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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0175

DIRECT TESTIMONY

OF

F. JAY CUMMINGS

ON BEHALF OF

MISSOURI GAS ENERGY

August 21, 2012

**MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0175**

**DIRECT TESTIMONY
OF
F. JAY CUMMINGS**

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DIRECT TESTIMONY OF F. JAY CUMMINGS

CASE NO. ER-2012-0175

AUGUST 21, 2012

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

2 A. My name is F. Jay Cummings. My business address is 3625 North Hall Street,
3 Suite 750, Dallas, Texas 75219.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Senior Economist with Ruhter & Reynolds, Inc., Consulting Economists.

7

8 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND EXPERIENCE.**

9 A. I have a B.A. degree with a major in economics from Colgate University and a
10 Ph.D. in economics from the University of Virginia. I have more than 27 years of
11 utility regulatory experience gained through private and public sector positions.
12 Since 2003, I have provided regulatory support services to the energy industry as
13 a Senior Economist with Ruhter & Reynolds (2005 - present), an Executive
14 Consultant with R. J. Covington Consulting, LLC (2003-2005) and as a Principal
15 with Navigant Consulting, Inc. (2001-2003). Prior to Navigant Consulting, I was
16 employed by Southern Union Company for more than 11 years. I joined Southern
17 Union as Southern Union Gas' Director of Rates and Regulatory Affairs and
18 became Vice President later that year. When my regulatory responsibilities for

1 Southern Union expanded to include its Missouri properties in 1994, I became
2 Vice President, Pricing and Economic Analysis, a position I held until leaving
3 Southern Union in 2001.

4
5 Prior to joining Southern Union, I was employed by the Arizona Corporation
6 Commission for six years. I held positions as the Utilities Division Assistant
7 Director (1988-1991); Chief, Economics and Research Section (1985-1988); and
8 Chief, Economics and Rates Section (1985). My work with the Arizona
9 Corporation Commission covered regulation of electric, gas, telecommunications
10 and water utilities.

11
12 From 1973 through 1985, I was on the economics faculties of George Mason
13 University (1973 - 1975) and the University of Texas at Dallas (1975 - 1985). My
14 teaching and research focused on applied microeconomic analyses, which resulted
15 in professional journal publications and conference and seminar presentations. I
16 have submitted testimony in regulatory proceedings in Arizona, Arkansas,
17 Massachusetts, Missouri, Oklahoma, Texas, and Washington.

18

19 **1. TESTIMONY PURPOSE AND RECOMMENDATIONS**

20

21 **Q. SUMMARIZE THE PURPOSE OF YOUR TESTIMONY.**

22 A. I have been retained by Southern Union Company, d/b/a Missouri Gas Energy
23 (“MGE”) to analyze the Residential rate designs of Kansas City Power & Light

1 Company Greater Missouri Operations (“KCP&L-GMO”) - MPS (“GMO-MPS”)
2 and L&P (“GMO-L&P”) and to provide recommendations regarding these rate
3 designs to the Missouri Public Service Commission (“Commission”) in this case.
4 My analysis and recommendations pertain to (1) cost-based, revenue-neutral
5 Residential rate adjustments at current revenue, (2) the availability of separate
6 Residential Electric Space Heating schedules, and (3) the design of energy
7 charges for Residential services.

8
9 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

10 A. First, for both GMO-MPS and GMO-L&P, I recommend revenue-neutral
11 adjustments in current rates on the Residential schedules based on GMO-MPS’
12 and GMO-L&P’s cost of service results. These revenue adjustments remove the
13 seasonal inequities in the collection of current revenue by equalizing the
14 Residential rates of return at current rates in the summer and winter. The
15 adjustments also remove the current inequities in the collection of winter revenue
16 from Residential customers taking service on different rate schedules by
17 equalizing the winter rates of return at current revenue on the various Residential
18 rate schedules.

19
20 Second, based on ratemaking and public policy considerations, I recommend that
21 the separate Residential Electric Space Heating schedules be eliminated, and the
22 customers served under these schedules be transferred to consolidated General

1 Use schedules.¹ In the alternative, I recommend that the Residential Electric
2 Space Heating services be scheduled for elimination in a subsequent rate case and
3 that current rates for these services be adjusted based on the recommended
4 Residential revenue-neutral shift in this case. In addition to freezing the
5 prospective availability of these services in this case, this alternative
6 recommendation includes tariff language regarding availability to ensure the
7 effectiveness of freezing the schedules and to simplify their subsequent
8 elimination.

9
10 Third, I provide recommendations pertaining to the design of Residential energy
11 charges based on (1) my revenue-neutral revenue adjustments and (2) the revenue
12 change that is ultimately approved by the Commission. I recommend that the
13 winter declining blocks be retained with the current rate differences among
14 blocks, i.e., cents per kWh, for those schedules with blocked rates. If my
15 recommendation to eliminate Electric Space Heating is accepted, the current
16 Electric Space Heating rate blocks and rate block differences are used in the
17 consolidated General Use schedules.² If my alternative recommendation to freeze
18 Electric Space Heating is accepted, I recommend that the current winter rate
19 differences among blocks, i.e., cents per kWh, be retained on the respective

¹ Both GMO-MPS and GMO-L&P offer the following Residential services: General Use, Electric Space Heating, and Other Use. GMO-MPS also offers a Time of Day service, and GMO-L&P has a Space/Water Heating-Separate Meter schedule that was frozen in June 1995.

² As explained later in my testimony, the rates associated with this recommendation cannot be developed for GMO-L&P because KCP&L-GMO has not provided the necessary billing determinants in response to MGE data requests. As a result, the consolidated GMO-L&P General Use schedule must be developed with a uniform winter energy charge for all usage.

1 schedules. I recommend no change in the summer rate structures, with all current
2 energy charges adjusted by the same per kWh amount to reflect the summer
3 revenue change required by the recommended revenue-neutral adjustments.

4
5 Regarding the Commission-approved base revenue change, I recommend that the
6 base revenue change be assigned to the winter and summer to maintain the
7 equalized seasonal rates of return for the Residential class resulting from my
8 recommended revenue-neutral adjustments to current revenue based on GMO-
9 MPS' and GMO-L&P's cost of service results. The portion of the base revenue
10 change to be collected from energy charges in each season is divided by each
11 season's kWh and added to my recommended current, adjusted energy charges in
12 all Residential schedules.³

13
14 **2. CURRENT AND PROPOSED KCP&L-GMO RESIDENTIAL RATES**

15
16 **Q. PLEASE DESCRIBE CURRENT GMO-MPS AND GMO-L&P**
17 **RESIDENTIAL RATES.**

18 A. Schedule FJC-1A, columns (b) - (e) provides the current Residential rates for
19 GMO-MPS. Schedule FJC-1B, columns (b) - (e) provides the current Residential
20 rates for GMO-L&P.

