
19 22), this Commission enacted rules that focused on the process, not
20 the outcome. [Memorandum by Michael S. Proctor,
21 April 5, 1999, Case No. EM-99-369, p. 8]
22

23 The first sentence in the above quote from my memorandum makes it very clear that the
24 Staff did not make a determination that the "MEPPH capacity was the most cost effective
25 supply option for MPS to meet its capacity and energy obligation." Moreover, the review
26 that I made of the PSA did not include a detailed analysis required for purposes of
27 ratemaking. This was also made explicit in my memorandum at page 9:

28 At this time, the Staff has not performed a detailed analysis of
29 which of the two alternatives is least cost. Such an analysis should

1 be done prior to the Commission approving the cost of the PSA in
2 rates for Missouri Public Service customers. Subject to this
3 condition, it is not necessary that this analysis be conducted at this
4 time in order to determine whether or not the PSA is in the public
5 interest. Moreover, to make such a determination at this time
6 would put the Commission in the position of pre-approval of the
7 prudence of MPS entering into the PSA, which is an approach that
8 the Commission uniformly has rejected over many years.
9 UtiliCorp in its Application recognizes and accepts the
10 Commission's historical approach, wherein at paragraph 15,
11 UtiliCorp states as follows:

12
13 UtiliCorp understands that an order containing the findings
14 required by the PUHCA with respect to the PSA shall in no way be
15 binding on the Commission or any party to a future rate case to
16 contest the ratemaking treatment to be afforded the PSA.
17 [Memorandum by Michael S. Proctor, April 5, 1999,
18 Case No. EM-99-369, p. 9]
19

20 Q. Please summarize your surrebuttal testimony on the issue of Staff or
21 Commission pre-approval of the PSA between MPS and MEPPH.

22 A. Given the Staff's obvious care to emphasize that the public interest
23 requirement of Section 32(k) was met because a prudence review would be made at the
24 time that MPS would file to put the costs from the PSA into rates, it is difficult to
25 understand how UCU witnesses can now state that the Staff either pre-approved or found
26 the decision to be least-cost or most cost effective. This simply was not the case. The
27 only explanation that I can find is that it appears that both UCU witnesses have taken a
28 general statement about what constitutes the public interest found on page 7 of my
29 memorandum and interpreted that statement to be my finding. As explained by the rest
30 of my recommendation regarding how the future review of the ratemaking of the PSA
31 will assure that it will be in the public interest, the UCU witnesses' interpretation is
32 incorrect. I would note the very last paragraph of my memorandum recommendation
33 makes this matter very clear:

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1 The Staff believes that what is needed to determine that the PSA is
2 in the public interest is a review of the process followed by MPS in
3 acquiring the needed capacity. In the context of its ongoing efforts
4 in reviewing the resource plans of MPS, the Staff believes that the
5 process followed by MPS is adequate to meet the public interest
6 standard, subject to the review and ratemaking conditions set out
7 above and the accompanying Staff recommendation . . .
8 [Memorandum by Michael S. Proctor, April 5, 1999, Case No.
9 EM-99-369, p. 10]

10
11 Finally, I would mention that the Commission's April 22, 1999 Order Regarding
12 Power Sales Agreement noted that UCU did not submit a response to the
13 recommendations of either the Staff or the Public Counsel. The Commission adopted the
14 Staff's recommendations and directed, among other things, that the Commission's Order
15 approving MPS's application "is in no way binding on the Commission or any party
16 regarding a future rate or earnings complaint case to contest the ratemaking treatment to
17 be afforded the Power Sales Agreement."

18 Q. Does this conclude your surrebuttal testimony?

19 A. Yes, it does.

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

In The Matter Of The Tariff Filing Of)
Missouri Public Service (MPS) A Division)
Of UtiliCorp United Inc., To Implement A)
General Rate Increase For Reatil Electric) Case Nos. ER-2001-672 & EC-2002-265
Service Provided To Customers In The)
Missouri Service Area Of MPS)

AFFIDAVIT OF MICHAEL S. PROCTOR

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael S. Proctor, of lawful age, on his oath states: that he has participated in the preparation of the foregoing surrebuttal testimony in question and answer form, consisting of 11 pages of surrebuttal testimony to be presented in the above case, that the answers in the foregoing surrebuttal testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Michael S Proctor
Michael S. Proctor

Subscribed and sworn to before me this 22nd day of January, 2002.

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

Dawn L. Hake
Notary Public

My commission expires _____

**Relative Impact on Residential Class
Equal Percentage versus 50% of Decrease**

Table 1: Dollar Changes

MPS Revenue Requirements		Residential Class Revenue Requirements				
Total Rev Req	Total Decrease	COS Change	Equal % Change	COS - Equal %	50% Change	COS - 50%
\$289,321,080	\$0	\$3,563,693	\$0	\$3,563,693	\$0	\$3,563,693
\$284,488,622	-\$4,832,458	\$1,184,469	-\$2,559,273	\$3,743,742	-\$1,740,529	\$2,924,998
\$279,488,622	-\$9,832,458	-\$1,277,243	-\$5,207,277	\$3,930,033	-\$3,541,403	\$2,264,160
\$274,488,622	-\$14,832,458	-\$3,738,956	-\$7,855,280	\$4,116,325	-\$5,342,277	\$1,603,321
\$269,488,622	-\$19,832,458	-\$6,200,668	-\$10,503,284	\$4,302,616	-\$7,143,151	\$942,483
\$264,488,622	-\$24,832,458	-\$8,662,380	-\$13,151,287	\$4,488,907	-\$8,944,024	\$281,644
\$259,488,622	-\$29,832,458	-\$11,124,092	-\$15,799,291	\$4,675,198	-\$10,744,898	-\$379,194
\$254,488,622	-\$34,832,458	-\$13,585,805	-\$18,447,294	\$4,861,490	-\$12,545,772	-\$1,040,033
\$249,488,622	-\$39,832,458	-\$16,047,517	-\$21,095,298	\$5,047,781	-\$14,346,646	-\$1,700,871

Table 2: Percentage Changes

		Cost of Service	Equal % Decrease		50 % of Non-Residential Decrease	
MPS Revenue Requirements		Complaint Case	Complaint Case	Rate Design Case	Complaint Case	Rate Design Case
Total Rev Req	Total Decrease	% Rate Change	% Rate Change	% Rate Change	% Rate Change	% Rate Change
\$289,321,080	\$0	2.33%	0.00%	2.33%	0.00%	2.33%
\$284,488,622	-\$4,832,458	0.77%	-1.67%	2.44%	-1.14%	1.91%
\$279,488,622	-\$9,832,458	-0.83%	-3.40%	2.56%	-2.31%	1.48%
\$274,488,622	-\$14,832,458	-2.44%	-5.13%	2.69%	-3.49%	1.05%
\$269,488,622	-\$19,832,458	-4.05%	-6.85%	2.81%	-4.66%	0.62%
\$264,488,622	-\$24,832,458	-5.65%	-8.58%	2.93%	-5.84%	0.18%
\$259,488,622	-\$29,832,458	-7.26%	-10.31%	3.05%	-7.01%	-0.25%
\$254,488,622	-\$34,832,458	-8.87%	-12.04%	3.17%	-8.19%	-0.68%
\$249,488,622	-\$39,832,458	-10.47%	-13.77%	3.29%	-9.36%	-1.11%