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Issues: Rate Design; Facilities
Extension Practices
Witness: Michael R. Noack
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Case No.: ER-2010-0355
Date Testimony Prepared: January 5, 2011

MISSOURI PUBLIC SERVICE COMMISSION

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2010-0355

SURREBUTTAL TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

January 5, 2011

MGE Exhibit No. KCP&L-2204
Date 1/18/11 Reporter LMB
File No. ER-2010-0355

Exhibit KCP&L-2204

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariffs to)
Continue the Implementation of Its Regulatory Plan) Case No. ER-2010-0355

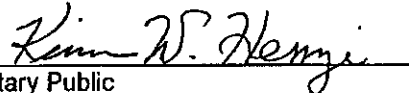
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

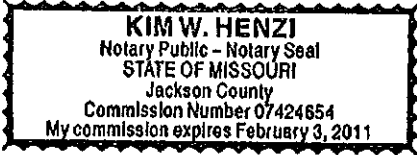
Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


MICHAEL R. NOACK

Subscribed and sworn to before me this 5th day of JANUARY 2011.


Notary Public

My Commission Expires: Feb. 3, 2011



SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. ER-2010-0355

JANUARY 2011

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SURREBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. ER-2010-0355

JANUARY 2011

INTRODUCTION

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 **A.** My name is Michael R. Noack and my business address is 3420 Broadway, Kansas City,
4 Missouri 64111.

5

6 **Q. ARE YOU THE SAME MICHAEL R. NOACK THAT PREVIOUSLY FILED**
7 **DIRECT TESTIMONY IN THIS CASE?**

8 **A.** Yes.

9

PURPOSE

10

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 **A.** The purpose of my testimony is to respond to the rebuttal testimony of Tim Rush of
13 Kansas City Power & Light Company ("KCPL") as it relates to the rate design and line
14 extension issues raised by MGE and Michael Scheperle of the Missouri Public Service
15 Commission Staff ("Staff") as it relates to MGE's rate design issues.

16

17

18

1

2

RESPONSE TO REBUTTAL TESTIMONY OF TIM RUSH

3

A. Rate Design

4

5

Q. DOES KCPL OPPOSE MGE'S PROPOSAL TO ELIMINATE DISCOUNTED ELECTRIC SPACE HEATING RATES FOR RESIDENTIAL CUSTOMERS?

6

7

A. Yes.

8

9

Q. ON WHAT BASIS DOES KCPL PROPOSE TO CONTINUE ITS USE OF DISCOUNTED ELECTRIC SPACE HEATING RATES FOR RESIDENTIAL CUSTOMERS?

10

11

12

A. In his rebuttal testimony (pp. 14 - 17), Mr. Rush indicates that MGE's proposal to eliminate KCPL's discounted electric space heating rates for residential customers should be rejected because:

13

14

15

1. MGE has not prepared or presented a comprehensive rate design proposal addressing all customer classes.

16

17

2. MGE has not prepared a study to support its proposal to eliminate KCPL's discounted electric space heating rates for residential customers.

18

19

3. MGE's characterization of KCPL's residential electric space heating rates as being subsidized by general use residential customers is wrong because KCPL's residential electric space heating rates produce a positive return on investment for KCPL.

20

21

22

23

4. MGE's characterization of KCPL's residential electric space heating rates as being subsidized by KCPL's residential general service rates is wrong

24

1 because they recover short-term variable costs and provide a contribution
2 to recovery of KCPL's fixed costs.

3 5. Eliminating KCPL's discounted residential electric space heating rates
4 will cause rate shock.

5 6. MGE has an "ulterior motive" for proposing to eliminate KCPL's
6 discounted residential electric space heating rates.

7

8 **Q. HOW DO YOU RESPOND?**

9 A. First, because MGE's primary concern with KCPL's rate design relates to discounted
10 residential electric space heating rates, we have limited our rate design recommendations
11 to that topic. That MGE has not made rate design proposals for any other KCPL
12 customer class is no reason to diminish MGE's rate design concerns related to KCPL's
13 discounted residential electric space heating rates.