³ My recommendations do not address Residential service charge changes to be implemented with the Commission-approved base revenue change. Rather, I address required energy charge changes after recognizing the revenue changes resulting from approved Residential service charge changes.

1 I describe General Use and Electric Space Heating rates that encompass virtually
 2 all of customers in GMO-MPS' and GMO-L&P's Residential class.⁴ The summer
 3 energy rates are the same for General Use and Electric Space Heating for GMO-
 4 MPS and for GMO-L&P.⁵ GMO-MPS has an inverted, three-block summer
 5 energy rate structure, while GMO-L&P has a uniform summer energy rate for all
 6 usage.

7
 8 Summer energy charges are higher than winter energy charges in corresponding
 9 schedules. In the winter, General Use and Electric Space Heating for GMO-MPS
 10 and GMO-L&P have declining block energy charges. For GMO-L&P, Electric
 11 Space Heating winter energy charges are lower in each rate block than the
 12 General Use winter energy charges. For GMO-MPS, Electric Space Heating
 13 winter energy charges are lower than General Use winter energy charges in the
 14 rate blocks after the identically-priced first 600 kWh. Stated differently, average
 15 winter energy prices, i.e., the winter energy charge at a specific kWh usage based
 16 on the blocked rates divided that kWh usage, are lower for Electric Space Heating

⁴ KCP&L-GMO Application, Appendix 2 provides the following average number of customers by schedule:

| | <u>Customers</u> | <u>Percent</u> | | <u>Customers</u> | <u>Percent</u> |
|------------------------|------------------|----------------|--|------------------|----------------|
| <u>GMO-MPS</u> | | | <u>GMO-L&P</u> | | |
| General Use | 138,936 | 64.9% | General Use | 35,519 | 62.4% |
| Electric Space Heating | 74,478 | 34.8 | Electric Space Heating | 19,389 | 34.1 |
| Other Use | 706 | 0.3 | Space/Water Heating- Separate Meter | 51 | 0.1 |
| Time of Day | 0 | 0 | Other Use | 1,946 | 3.4 |

⁵ For GMO-L&P, the monthly service charges are the same for General Use and Electric Space Heating. These charges are higher than the monthly service charge for Space/Water Heating-Separate Meter, which has been frozen since 1995. For GMO-MPS, the monthly service charges are the same for General Use and Electric Space Heating.

1 than for General Use for GMO-MPS and GMO-L&P (above 600 kWh for GMO-
2 MPS).

3
4 **Q. DOES KCP&L-GMO PROPOSE TO RETAIN THE LOWER AVERAGE**
5 **WINTER ENERGY PRICES FOR ELECTRIC SPACE HEATING?**

6 A. Yes. In fact, KCP&L-GMO requests an increase in the current winter energy
7 price differences between Electric Space Heating and General Use through its
8 proposed rates.⁶ For example, GMO-MPS' current average winter energy price is
9 1.20 cents per kWh lower for Electric Space Heating than General Use at 1400
10 kWh.⁷ This difference grows to 1.28 cents per kWh under its proposed rates.
11 GMO-L&P's current average winter price is 1.63 cents per kWh lower for
12 Electric Space Heating than General Use at 1800 kWh.⁸ This difference grows to
13 1.77 cents per kWh under its proposed rates. This same pattern occurs at other
14 kWh usage levels (more than 600 kWh for GMO-MPS).

15
16 **Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THE HISTORY**
17 **OF KCP&L-GMO'S GENERAL USE AND ELECTRIC SPACE HEATING**
18 **WINTER ENERGY CHARGES?**

19 A. Yes. Residential rates set in KCP&L-GMO rate cases since 2004 generally
20 resulted from stipulations and across-the-board increases. I have two

⁶ KCP&L-GMO's proposed rates are contained in KCP&L-GMO Application, Appendix 1.

⁷ For GMO-MPS, average winter usage is 1394 kWh for Electric Space Heating based on KCP&L-GMO's Response to Data Request MGE-4.

⁸ For GMO-L&P, average winter usage is 1795 kWh for Electric Space Heating based on KCP&L-GMO's Response to Data Request MGE-5.

1 observations on the resulting historical pattern of rate changes. First, the winter
2 declining block structure has become more pronounced, i.e., greater per kWh
3 differences between rate blocks, over time for both General Use and Electric
4 Space Heating. These results are shown on lines 1-4 of Schedule FJC-2A for
5 GMO-MPS and of Schedule FJC-2B for GMO-L&P. Schedule FJC-2A, column
6 g and Schedule FJC-2B, column h show that KCP&L-GMO's proposed rates
7 continue this trend for both GMO-MPS and GMO-L&P.

8
9 Second, the rate advantage of Electric Space Heating over the General Use has
10 generally increased over time.⁹ These results are shown for GMO-MPS and
11 GMO-L&P on lines 5-10 of Schedule FJC-2A and Schedule FJC-2B,
12 respectively. The last column in each schedule shows that KCP&L-GMO's
13 proposed rates continue this growing Electric Space Heating rate advantage.

⁹ The Electric Space Heating schedule rate advantage has increased continually for GMO-MPS since 2004. For GMO-L&P, the continually increasing Electric Space Heating rate advantage was reversed somewhat with rates implemented in 2011. The 2011 changes include the effect of an approved rate case stipulation between KCP&L-GMO and MGE in which the first energy block rate for GMO-L&P's Electric Space Heating was increased 6 percent prior to application of the increase to residential energy charges (Non-Unanimous Stipulation and Agreement as to MGE Rate Design Issue, Case No. ER-2010-0356, February 17, 2011). However, the reversal of the continually increasing Electric Space Heating rate advantage for GMO-L&P in 2011 was short lived. As a result of GMO-L&P's June 25, 2012 rate change, the past pattern of a growing rate advantage for Electric Space Heating was restored. The 2011 GMO-L&P rates reflect the first phase of the rate increase approved in Case No. ER-2010-0356. The 2012 GMO-L&P rates are for the second phase of the rate increase and were approved in Case No. ER-2012-0024.

1 **3. RESIDENTIAL SPACE HEATING AND GENERAL USE SCHEDULES**

2

3 **Q. WHAT JUSTIFICATION HAS KCP&L-GMO PROVIDED FOR THE USE**
4 **OF LOWER WINTER ENERGY PRICES FOR RESIDENTIAL**
5 **ELECTRIC SPACE HEAT COMPARED TO GENERAL USE AT**
6 **CURRENT RATES?**

7 A. In response to an MGE data request seeking this justification, KCP&L-GMO
8 simply provided broad references to its class cost of service study and several
9 general rate design general considerations and indicated that the Commission has
10 approved the tariffs.¹⁰ No Residential schedule-specific information, studies,
11 analyses, or explanations were provided to support the current price differences.

