

Exhibit No.:

Issues: Cost Per kWh Comparison

Witness: Phillip K. Williams

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case Nos.: ER-2001-672 and EC-2002-265

Date Testimony Prepared: January 22, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED³

SURREBUTTAL TESTIMONY

JAN 22 2002

OF

**Missouri Public
Service Commission**

PHILLIP K. WILLIAMS

**UTILICORP UNITED INC.
d/b/a MISSOURI PUBLIC SERVICE**

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

*Jefferson City, Missouri
January 2002*

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **PHILLIP K. WILLIAMS, CPA, CIA**

4 **UTILICORP UNITED INC.**

5 **d/b/a MISSOURI PUBLIC SERVICE**

6 **CASE NOS. ER-2001-672 AND EC-2002-265**

7 Q. Please state your name and business address.

8 A. My name is Phillip K. Williams, and my business address is Noland Plaza
9 Office Building, Suite 110, 3675 Noland Road, Independence, Missouri 64055.

10 Q. Are you the same Phillip K. Williams who has previously filed direct
11 testimony in this case?

12 A. Yes, I am.

13 Q. What is the purpose of your testimony?

14 A. I will address the rebuttal testimony of Missouri Public Service (MPS or
15 Company) witness John W. McKinney concerning "revenue comparisons," or what I
16 have referred to as "cost per kWh" comparisons.

17 Q. Mr. McKinney states on page 16, line 1 that "the revenue per unit of sale
18 is directly proportional to the size of the utility unless there has been an intervention to
19 cause a shift." Does this statement raise any concerns for Staff?

20 A. Yes. If revenue per unit of sale is directly proportional to the size of the
21 utility, then one should assume it would never be in the interest of the consumer for
22 utility companies to merge, thereby increasing the size of the utility which would increase
23 the ultimate cost to the ratepayer. The Company seems to be implying that as the size of

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1 the utility increases, rates charged to the customers can be expected to increase
2 proportionally. If this were true, then it would seem that there would be a disincentive
3 for the Missouri Public Service Commission (Commission) to approve a merger, since
4 the merger ultimately would likely result in higher customer rates. This principle is in
5 direct conflict with the representations made in any merger application of which I am
6 aware. I was involved in the recent merger applications of UtiliCorp United, Inc.
7 (UtiliCorp) to merge with St. Joseph Light and Power Company and The Empire District
8 Electric Company. UtiliCorp, in both of those applications, certainly made no claim that
9 rates would increase by virtue of the Company becoming larger. On the contrary, it was
10 stated that "economies of scale" would result from the transactions.

11 Q. Mr. McKinney states on page 16, line 10 of his rebuttal testimony that
12 "many utilities have a class cross-subsidization that causes the rates to the residential
13 customers to be lower than they should be than if the rates were based upon the actual
14 cost of serving that class." Has the Company offered any evidence to show that any of
15 the Missouri companies used in the Staff's analysis are providing cross-subsidization
16 between customer classes or, in other words, shifting cost to another class?

17 A. No. UtiliCorp has offered no evidence in its rebuttal testimony that other
18 Missouri utilities' residential rates are being subsidized. The Company has simply made
19 a blanket statement relating to this effect. This Commission and other Missouri electric
20 utilities have taken steps to reduce commercial and industrial rates relative to residential
21 rates. The Staff does not believe that MPS is unique in this respect.

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1 Q. MPS witness McKinney states at page 16, line 16 of his rebuttal testimony
2 that he believes the rates charged by MPS division "are very comparable with other
3 utilities in Missouri." Please comment.

4 A. It is interesting to note that in the Company's own analysis, MPS rates
5 charged to residential customers are higher than for Kansas City Power & Light
6 Company and only slightly below Ameren UE rates. Both of these Missouri companies
7 own and operate a nuclear power plant. One would expect that the heavy capital
8 investment in a nuclear plant would have caused the rates of these two companies to be
9 substantially higher than those of MPS, which operates on conventional fuels.

10 Q. Did MPS's analysis presented in rebuttal change the Staff's view that
11 MPS's rates are among the highest in the state?

12 A. No. In the year 2000, as reported by the Edison Electric Institute, MPS
13 had the highest rates of the five electric utilities operating in the state of Missouri (page
14 48, line 4 of my direct testimony). In fact, MPS had the highest residential rates of the
15 five electric utilities in each of the years from 1994 to 2000 (pages 45 through 48 of my
16 direct testimony). Moreover MPS's current rates do not reflect any impact of the rate
17 increase that the Company requested and may receive from this case. Any such increase
18 will make the gap between residential rates of the other electric companies and those of
19 MPS that much greater.

20 Q. Mr. Williams, does this conclude your surrebuttal testimony?

21 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of the Tariff)
Filing of Missouri Public Service (MPS))
A Division of UtiliCorp United Inc., to)
Implement a General Rate Increase for Retail)
Electric Service Provided to Customers in the)
Missouri Service Area of MPS)
Case No. ER-2001-672

AFFIDAVIT OF PHILLIP K. WILLIAMS

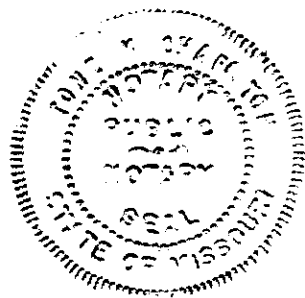
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phillip K. Williams, being 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 3 pages 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 and correct to the best of his knowledge and belief.

Phillip K. Williams
Phillip K. Williams

Subscribed and sworn to before me this 21st day of January 2002.

Toni M. Charlton



TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004