14

15 Second, MGE did not need to conduct its own separate study to support elimination of
16 KCPL's discounted residential electric space heating rates; KCPL's own CCOS provides
17 ample evidence supporting such elimination. KCPL witness Normand's CCOS study, as
18 shown on Table 3 on page 19 of his direct testimony, indicates that the winter rate of
19 return for the electric space heating customers is 3.583%, while the return for the general
20 use customers is 7.218% and the return for the residential class as a whole is 6.299%.
21 Therefore, addressing KCPL's third and fourth points above, whether characterized as a
22 "subsidy", a "discount", or KCPL's apparently preferred term of "under-recovery", Mr.
23 Rush does not dispute that the residential electric space heating customers produce a
24 significantly lower rate of return for KCPL than general use residential customers. Nor

1 does Mr. Rush address in any meaningful way the reality that KCPL's electric space
2 heating rates are portrayed as "discounted" in advertising apparently intended to induce
3 the purchase and installation of electric appliances in KCPL's service territory.
4 (Schedule MRN-3 to my direct testimony)

5
6 Fifth, on the topic of rate shock, KCPL provides no evidence whatsoever of potential bill
7 impacts that may result from elimination of its discounted residential electric space
8 heating rates. Absent such evidence, it is difficult to assess the validity of KCPL's rate
9 shock concerns.

10
11 Sixth, as to MGE's so-called "ulterior motive", I would simply reply that MGE's desire
12 to benefit its gas service business is no more "ulterior" than KCPL's desire to benefit its
13 electric service business. MGE's goal is simply to level the playing field by eliminating
14 discounted residential electric space heating rates.

15
16 **Q. HAS MR. RUSH OFFERED, OR CITED, ANY ADDITIONAL COST BASIS IN**
17 **HIS REBUTTAL TESTIMONY AS SUPPORT FOR CONTINUATION OF**
18 **KCPL'S DISCOUNTED RESIDENTIAL ELECTRIC SPACE HEATING RATES?**

19 **A.** No. Although Mr. Rush uses the words "cost-based" a number of times, the only cost
20 basis for KCPL's discounted residential electric space heating rates that I have seen in
21 this record is KCPL witness Normand's CCOS, which shows that discounted residential
22 electric space heating rates produce a significantly lower overall return than general use
23 residential rates. In my opinion, therefore, KCPL's own evidence supports elimination of
24 its discounted residential electric space heating rates.

1 Q. HAS MR. RUSH OFFERED AN ALTERNATIVE RATE DESIGN PROPOSAL
2 TO ADDRESS MGE'S CONCERNS REGARDING KCPL'S DISCOUNTED
3 RESIDENTIAL ELECTRIC SPACE HEATING RATES?

4 A. No. In fact, KCPL's rate design proposal – across the board percentage increase for all
5 rates – will only exacerbate the current situation, making the disparity, and hence the
6 discount, between KCPL's electric space heating residential rates and its general use
7 electric rates even greater than it is today.

8
9 While Mr. Rush has briefly mentioned the use of summer/winter rates – which he seems
10 to suggest might be used by other Missouri electric providers (Ameren Missouri and
11 Empire) - as a possible way to address this issue, he makes no concrete proposal in this
12 regard. The type of rates that Ameren Missouri and Empire Electric have is a reasonable,
13 although not the only reasonable way to eliminate KCPL's discounted residential electric
14 space heating rates. Both Ameren Missouri and Empire have a flat summer rate and a
15 declining block rate in the winter. The electric heating customers benefit from the second
16 step rate, while everyone pays basically the same rate for the non-heating portion of their
17 electric bill.

18
19 KCPL has a similar type of rate structure right now for its residential customers: a
20 uniform flat summer rate for all residential customers (electric heating and non-electric
21 heating), but a declining block rate for the general use customers in the winter and an
22 even lower declining block rate for electric heating customers in the winter. The point is
23 that the first step rate for a general use residential customer of KCPL in the winter is
24 \$0.0944/kWh, while the first step rate for a residential customer with electric space heat

1 in the winter is \$0.0663/kWh. Assuming two households (one with electric space heat
2 and one without) use the same number of kWhs before having to turn on the electric
3 space heat, the house without electric space heat pays 42% more for their electricity in
4 the first step of KCPL's declining block rates.