¹⁰ KCP&L-GMO's Responses to Data Request MGE-10 (GMO-MPS) and Data Request MGE-11 (GMO-L&P). Part (a) of Data Request MGE-10 and Data Request MGE-11 requested all justification, including studies, supporting data, cost bases, and explanations to support the current price differences between General use and Electric Space Heating. Part (b) of Data Request MGE-10 and Data Request MGE-11 requested justification, including studies, supporting data, cost bases, and explanations to support the increased price differences under proposed rates. The complete KCP&L-GMO Response to Data Request MGE-10 follows:

a) and b) The Commission has approved tariffs. Additionally, refer to the class cost of service study provide (sic) in response to data request MGE-1 and see response to DR MGE-8 as it may pertain to rate design.

The same response was provided in KCP&L-GMO's Response to Data Request MGE-11. The complete KCP&L-GMO Response to Data Request MGE-8 follows:

Mr. Rush did not rely on any single, specific study to support the rate design proposal offered in this case. The class cost of service study provided by Mr. Normand was reviewed and evaluated in conjunction with a few critical considerations. They are:

- Provide Revenue Stability and Risk Mitigation
- Implement Cost-based Rates
- Minimize Customer Dissatisfaction
- Simplify the Rate Structures
- Consider Technology Issues

1 Q. WHAT JUSTIFICATION HAS KCP&L-GMO PROVIDED FOR
2 INCREASING THE AVERAGE WINTER ENERGY PRICE
3 DIFFERENCES BETWEEN ELECTRIC SPACE HEATING AND
4 GENERAL USE WITH ITS PROPOSED RATE CHANGE?

5 A. In response to an MGE data request seeking this justification, KCP&L-GMO
6 provided the same responses it offered regarding current price differences (see
7 footnote 10). No Residential schedule-specific information, studies, analyses, or
8 explanations were provided to support the increased price differences at proposed
9 rates.

10

11 Q. DO GMO-MPS' AND GMO-L&P'S COST OF SERVICE RESULTS
12 SUPPORT THE CURRENT LOWER PRICE FOR RESIDENTIAL
13 ELECTRIC SPACE HEATING SERVICES COMPARED TO THE
14 GENERAL USE SERVICES AS KCP&L-GMO APPEARS TO SUGGEST
15 IN ITS DATA REQUEST RESPONSES?

16 A. No.

17

18 Q. WHY IS THE COST OF SERVICE FOR A CUSTOMER CLASS AN
19 IMPORTANT CONSIDERATION IN ASSIGNING REVENUE ON
20 WHICH THE CLASS' RATES ARE SET?

21 A. Equity considerations require that each customer class pay the cost to serve the
22 class. Achieving full equity among classes results in identical rates of return for
23 each class based on the revenue produced from rates and the cost to serve each

1 class. If the equity objective is not met, a portion of the cost to serve one or more
2 classes is borne by other class(es). The term “customer class” in this context
3 should broadly be interpreted as tariff classifications. For example, Residential
4 General Use is a different “customer class” than Electric Space Heating for
5 purposes of measuring the fairness of the rates customers pay.

6
7 Such inequity exists in GMO-MPS’ and GMO-L&P’s current Residential rates.
8 GMO-MPS’ and GMO-L&P’s cost of service results show that winter revenue
9 produced from current Residential rates and the resulting winter rates of return for
10 Electric Space Heating relative to General Use do not support the relatively lower
11 priced Electric Space Heating Service in the winter. Currently, General Use
12 customers are inequitably paying a portion of the cost to serve Electric Space
13 Heating customers in the winter. In addition, GMO-MPS’ cost of service results
14 show that for the Residential class as a whole, current rates and the resulting
15 revenue produce a higher rate of return in the summer than in the winter. For
16 GMO-L&P, the Residential class summer rate of return is lower than the winter
17 rate of return for the class as a whole.

1 Q. PROVIDE THE GMO-MPS AND GMO-L&P COST OF SERVICE
 2 RESULTS THAT SUPPORT YOUR CONCLUSION REGARDING THESE
 3 RESIDENTIAL SERVICE INEQUITIES AT CURRENT RATES.

4 A. The following table shows the seasonal rate of return differences for the
 5 Residential class and the substantially lower rate of return for Space Heating than
 6 for General Use schedule and for the entire Residential class in the winter for both
 7 GMO-MPS and GMO-L&P:¹¹

| | <u>Annual</u> | <u>Summer</u> | <u>Winter</u> |
|---------------------|---------------|---------------|---------------|
| <u>GMO-MPS:</u> | | | |
| Residential – All | 5.376% | 5.905% | 4.919% |
| General Use | 5.836% | 5.380% | 6.304% |
| Space Heating | 4.703% | 6.854% | 3.264% |
| Other Use | 10.806% | 9.559% | 11.523% |
| <u>GMO-L&P:</u> | | | |
| Residential - All | 4.085% | 3.598% | 4.448% |
| General Use | 5.224% | 3.936% | 6.438% |
| Space Heating | 2.941% | 3.261% | 2.754% |
| Other Use | 2.882% | -1.054% | 5.174% |

20 As explained later in my testimony, KCP&L-GMO’s proposed revenue spread
 21 exacerbates the inequality in winter rates of return between the General Use and
 22 Space Heating Schedules.

¹¹ Direct Testimony of Paul M. Normand, Case No. ER-2012-0175, Table 3A-MPS, page 25 and Table 3B-L&P, page 26. KCP&L-GMO’s Response to Data Request MGE-3 indicates that, for GMO-L&P, Space Heating includes Water/Space Heating-Separate Meter in the cost of service.

1 Q. DID THE GMO-MPS AND GMO-L&P COST OF SERVICE RESULTS IN
 2 ITS LAST RATE CASE SUPPORT THE LOWER PRICED
 3 RESIDENTIAL ELECTRIC SPACE HEATING COMPARED TO
 4 GENERAL USE AT THAT TIME?

5 A. No. In Case No. ER-2010-0356, revenues from Electric Space Heating produced
 6 substantially lower winter rates of return than the rates of return for both the
 7 General Use schedule and for the entire Residential class. These results are
 8 shown below:¹²

| | <u>Annual</u> | <u>Summer</u> | <u>Winter</u> |
|----------------------|---------------|---------------|---------------|
| <u>GMO-MPS:</u> | | | |
| 11 Residential - All | 6.134% | 5.290% | 6.940% |
| 12 General Use | 6.287% | 4.726% | 8.013% |
| 13 Space Heating | 5.871% | 6.384% | 5.483% |
| 14 Other Use | 21.892% | 18.813% | 23.610% |
| <u>GMO-L&P:</u> | | | |
| 17 Residential - All | 6.560% | 7.488% | 5.915% |
| 18 General Use | 7.281% | 7.142% | 7.396% |
| 19 Space Heating | 5.393% | 7.828% | 4.027% |
| 20 Other Use | 20.732% | 18.276% | 21.690% |

21 The continuing winter rate advantage of Electric Space Heating over General Use
 22 has been accompanied by a discrepancy between Electric Space Heating and
 23 General Use winter rates of return. In Case No. ER-2010-0356, GMO-MPS'
 24 winter rate of return for Space Heating was 2.53 percentage points lower than the
 25 winter rate of return for General Use at rates in effect at that time. This gap grows
 26 to 3.04 percentage points for GMO-MPS in this case with current rates. In Case
 27 No. ER-2010-0356, GMO-L&P's winter rate of return for Space Heating was

¹² Direct Testimony of Paul M. Normand, Case No. ER-2010-0356, Table 3A, page 20 and Table 3B, page 21.

