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Witness: F. Jay Cummings
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Case No.: ER-2012-0174
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2012-0174

REBUTTAL TESTIMONY

OF

F. JAY CUMMINGS

ON BEHALF OF

MISSOURI GAS ENERGY

September 5, 2012

MGE Exhibit No. 626
Date 10/17/12 Reporter MM
File No. ER-2012-0174

REBUTTAL TESTIMONY OF F. JAY CUMMINGS

CASE NO. ER-2012-0174

SEPTEMBER 5, 2012

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

2 A. My name is F. Jay Cummings.

3

4 **Q. ARE YOU THE SAME F. JAY CUMMINGS WHO FILED DIRECT**
5 **TESTIMONY IN THE PROCEEDING ON AUGUST 16, 2012?**

6 A. Yes.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY.**

9 A. I address the parties' direct testimony, filed on August 16, 2012, related to the
10 issues I discussed in my direct testimony. The analysis and recommendations in
11 my direct testimony pertained to: (1) cost-based, revenue-neutral Residential rate
12 adjustments at current revenue; (2) the availability of the separate Residential
13 General Use and Space Heat ("Space Heat") schedules; and, (3) the design of
14 energy charges for Residential services.

1 Q. WHICH PARTIES ADDRESS THESE RESIDENTIAL RATE ISSUES IN
2 THEIR DIRECT TESTIMONY?

3 A. The Missouri Public Service Commission Staff ("Staff") is the only party that
4 discusses any of the specific issues that I analyzed in my direct testimony.¹ The
5 Staff recommends a winter revenue shift toward Space Heat services as follows:

6 Staff recommends the first winter block of RESB (residential
7 general use and space heat - one meter) and the winter
8 season separately metered space heat rate of RESC
9 (residential general use and space heat - 2 meters be
10 increased by an additional 5%. These rates are being
11 adjusted to bring residential rate classes RESB and RESC
12 closer to its cost of service for the winter season.²

13

14 Q. DO YOU HAVE ANY OBSERVATIONS REGARDING STAFF'S
15 RECOMMENDED REVENUE SHIFT?

16 A. Yes. Staff appropriately recognizes that Kansas City Power & Light Company's
17 ("KCP&L's") Residential Space Heat services are underpriced in the winter.
18 However, Staff's recommended winter revenue shift toward these services does
19 not go far enough when compared to the Staff cost of service results.

¹ Rate design direct testimony was filed in this case by Michael S. Scheperle on behalf of the Commission Staff, Barbara A. Meisenheimer on behalf of the Office of the Public Counsel, Maurice Burbaker on behalf of Missouri Industrial Energy Consumers and Midwest Energy Consumer's Group, and Dennis W. Goins on behalf of the U. S. Department of Energy.

² Direct Testimony of Michael S. Scheperle, page 3, lines 11-15 and Staff's Rate Design and Class Cost-of-Service Report, page 1, lines 27-31.

1 **Q. PLEASE EXPLAIN WHY STAFF'S RECOMMENDED REVENUE SHIFT**
2 **DOES NOT GO FAR ENOUGH.**

3 A. Rebuttal Schedule FJC-1 shows Staff's recommended winter revenue shift and the
4 shift required by the Staff cost of service based on no Residential revenue
5 increase.³ Staff's recommended Space Heat - One Meter winter revenue shift is
6 only 27 percent of that required by the Staff cost of service, and its recommended
7 Space Heat - 2 Meters winter revenue shift is only 12 percent of that required by
8 the Staff cost of service.

9
10 Another point of reference is provided by the Staff cost of service based on its
11 highest recommended revenue requirement and the resulting required 16 percent
12 increase in annual retail revenue for the Residential class.⁴ For Space Heat - One
13 Meter, the Staff cost of service shows that annual retail revenue must increase by
14 15 percent while winter retail revenue must increase by 30 percent at this revenue
15 requirement. For Space Heat - 2 Meters, annual retail revenue must increase by
16 25 percent while winter retail revenue must increase by 36 percent.

³ The Staff cost of service results are provided by rate schedule and season based on Staff's highest recommended revenue requirement, or an overall revenue increase of \$33.72 million. Rebuttal Schedule FJC-1 restates the Staff cost of service based on no revenue increase to the Residential class. This no revenue increase calculation is based on setting the rate of return so that the annual Residential class cost of service in the Staff model equals the annual current Residential class revenue. At this rate of return, the Staff model produces the cost of service by Residential rate schedule annually and by season based on the Staff seasonal allocation of the cost of service components. Rebuttal Schedule FJC-1 shows the resulting difference between the winter cost of service and winter revenue by Residential rate schedule.