5
6 **Q. ARE THERE OTHER ALTERNATIVES?**

7 **A.** Yes. In addition to eliminating KCPL's discounted residential electric space heating
8 rates (MGE's primary proposal), increasing the disparity between KCPL's electric space
9 heating residential rates and its general use residential rates (KCPL's primary proposal),
10 implementing summer/winter pricing (like Ameren Missouri, Empire and KCPL's non-
11 residential classes), another alternative is to move towards elimination of KCPL's
12 discounted residential electric space heating rates by reducing the disparity between those
13 rates and KCPL's general use residential rates. This may be simpler to achieve and is
14 certainly more consistent with the general considerations regarding rate design offered by
15 Mr. Rush on pages 16 and 17 of his rebuttal testimony (i.e., cost-based, less likely to
16 result in customer dissatisfaction, moving toward a more simplified rate structure, etc.)
17 than increasing the disparity between discounted residential electric space heating rates
18 and general use residential rates as proposed by KCPL.

19

20

21 **Q. ON PAGE 18 OF HIS REBUTTAL TESTIMONY, MR. RUSH POINTS OUT AN**
22 **INCIDENT IN KANSAS WHERE THE RATE DESIGN CAUSED A PROBLEM.**
23 **SINCE HE BROUGHT UP KANSAS, WHAT DID THE KANSAS**
24 **CORPORATION COMMISSION (KCC) DO TO KCPL'S KANSAS ELECTRIC**

1 SPACE HEATING RATES IN THE LAST CASE (DOCKET NO. 10-KCPE 415-
2 RTS) WHICH WAS JUST RECENTLY DECIDED?

3 A. The KCC used an alternative rate design, offered by KCPL and prepared by Mr. Rush,
4 which significantly reduced the discounts and moved the winter rates closer to cost. Prior
5 to the reduction in the discounts, the first step of the electric heat rate was 65% of the
6 general use rate and the second step was 49% of the general use rate. Mr. Rush's
7 proposal, which was accepted by the Kansas Commission, made the first step of the
8 electric heat rate 90% of the general use rate and the second step 79% of the general use
9 second step.

10
11 In reducing KCPL's residential electric space heating discount, the KCC concluded:
12 "KCPL's current rate structure must be redesigned to move customer classes closer to the
13 principal [sic] of cost causation. Each rate class should pay rates based on its costs so
14 that the rate design equalizes the rates of return for all the different classes." (Order: 1)
15 Addressing Prudence; 2) Approving Application, In Part; & 3) Ruling On Pending
16 Requests Docket No. 10-KCPE-415-RTS page 123) The KCC went on to say: "In
17 making its decision, the Commission has reviewed all proposals submitted by the parties
18 and has weighed and balanced their strengths and weaknesses. The Commission has also
19 considered the impact the various proposals will have on ratepayers. With this in mind,
20 the Commission makes the following rulings. The Commission adopts KCPL's
21 alternative rate design proposal presented in Rush Rebuttal Schedule TMR2010-5 but
22 adjusted for the Commission's decision on revenue requirement. The Commission finds
23 changes to the winter energy charges for residential subclasses contained in this proposal
24 will reduce discounts and move the winter rates closer to cost." (Order: 1) Addressing

1 Prudence; 2) Approving Application, In Part; & 3) Ruling On Pending Requests Docket
2 No. 10-KCPE-415-RTS page 125)

3
4
5 **B. Facilities Extension Practices**

6 **Q. MR. RUSH, ON PAGE 20 OF HIS REBUTTAL TESTIMONY, STATES THAT**
7 **MGE IS TRYING TO MISCHARACTERIZE THE LINE EXTENSION**
8 **PROGRAM OF KCPL. IS THAT WHAT YOU ARE TRYING TO DO?**

9 **A.** No. I agree with Mr. Rush that MGE has very similar terms and conditions in our tariff
10 sheets to what KCPL has in theirs but only with respect to commercial accounts. For
11 new residential accounts, MGE's tariff only allows an allowance for a line extension of
12 up to 75 feet. The customer could install every possible natural gas appliance but MGE
13 by tariff cannot give an additional allowance. On the other hand however, the heat pump
14 subdivision agreement, which is Schedule MRN-4 to my direct testimony, says nothing
15 about load characteristics or estimated revenue that is found in KCPL's tariff. It simply
16 says that if you put in a heat pump KCPL will waive your \$940 per lot deposit and waive
17 the \$450 per lot underground service charge. In addition, KCPL will pay \$150 for every
18 heat pump installation within 90 days of the dwelling occupancy.