1 3.37 percentage points lower than the winter rate of return for General Use at
2 rates in effect at that time. This gap grows to 3.68 percentage points for GMO-
3 L&P in this case with current rates.

4
5 Simply stated, Space Heating customers are inequitably paying less than their fair
6 share of the cost to serve them relative to General Use customers, and this
7 discrepancy has persisted for both GMO-MPS and GMO-L&P. These continuing
8 inequities should be addressed in assigning revenue to tariff classifications and
9 designing rates in this case.

10

11 **Q. WHAT ARE THE WINTER PRICE CONSEQUENCES IF THE**
12 **DISCREPANCY BETWEEN THE WINTER RATES OF RETURN FOR**
13 **ELECTRIC SPACE HEATING COMPARED TO GENERAL USE ARE**
14 **ELIMINATED?**

15 A. At current rates, the winter energy charge revenue per kWh and resulting winter
16 rate of return for General Use is higher than for Electric Space Heating.
17 Equalizing the rates of return seasonally for the Residential class and among the
18 Residential schedules in the winter based on the GMO-MPS and GMO-L&P cost
19 of service results at current revenues would require higher winter energy charge
20 revenue per kWh for Electric Space Heating and lower revenue per kWh for
21 General Use. The winter energy charge revenue per kWh differences between
22 General Use and Electric Space Heating are sharply reduced as a result of the
23 required revenue shifts, from more than 2.14 cents per kWh to 0.96 cents per kWh

1 for GMO-MPS and from 2.53 cents per kWh to 1.17 cents per kWh for GMO-
2 L&P. The required Residential revenue shifts seasonally and among the winter
3 schedules and the resulting winter energy price consequences are developed on
4 Schedule FJC-3A for GMO-MPS and on Schedule FJC-3B for GMO-L&P.

5

6 If both the General Use and Electric Space Heating customers were currently
7 paying their fair share of the cost to serve them at current rates as indicated by the
8 GMO-MPS and GMO-L&P cost of service results, the Space Heating price
9 advantage would drop dramatically. The attractiveness of Space Heat to KCP&L-
10 GMO's Residential customers today is due to the fact that it is underpriced.

11

12 **Q. DO THE OTHER MISSOURI ELECTRIC UTILITIES HAVE SEPARATE**
13 **ALL-ELECTRIC OR SPACE HEATING RESIDENTIAL RATES?**

14 A. No. Schedule FJC-4 provides the current Residential rates for Ameren Missouri
15 ("Ameren") and The Empire District Electric Company ("Empire District").
16 Neither of the other Missouri electric utilities offers a discounted Electric Space
17 Heating service.

18

19 **Q. HOW DO THE RESIDENTIAL SERVICE RATES FOR OTHER**
20 **MISSOURI ELECTRIC UTILITIES COMPARE TO THOSE FOR**
21 **KCP&L-GMO?**

22 A. Both Ameren and Empire District have a fixed monthly charge and a single block
23 summer energy charge. Ameren and Empire District have two-block, declining

1 energy rates in the winter with block breaks at 750 kWh and 600 kWh,
2 respectively. The winter rate differential between the first and second block is
3 2.51 cents per kWh for Ameren and 1.99 cents per kWh for Empire District.
4 Empire District does not have a summer/winter rate differential for the first block
5 for Residential Service.

6
7 By comparison, GMO-MPS' General Use schedule effectively has a declining,
8 two-block winter energy rate structure as shown in Schedule FJC-1A (i.e., three
9 blocks with no rate difference between the last two blocks involving usage of
10 more than 600 kWh), with a current rate differential of 3.43 cents per kWh
11 between the first two blocks. GMO-L&P's General Use service has a declining,
12 two-block winter energy rate structure as shown in Schedule FJC-1B, with a
13 current rate differential of 2.62 cents per kWh between the two blocks. Based on
14 these pricing considerations, GMO-MPS and GMO-L&P have a stronger potential
15 to add winter load through their current General Use blocked-rate pricing than
16 does Ameren or Empire District without the need for separate, significantly
17 lower-priced Electric Space Heating schedules.

1 Q. DOES ELECTRICITY COMPARE FAVORABLY WITH NATURAL GAS
2 FOR HEATING PURPOSES GIVEN GMO-MPS' AND GMO-L&P'S
3 CURRENT WINTER RATES?

4 A. No. Based on the U.S. Energy Administration's Heating Fuel Cost Comparison
5 calculator and MGE's current natural gas price to residential customers, electric
6 prices would have to be no more than 1.52 cents per kWh in order for a customer
7 to save money on monthly utility bills through an electric space heating furnace
8 rather than a natural gas furnace.¹³ This result and results for various natural gas
9 furnace efficiencies and alternative electric heating options are shown in the top
10 panel of Schedule FJC-5. The schedule also shows that GMO-MPS' and GMO-
11 L&P's current winter energy charges are well above the electric prices needed to
12 produce customer savings resulting from the choice of electricity rather than
13 natural gas for space heating purposes. The electric heating option disadvantage
14 for customers grows under KCP&L-GMO proposed rates.

¹³The fuel cost comparison calculator is available through www.eia.gov/neic/experts/heatcalc.xls (accessed on July 9, 2012). This calculation is based on U.S. Department of Energy northern region standard furnace efficiencies of 78% for electricity and 90% mid-efficiency furnace for natural gas and heat contents of 3,412 Btus/kWh for electricity and 102,300 Btus/Ccf for natural gas. Furnace standards are from U.S. Department of Energy, "Energy Conservation Program: Conservation Standards for Residential Furnaces and Residential Central Air Conditioners and Heat Pumps," 10 CFR Part 430, issued October 24, 2011. Natural gas and electricity heat content values are from U. S. Energy Administration, *Monthly Energy Review*, July 2012, pages 176 and 178. MGE's current gas prices are contained on Sheet No. 24.3, effective February 13, 2012.