⁴ The Staff cost of service is contained in its Excel file named "Scheperle - Staff CCOS.xlsx." The Residential total and rate schedule percentage changes are calculated from the data shown in the sheets labeled "RESA," "RESB," "RESC," and "RES TOD."

1 As explained in my direct testimony, the KCP&L cost of service similarly
2 requires winter revenue shifts to the Space Heat services.⁵ Clearly, winter
3 revenue shifts to Residential Space Heat services are needed so that customers on
4 other rate schedules do not inequitably pay a portion of the cost to provide Space
5 Heating services. Both the Staff cost of service and the KCP&L cost of service
6 show that these inequities exist today. Furthermore, these inequities have
7 persisted at least since KCP&L's last rate case and should be addressed in this
8 case.⁶

9
10 **Q. DO YOU HAVE ANY OTHER OBSERVATIONS REGARDING STAFF'S**
11 **RECOMMENDATION?**

12 **A.** Yes. I have two more observations. First, Staff's revenue shift to Space Heat -
13 One Meter is accomplished by increasing the first block winter rate by five
14 percent. No explanation is provided for this rate design change that increases the
15 rate differential between the first and second rate block. Staff's recommendation
16 continues the historical pattern of an increasingly-pronounced winter declining
17 block rate structure, as explained in my direct testimony.⁷ No support has been
18 provided for continuing this trend. As a result, I recommend no change in the

⁵ Direct Testimony of F. Jay Cummings, Case No. ER-2012-0174, page 10, line 15 - page 16, line 9; page 12, line 14 - page 13, line 6; page 18, lines 4-14; page 23, line 3 - page 24, line 12, and Schedules FJC-3 and FJC-8.

⁶ *Id.*, page 11, line 11 - page 12, line 12.

⁷ *Id.*, page 7, lines 10-14 and Schedule FJC-2.

1 current rate design with the revenue shift assigned to rate blocks to maintain the
2 current rate block differentials.⁸

3
4 Second, Staff does not provide an assessment of the reasonableness of the
5 continuation of Residential Space Heat services. Staff only addresses winter
6 revenue shifts toward Space Heat services to move them closed to their cost of
7 service. I concluded in my direct testimony that these services should be
8 eliminated based not only on cost of service results but also on ratemaking and
9 public policy considerations.

10
11 **Q. DO YOU HAVE ANY OBSERVATIONS RELATED TO STAFF'S**
12 **REVENUE REQUIREMENT RECOMMENDATION AS IT RELATES TO**
13 **YOUR DIRECT TESTIMONY?**

14 **A.** Yes. If the Commission-approved revenue increase for KCP&L falls within
15 Staff's recommended revenue requirement range, the Residential rate changes
16 will very likely be smaller than those shown in Schedule FJC-9, included with my
17 direct testimony.⁹

⁸ *Id.*, page 23, line 5 - page 24, line 18.

⁹ Staff Report: Revenue Requirement Cost of Service, Appendix 2: Staff Accounting Schedules, filed August 2, 2012, Accounting Schedule: 01 provides this revenue increase recommendation.

1 Q. DO YOU HAVE CHANGES IN THE RECOMMENDATIONS THAT YOU
2 MADE IN YOUR DIRECT TESTIMONY AS A RESULT OF THE
3 PARTIES' DIRECT TESTIMONY PERTAINING TO RATE DESIGN?

4 A. No.

5

6 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

7 A. Yes.

Kansas City Power & Light Company
Case No. ER-2012-0174
Winter Residential Shift at Current Revenue

Line	Description	General Use and Other Use	General Use and Space Heat - One Meter	General Use and Space Heat - 2 Meters	Time of Day	Total	Source/Explanation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Staff Cost of Service-						
2	Required Revenue Shift	3,582,026	3,151,250	1,318,500	1,713	8,053,489	Based on Scherple - CCOS.xlsx adjusted to reflect no annual revenue increase for the Residential class.
3	Staff Recommended Shift	-	859,097	160,669	-	1,019,766	Calculated based on a 5% increase in the Space Heat - One Meter first block winter rate, a 5% increase in the Space Heat - 2 meters separately metered winter heat rate, and the kWh by block provided in KCP&L's Response to MGE-4.

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

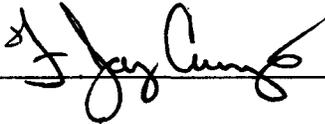
In the Matter of)
Kansas City Power & Light Company's)
Request for Authority to Implement)
A General Rate Increase for Electric Service)

File No. ER-2012-0174

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 Rebuttal 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 4th day of September, 2012.



Notary Public

My Commission Expires:

7/29/2015
(SEAL)