19
20 **Q. MR. RUSH DOES NOT CONSIDER THESE WAIVED COSTS OR PAYMENTS**
21 **AN INCENTIVE. DO YOU AGREE?**

22 **A.** No, I do not. There is not a comparable agreement that I could find for a customer who
23 doesn't install a heat pump, nor could I find any other occurrence where KCPL will pay
24 an amount if you put in a particular appliance. (This does not include payments made

1 under the various energy efficiency programs KCPL has in place.) Mr. Rush even points
2 out on page 21 of his rebuttal testimony that the "Heat Pump Subdivision Agreement"
3 helps gets them "in front of the developer".
4

5 Q. FINALLY, ON PAGE 21 OF HIS REBUTTAL TESTIMONY, MR. RUSH
6 STATES THAT I HAVE MADE ADDITIONAL CLAIMS CONCERNING THE
7 EFFICIENCY AND EFFECTIVENESS OF NATURAL GAS. DID YOU
8 ADDRESS THAT IN YOUR TESTIMONY?

9 A. No, I did not. On page 6 of my direct testimony, I state "As to electricity not being the
10 most efficient or effective fuel source for those applications, please see the direct
11 testimony of MGE witness John Reed."
12

13 RESPONSE TO REBUTTAL TESTIMONY OF MICHAEL SCHEPERLE
14

15 Q. ON PAGE 16 OF MR. SCHEPERLE'S REBUTTAL TESTIMONY, HE STATES
16 THAT STAFF DOES NOT SUPPORT MGE'S RECOMMENDATION TO
17 ELIMINATE THE DISCOUNTED ELECTRIC RATE SCHEDULES AND THAT
18 STAFF DOES NOT OPPOSE ELECTRIC SPACE HEATING RESIDENTIAL
19 RATES BUT RATHER RECOMMENDS THAT THE CUSTOMERS ON SUCH
20 RATE SCHEDULE(S) BE MOVED CLOSER TOWARD KCPL'S COST TO
21 SERVE THEM. DID STAFF PROPOSE A RATE DESIGN WHICH IN ANY
22 WAY MOVES THOSE SCHEDULES TOWARD KCPL'S COST TO SERVE
23 THEM?

1 A. No. Staff's proposal - an equal percentage increase for each of the different residential
2 rates - will widen the difference between the general use residential rate and the
3 discounted electric space heating rate.

4
5 Q. MR. SCHEPERLE, ON PAGE 16, GOES ON TO STATE THAT "STAFF
6 RECOMMENDS THAT THE COMMISSION RECOGNIZE THE POTENTIAL
7 RATE SHOCK OF OUTRIGHT ELIMINATION OF THESE SCHEDULES,
8 WHICH IS MITIGATED BY GRADUALLY BRINGING THE RATES TO
9 PARITY WITH THE RESIDENTIAL GENERAL USE RATE". DOES STAFF'S
10 RECOMMENDED RATE DESIGN DO ANYTHING TO GRADUALLY BRING
11 THE RESIDENTIAL ELECTRIC SPACE HEATING RATES CLOSER TO
12 PARITY WITH THE RESIDENTIAL GENERAL USE RATE?

13 No. As I stated previously, because the Staff has recommended an equal percentage
14 increase, the Staff actually proposes to widen the gap between the residential general use
15 rates and the discounted electric space heating rates.

16
17 **CONCLUSION**

18
19 Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.

20 A. KCPL'S discounted residential electric space heating rates are not cost-based and should
21 be eliminated. If the Commission believes that outright elimination of KCPL's
22 discounted residential electric space heating rates will result in rate shock, then the
23 disparity between the electric space heating residential rate and the general use residential
24 rate should be reduced significantly.

1

2 Finally, KCPL's practice of providing incentives – in the form of reduced facilities
3 extension costs as well as outright payments – for the installation of electric appliances
4 should be eliminated.

5

6 Q. **DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 A. Yes.