1 **Q. BASED ON YOUR ELECTRIC-GAS COMPARISON, WHY THEN**
2 **WOULD CUSTOMERS CHOOSE ELECTRICITY OVER NATURAL GAS**
3 **FOR HEATING PURPOSES?**

4 A. Aside from possible one-time, equipment and installation cost differences,
5 Electric Space Heating (single meter) provides lower-price winter energy not only
6 for heating but also for all other uses of electricity, so that the winter bills savings
7 from these other uses of electricity may be sufficient to offset the price advantage
8 that natural gas has for space heating purposes. Customers may be naturally
9 attracted to “discounted” rates too, regardless of whether that is really the wisest
10 choice.

11

12 **Q. IS THIS A REASONABLE RATEMAKING APPROACH?**

13 A. No. Fairness considerations suggest that two residential customers should not pay
14 different prices in the winter for lighting their homes, operating their televisions
15 and refrigerators, and using other electric appliances just because one customer
16 happens to heat his or her home with electricity and the other customer does not.
17 Furthermore, the discounted Electric Space Heating services are underpriced
18 based on the cost to provide them. These two fairness considerations are not met
19 with the KCP&L-GMO’s Residential service offerings today.

1 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING THE**
2 **AVAILABILITY OF RESIDENTIAL SPACE HEATING SERVICE?**

3 A. Yes. Schedule FJC-6 shows that for a number of years, GMO-MPS' and GMO-
4 L&P's Residential General Use customer bases have steadily declined at a time
5 when their discounted Electric Space Heating customer bases have continually
6 grown. Underpriced GMO-MPS and GMO-L&P Electric Space Heating services
7 have contributed to this persistent imbalanced growth within the Residential class.

8

9 **4. RESIDENTIAL RATE DESIGN RECOMMENDATIONS**

10

11 **4.1 CURRENT REVENUE SHIFT**

12

13 **Q. WHAT IS THE PURPOSE OF SHIFTING CURRENT RESIDENTIAL**
14 **REVENUE SEASONALLY AND AMONG RATE SCHEDULES IN THE**
15 **WINTER?**

16 A. Current revenues are adjusted on a revenue-neutral basis based on the GMO-
17 MPS and GMO-L&P cost of service results so that Residential customers
18 seasonally and on different rate schedules in the winter contribute revenue
19 through the rates they pay that reflect the cost to serve them. The recommended
20 revenue shifts and the resulting energy charge adjustments correct the current
21 seasonal inequities in Residential revenue collection and correct the current
22 relative under pricing of the Electric Space Heating services in the winter.

23

1 **Q. DOES KCP&L-GMO'S RECOMMENDATION TO SPREAD THE**
2 **PROPOSED INCREASE AMONG THE RESIDENTIAL SCHEDULES**
3 **ACHIEVE THIS SAME RESULT?**

4 A. No. The KCP&L-GMO across-the-board recommendation based on current
5 revenues without first adjusting Residential rates does not address Residential cost
6 of service differences by season and within the rate schedules in the winter based
7 on GMO-MPS' and GMO-L&P's cost of service results. In fact, an across-the-
8 board recommendation accentuates the rate of return differentials and resulting
9 inequities within the Residential class, as shown for GMO-MPS and GMO-L&P
10 in Schedule FJC-7 with an illustrative 10 percent winter revenue increase.

11

12 **Q. EXPLAIN HOW YOU USE THE GMO-MPS AND GMO-L&P COST OF**
13 **SERVICE RESULTS TO ADJUST CURRENT RESIDENTIAL REVENUE.**

14 A. I recommend that current Residential revenue be adjusted based on a revenue-
15 neutral shift seasonally and among the rate schedules in the winter to equalize
16 summer and winter rates of return and to equalize the winter rates of return among
17 the rate schedules. The required seasonal revenue change and the winter revenue
18 changes among the Residential services are developed in Schedule FJC-3A for
19 GMO-MPS and in Schedule FJC-3B for GMO-L&P, schedules discussed earlier
20 in my testimony. I explain my recommendations on how rates must be adjusted to
21 reflect these required revenue changes in Section 4.3. First, I explain my
22 recommendations pertaining to the prospective availability of Residential Electric
23 Space Heating.

1 **4.2 ELECTRIC SPACE HEATING SERVICE AVAILABILITY**

2

3 **Q. WHAT IS YOUR RECOMMENDATION PERTAINING TO THE**
4 **PROSPECTIVE AVAILABILITY OF THE RESIDENTIAL SPACE**
5 **HEATING SERVICES?**

6 A. I recommend elimination of these rate schedules based the ratemaking
7 considerations discussed in my testimony. The resulting Residential rates before
8 the approved base revenue change, explained in Section 4.3, incorporate the
9 recommended current revenue shifts, explained in Section 4.1.

10

11 **Q. OTHER THAN THE RATEMAKING CONSIDERATIONS YOU HAVE**
12 **DISCUSSED, ARE THERE PUBLIC POLICY REASONS THAT**
13 **SUPPORT ELIMINATION OF THE RESIDENTIAL SPACE HEAT**
14 **SERVICES?**

15 A. Yes. In the 1970s, rising natural gas demand and declining production along with
16 supply availability concerns provided public policy support for favoring the use of
17 electricity over natural gas, including offering special space heating rates to
18 encourage the installation of electric space heating equipment. Energy market
19 conditions today no longer provide this public policy support for preferential
20 treatment of electricity for space heating purposes. In their place, today's energy-
21 related public policy focuses on promoting end-user energy conservation, limiting
22 environmental impacts related to energy production and delivery, and
23 encouraging efficiency in energy consumption. These environmental concerns

1 result from impacts on air quality, water use and pollution, and soil
2 contamination. Efficiency in energy consumption considers both appliance
3 efficiency and the full fuel cycle efficiency of alternative energy sources, i.e., the
4 amount of energy delivered to end users taking into account energy used in the
5 full cycle from extraction to processing to generation to transmission to delivery.

6
7 GMO-MPS' and GMO-L&P's Residential Electric Space Heating services are
8 inconsistent with today's public policy objectives. Offering separate, discounted
9 Residential Electric Space Heating services further blunts customer incentives to
10 conserve electricity used for both heat and non-heat purposes in the winter.¹⁴
11 Furthermore, the often-presumed benefits of winter electric load additions
12 resulting from the availability of lower-priced Residential Electric Space Heating
13 services ignore the environment impacts of the increased winter electricity use.

14
15 Finally, promotion of electricity through the Residential Electric Space Heating
16 services fails to consider that natural gas is more efficient than electricity for
17 space heating purposes. Based on U.S. Department of Energy efficiency
18 standards for residential furnaces and heat pumps, the consumption efficiency,
19 i.e., combined appliance and fuel cycle efficiency, for a natural gas furnace is 74-

¹⁴ GMO-MPS and GMO-L&P General Use schedules have declining block winter energy charges that blunt customer conservation incentives and result in winter load additions that have environmental impacts. However, the availability of even lower-price Electric Space Heating services worsens efforts to encourage energy conservation and to limit environmental impacts. In addition, it is not in KCP&L-GMO's interest to encourage customers to use less electricity in the winter because its net revenue would fall with declining usage.

1 82 percent while the consumption efficiency is 50 percent for an electric heat
2 pump and 23 percent for an electric furnace.¹⁵

3

4 **Q. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION**
5 **PERTAINING TO THE PROSPECTIVE AVAILABILITY OF THE**
6 **RESIDENTIAL ELECTRIC SPACE HEATING SERVICES?**

7 A. While I recommend that these services be eliminated, I understand that the
8 Commission may prefer to take a more gradual approach and schedule the
9 elimination of the services for a subsequent rate case. To achieve this objective, I
10 alternatively recommend that the Commission: (1) adjust current rates to
11 incorporate the recommended GMO-MPS and GMO-L&P current revenue shifts
12 among Residential schedules explained in Section 4.1; (2) indicate its intent to
13 eliminate all Electric Space Heating services; (3) freeze the GMO-MPS and
14 GMO-L&P Electric Space Heating schedules, as it did for the GMO-L&P
15 Space/Water Heating-Separate Meter schedule in 1995; and (4) require tariff
16 language regarding availability to ensure the effectiveness of freezing the

¹⁵These calculations are based on the following sources: (1) U.S. Department of Energy, "Energy Conservation Program: Conservation Standards for Residential Furnaces and Residential Central Air Conditioners and Heat Pumps," 10 CFR Part 430, issued October 24, 2011; (2) National Research Council, National Academy of Sciences, "Review of Site (Point-of-Use) and Full-Fuel-Cycle Measurement Approaches to DOE/EERE Building Appliance Energy-Efficiency Standards," May 15, 2009, page 6; and (3) U.S. Energy Information Administration, Fuel Cost Comparison Calculator available through www.eia.gov/neic/experts/heatcalc.xls (accessed on July 9, 2012). The calculations are based on the appliance efficiencies 81 percent and 90 percent for weatherized and non-weatherized natural gas furnaces in the region that includes Missouri, respectively, in (1) and on a single-package heat pump with an 8.0 Heating System Performance Factor from (1) with an adjustment for Missouri shown in (3). The fuel cycle efficiencies used the calculations, provided in (2), are 91 percent for natural gas and 30 percent for electricity based on coal-fired power plants. In 2011, KCP&L's electric generation consisted of 80 percent coal, 15 percent nuclear, 3 percent natural gas and oil, and 2 percent wind (Great Plains Energy Incorporated/Kansas City Power & Light Company's 2011 SEC Form 10-K, page 8). The consumption efficiency for each energy source is the product of the appliance efficiency and fuel cycle efficiency.

1 schedules and to simplify their subsequent elimination. Each of these parts of this
2 alternative recommendation is necessary if the services are to be simply
3 eliminated in a subsequent rate case. Merely freezing the prospective availability
4 of the schedules in this case is not sufficient.

5

6 **Q. EXPLAIN YOUR TARIFF LANGUAGE RECOMMENDATION IN THE**
7 **EVENT THE COMMISSION FREEZES THE RESIDENTIAL SPACE**
8 **HEAT SCHEDULES.**

9 A. Freezing a rate schedule is intended to be a first step toward eliminating it in a
10 subsequent rate case. Given this purpose, I recommend that the Commission
11 require that the availability of the schedules as specified in the tariff be limited to
12 existing customers at existing premises. If a customer moves from premise A to
13 premise B, the service would not be available to the customer at premise B nor
14 would the service be available to a different customer at premise A. My intent is
15 not only to avoid the possible growth in customers served under the Residential
16 Electric Space Heating schedules but also to ensure declining customer counts on
17 the frozen schedules over time thereby simplifying their future elimination.

1 **4.3 ADJUSTED RESIDENTIAL RATES AT CURRENT REVENUE**

2
3 **Q. EXPLAIN HOW ENERGY CHARGES AT CURRENT REVENUE ARE**
4 **ADJUSTED TO REFLECT YOUR RECOMMENDED REVENUE SHIFT.**

5 A. The rates are developed on Schedule FJC-8A for GMO-MPS and Schedule FJC-
6 8B for GMO-L&P.¹⁶ Line 9 provides the recommended winter revenue shift per
7 kWh for each Residential schedule for GMO-MPS and GMO-L&P. These
8 amounts are used to adjust GMO-MPS' and GMO-L&P's current winter energy
9 charges.

10
11 If the Commission accepts my recommendation to eliminate Electric Space
12 Heating, a single General Use schedule is developed for GMO-MPS and GMO-
13 L&P. For GMO-MPS, the consolidated General Use schedule is based on the
14 current Space Heating rate blocks and rate block rate differences (Schedule FJC-
15 8A, lines 17-19).

¹⁶The rates shown in Schedule FJC-8B are based on the GMO-L&P cost of service results. However, Residential base revenue for GMO-L&P in the KCP&L-GMO Application differs somewhat from the Residential base revenue in the GMO-L&P cost of service study. If the KCP&L-GMO Application Residential base revenue for GMO-L&P is used in the GMO-L&P cost of service study, the following per kWh changes to the rates shown in Schedule FJC-8B are required:

| | <u>General Use</u> | <u>Space Heating</u> | <u>Other Use</u> |
|----------------------|--------------------|----------------------|------------------|
| Winter Energy Charge | | | |
| Eliminate Space Heat | (0.0000) | | (0.0009) |
| Freeze Space Heat | (0.0004) | 0.0003 | (0.0009) |
| Summer Energy Charge | 0.0001 | 0.0001 | 0.0001 |

While there is a very small difference between Residential base revenue for GMO-MPS in the KCP&L-GMO Application and the GMO-MPS cost of service study, no changes in Schedule FJC-8A rates result from using the KCP&L-GMO Application revenue in the GMO-MPS cost of service study because energy charges are rounded to four decimal places.

1 For GMO-L&P, the consolidated General Use schedule shown in Schedule FJC-
2 8B shows a “recommended” uniform winter energy charge for all kWh (line 15).
3 My preferred recommendation is to develop the consolidated GMO-L&P General
4 Use schedule based on the current Electric Space Heating rate blocks and rate
5 block rate differences, as I do for GMO-MPS, but KCP&L-GMO has not
6 provided the requested billing determinants to enable the rate calculation on this
7 basis.¹⁷ If KCP&L-GMO provides the necessary billing determinants to develop
8 the consolidated General Use schedule on this basis, my preferred
9 recommendation should be used. In addition, the Space/Water Heating - Separate
10 Meter schedule is not included in consolidated General Use schedule; however,
11 there are only 51 customers on this schedule that has been frozen for 17 years.¹⁸

12
13 With either my primary or alternative recommendation, Line 9 revenue per kWh
14 changes are used to adjust the GMO-MPS Other Use and Time of Day winter
15 energy charges and the GMO-L&P Other Use winter energy charges. These
16 winter energy charges are shown on lines 13-15, Schedule FJC-8A for GMO-
17 MPS and on line 13, Schedule FJC-8B for GMO-L&P.

¹⁷ KCP&L-GMO’s Response to Data Request MGE-2-1. In KCP&L-GMO’s Response to Data Request MGE-4-1, KCP&L-GMO confirmed that it is unwilling to provide the necessary billing determinants for GMO-L&P as part of the discovery process and indicated that it could develop reasonable estimates of these determinants.

¹⁸ The average customer count is shown in KCP&L-GMO Application, Appendix 2.

1 If the Commission freezes Electric Space Heating availability, current winter
2 energy charges are adjusted by the recommended revenue shift per kWh on each
3 schedule, with no change in rate differences among blocks in the blocked
4 schedules (Schedule 8-A, lines 21-23 and Schedule FJC-8B, lines 17-21).

5
6 The required summer energy charge change is shown on Schedule FJC-8A, line
7 24 for GMO-MPS and on Schedule FJC-8B, line 22 for GMO-L&P. These per
8 kWh amounts are to be added to the current summer energy charges shown in
9 Schedule FJC-1A for GMO-MPS and in Schedule FJC-1B for GMO-L&P. My
10 recommendation maintains the current rate structures with identical summer
11 energy charges for General Use and Electric Space Heating services.

12
13 **Q. WITH THE ELIMINATION OF SEPARATE ELECTRIC SPACE**
14 **HEATING FOR GMO-L&P, YOU INDICATE THAT YOU PREFER TO**
15 **DEVELOP WINTER ENERGY CHARGES BASED ON THE CURRENT**
16 **ELECTRIC SPACE HEATING RATE BLOCKS AND RATE BLOCK**
17 **DIFFERENCES. WHAT BILLING DETERMINANT DATA MUST**
18 **KCP&L-GMO PROVIDE TO DEVELOP THESE ENERGY CHARGES?**

19 **A.** In order to develop rates on this blocked basis, GMO-L&P's General Use winter
20 usage in the current Over 650 kWh block must be split between (1) usage from
21 651 through 1000 kWh and (2) usage of more than 1000 kWh. For illustrative
22 purposes, based on an assumption that 25 percent of GMO-L&P's General Use

1 winter total falls in the more than 1000 kWh block, the resulting consolidated
2 General Use winter rates at current revenue would be:

| | | |
|---|----------------|--------|
| 3 | Service Charge | \$9.75 |
| 4 | | |
| 5 | First 1000 kWh | 0.0844 |
| 6 | Over 1000 kWh | 0.0595 |

7 The 25 percent assumption is used because approximately 25 percent of
8 KCP&L's General Use total winter usage falls in the Over 1000 kWh block in the
9 current KCP&L rate case (Case No. ER-2012-0174).

10

11 **4.4 RESIDENTIAL RATES WITH APPROVED BASE REVENUE CHANGE**

12

13 **Q. HOW WOULD YOUR RECOMMENDED RESIDENTIAL RATES BE**
14 **ADJUSTED TO COLLECT ANY BASE REVENUE CHANGE APPROVED**
15 **BY THE COMMISSION?**

16 **A.** I recommend that the approved Residential base revenue change be assigned to
17 the winter and summer seasons to maintain the equalized winter and summer
18 Residential rates of return resulting from my revenue-neutral adjustments. I have
19 no recommendation regarding Residential service charges. After determining the
20 revenue change in each season due to approved service charge changes, I
21 recommend that the remaining revenue in each season be collected with a uniform
22 per kWh change in all energy charges in each season. These energy charge
23 changes are to be added to my recommended energy charges at current revenue
24 developed in Schedule FJC-8A for GMO-MPS and Schedule FJC-8B for GMO-
25 L&P.

1 These calculations are shown in Schedule FJC-9A for GMO-MPS with an
2 assumed Residential base revenue increase of about one-third of the GMO-MPS
3 request and an assumed three percent increase in all Residential service charges.
4 Schedule FJC-9B provides the calculations for GMO-L&P with an assumed
5 Residential base revenue increase of about one-third of the GMO-L&P request
6 and an assumed four percent increase in all Residential service charges. The
7 resulting energy charge changes shown on line 12 in each Schedule are to be
8 added to my recommended energy charges at current revenue in each Residential
9 schedule (Schedule FJC-8A for GMO-MPS and Schedule FJC-8B for GMO-
10 L&P).

11

12 Schedules FJC-9A and FJC-9B can be used to determine the energy charge
13 changes from any base revenue increase that the Commission ultimately approves
14 by inserting the approved base revenue increase in line 5, column d and the
15 service charge revenue change in line 10 in each schedule. The resulting line 12
16 amounts are to be added to my recommended energy charges at current revenue in
17 Schedules FJC-8A and FJC-8B.

1 **5. REGULATORY COMMISSION DECISIONS REGARDING KCP&L**

2

3 **Q. HAS KCP&L PROVIDED RECOMMENDATIONS TO REDUCE**
4 **RESIDENTIAL WINTER ENERGY PRICE DIFFERENCES BETWEEN**
5 **GENERAL USE AND ELECTRIC SPACE HEATING SCHEDULES**
6 **ELSEWHERE?**

7 A. Yes. In its 2009 Kansas rate case, KCP&L, through its rebuttal testimony,
8 explained that “Based on its cost data offered in the Normand study, Residential
9 General Use rates in the winter are too high and Residential Heating rates in the
10 winter are too low.”¹⁹ Based on this result, KCP&L provided a recommendation
11 to “move Residential winter rates closer to cost with revenue-neutral adjustments”
12 with the result of reducing “the differential between General Use and Heating
13 within the Residential class.”²⁰ The Kansas Corporation Commission (“KCC”)
14 adopted these KCP&L recommendations adjusted for the KCC-approved revenue
15 requirement.²¹

¹⁹ Rebuttal Testimony of Tim M. Rush, Docket No. 10-KCPE-415-RTS, page 23, lines 6-8. The referenced Normand study showed the following Residential rates of return at rates in effect at that time:

| | <u>Annual</u> | <u>Summer</u> | <u>Winter</u> |
|-------------------------|---------------|---------------|---------------|
| Residential - All | 7.736% | 7.726% | 7.744% |
| Regular (General Use) | 8.558% | 7.485% | 9.611% |
| Time of Day | 7.108% | 6.791% | 7.384% |
| Water Heating (“WH”) | 6.851% | 7.567% | 6.309% |
| Separately Metered - WH | 5.650% | 8.209% | 4.256% |
| Space Heating (“SH”) | 5.823% | 8.547% | 4.057% |
| Separately Metered - SH | 7.226% | 8.882% | 6.241% |

Direct Testimony of Paul M. Normand, Docket No. 10-KCPE-415-RTS, Table 3, page 19.

²⁰ Id, page 23, lines 13-14, 20. KCP&L indicated that it provided the recommendation in the event that the Kansas Corporation Commission decided to implement rate design changes in this docket.

²¹ Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests Docket No. 10-KCPE-415-RTS, November 22, 2010, page 125.

1 Differences between Residential General Use and Electric Space Heat winter
 2 energy charges, i.e., cents per kWh, were dramatically reduced as a result of the
 3 KCC adoption of the KCP&L recommendation in Kansas as shown below:

| | Residential Space Heat Rate Advantage Over General Use: Winter Rate Block Difference (Cents/kWh) ²² | |
|-------------------------------|--|--------------------------|
| | <u>Before Rate Charge</u> | <u>After Rate Change</u> |
| 4 <u>Electric Space Heat</u> | | |
| 5 First 1000 kWh | (2.83) | (0.73) |
| 6 Over 1000 kWh | (4.10) | (1.57) |
| 7 | | |
| 8 <u>Electric Space Heat-</u> | | |
| 9 <u>Separate Meter</u> | | |
| 10 First 1000 kWh | 0.86 | 2.16 |
| 11 Over 1000 kWh | (4.25) | (1.57) |

12 As discussed earlier my testimony, KCP&L-GMO proposes to increase the
 13 current winter energy charge differences between the Space Heat and General Use
 14 schedules in this case in Missouri, contrary to the KCP&L recommendation and
 15 the KCC order in the KCP&L 2009 Kansas rate case.

16 In the Kansas case, KCP&L used its cost of service study results in developing its
 17 recommendation. In contrast, KCP&L does not recognize the GMO-MPS and
 18 GMO-L&P cost of service results in developing its proposed rates in this case.

19 My recommendations in this case use the GMO-MPS and GMO-L&P cost of

²² *Id.*, page 125 and Exhibit V, page 2 provide the following winter energy charges before and after the approved rate change:

| | <u>Present Rates</u> | | | <u>New Rates</u> | | |
|----------------|----------------------|-------------------|---------------------------------------|--------------------|-------------------|---------------------------------------|
| | <u>General Use</u> | <u>Space Heat</u> | <u>Space Heat- Separate Meter</u> | <u>General Use</u> | <u>Space Heat</u> | <u>Space Heat- Separate Meter</u> |
| First 1000 kWh | 0.08037 | 0.05211 | 0.08899 | 0.07312 | 0.06581 | 0.09469 |
| Over 1000 kWh | 0.08003 | 0.03908 | 0.03758 | 0.07312 | 0.05746 | 0.05746 |

The Space Heat-Separate Meter schedule has been frozen to new customers since January 1, 2007.

1 service results to reduce current Electric Space Heating-General Use winter
2 energy charge differences so that Residential customers on these schedules pay
3 the cost to serve them.

4

5 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING THE**
6 **KCC'S ORDER IN KCP&L'S 2009 RATE CASE?**

7 A. Yes. The KCC opened a rate design docket because the "current rate structure
8 must be redesigned to move customer classes closer to the principal of cost
9 causation" and ordered that various factors including the following be used:

- 10 • Further simplification of rate structure for Residential Classes by reducing
11 the number of subclasses.
- 12 • Eliminate rate structures with artificial incentives to encourage a customer
13 to switch end-use equipment.
- 14 • Incorporate the Commission's energy efficiency and energy conservation
15 goals.²³

16

17 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED SEPARATE**
18 **SPACE HEATING SERVICE FOR NON-RESIDENTIAL CUSTOMER**
19 **CLASSES?**

20 A. Yes. KCP&L-GMO does not offer separate space heating service to non-
21 residential customers, other than a GMO-L&P separately metered service that was

²³Order: 1) Addressing Prudence; 2) Approving Application, in Part; & 3) Ruling on Pending Requests
Docket No. 10-KCPE-415-RTS, November 22, 2010, page 123, 124-25.

1 frozen in 1995.²⁴ However, in Case No. ER-2007-0291, the Commission
2 addressed separate all-electric space and separately-metered space heating
3 services to KCP&L general service customers in the City of Kansas City and
4 other western Missouri communities. In that case, the Commission froze these
5 services to existing customers' locations and reduced the price advantage of these
6 services over the general service schedules, with findings and decisions that
7 included:

- 8 • Waiting until anywhere from 2009 to 2012 to address the rate disparities
9 that the separately-metered space heating and all-electric tariff customers
10 pay compared to the general service tariff customers is waiting too long.
- 11 • Trigen's and Staff's argument that increasing all class' rates the same
12 percentage would effectively increase the size of the general service-space
13 heating discounts, and exacerbate the current problem, is compelling.
- 14 • In a future rate case, the Commission might be willing to consider
15 eliminating the discounts altogether. Allowing even more customers to
16 use those discounts flies in the face of a possible move, supported by
17 Staff, towards eliminating them entirely.²⁵

18

19 **Q. DO YOU HAVE ANY OBSERVATIONS REGARDING THESE**
20 **MISSOURI AND KANSAS DECISIONS REGARDING KCP&L?**

21 A. Yes. Through my testimony, I examine Residential Electric Space Heating-
22 General Use issues similar to those that that led the Commission to its 2007
23 decision regarding general service space heating services and that led the KCC to
24 its 2010 decision regarding Residential space heating services. This examination

²⁴ For the test year, KCP&L-GMO Application, Appendix 2 shows an average of 67 general service customers receiving this service.

²⁵ Report and Order, Case No. ER-2007-0291, issued December 6, 2007, pages 77, 78, and 82. The Commission also froze Residential General Use and Space Heat - 2 Meters in this case.

1 supports my recommendations in this case regarding the pricing and availability
2 of Residential Electric Space Heating services.

3

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

5 **A. Yes.**

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


In the Matter of)
KCP&L Greater Missouri Operations Company's)
Request for Authority to Implement)
General Rate Increase for Electric Service)

File No. ER-2012-0175

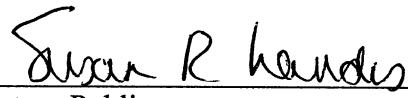
AFFIDAVIT

STATE OF TEXAS)
)
COUNTY OF DALLAS) ss

I, F. Jay Cummings, state that I am employed by Ruhter & Reynolds, Inc., Consulting Economists as a Senior Economist; that the Direct Testimony and schedules attached hereto have been prepared by me or under my direction and supervision on behalf of Southern Union Company, d/b/a Missouri Gas Energy; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 20th day of August, 2012.



Notary Public

My Commission Expires:

7/29/2015
(SEAL)

