

Exhibit No.:

Issues: Rate Design
Revenue Allocation Method

Witness: Gary C. Price

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: DOE-NNSA

Case No.: ER-2006-0314

Testimony Date: September 15, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-0314

PUBLIC VERSION

REBUTTAL TESTIMONY

OF

GARY C. PRICE

ON BEHALF OF

**THE DEPARTMENT OF ENERGY – NATIONAL
NUCLEAR SECURITY ADMINISTRATION**

**Kansas City, Missouri
September, 2006**

FILED

NOV 13 2006

**Missouri Public
Service Commission**

*** [REDACTED] *** Designates "Highly Confidential" or "Proprietary"
Information. Such Information Should be Treated Confidentially
Pursuant to the Standard Protective Order

DOE Exhibit No. 807
Case No(s) ER-2006-0314
Date 10-16-06 Rptr XF

1 **REBUTTAL TESTIMONY**
2 **OF**
3 **GARY C. PRICE**
4 **KANSAS CITY POWER & LIGHT**
5 **CASE NO. ER-2006-0314**
6

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

8 A. My name is Gary C. Price. My business address is P.O. Box 23, Sun Prairie, Wisconsin
9 53590.

10
11 **Q. BY WHOM ARE YOU EMPLOYED?**

12 A. I am a principal consultant with Rhema Services Inc. and have worked in the utility industry
13 for more than 35 years.

14
15 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

16 A. Yes. On August 22, 2006 I filed direct testimony in this case on behalf of the United States
17 Department of Energy that is representing the interest of the National Nuclear Security
18 Administration ("DOE-NNSA") and other affected Federal Executive Agencies.

19
20 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

21 A. The rebuttal testimony I am presenting herein is offered on behalf of DOE-NNSA.
22

23 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

24 A. Several parties in this case filed direct testimony proposing various approaches to revenue
25 allocation and rate design. In addition to commenting on the approaches offered by those

1 parties, I am proposing to update and clarify my approach offered in my Direct Testimony
2 filed on August 22, 2006.

3
4 **Q. BEFORE YOU DISCUSS WHAT OTHERS ARE PROPOSING FOR REVENUE**
5 **ALLOCATION AND RATE DESIGN, PLEASE EXPLAIN THE UPDATE AND**
6 **CLARIFICATIONS THAT YOU ARE MAKING TO YOUR DIRECT TESTIMONY.**

7 A. In my direct testimony, using KCPL's filed class cost of service ("CCOS") results, I
8 recommended a gradualism approach to correcting class deficiencies. My proposal was and
9 continues to be that the deficiencies shown in KCPL's CCOS be corrected over a period of
10 four (4) rate cases starting with this case. I have updated the numbers to reflect a
11 modification to KCPL's CCOS to correct the allocation of margins or profits from off-system
12 sales that has been recommended by DOE Witness James R. Dittmer in his rebuttal
13 testimony filed on September 8, 2006.

14
15 **Q. PLEASE EXPLAIN THE MODIFICATION THAT HAS BEEN PROPOSED.**

16 A. In addressing KCPL's Jurisdiction allocation of off-system sales margins or profits, Mr.
17 Dittmer gave several reasons why KCPL's allocation of the profits on off-system sales was
18 improper. He recommended that the "energy with losses" allocator be used to assign the
19 profits from off-system sales instead of KCPL's proposed "unused energy" allocator. I agree
20 with Mr. Dittmer and recommend that the "energy with losses" allocator be used for both for
21 the jurisdictional and the class cost of service studies.

1 **Q. ARE YOU SAYING THAT KCPL ALSO RELIED UPON THE “UNUSED ENERGY”**
2 **ALLOCATOR IN ITS JURISDICTIONAL AND CLASS COST OF SERVICE**
3 **STUDIES?**

4 A. Yes and in my opinion, the “unused energy” allocator to allocate the Company’s profits on
5 off-system sales is inconsistent and inappropriate.

6
7 **Q. WHY IS IT INCONSISTENT?**

8 A. KCPL has assigned system average energy cost to all jurisdictions and customers on the basis
9 of “energy with losses.” In my opinion, since costs are allocated on the basis of “energy with
10 losses” it would be inconsistent to allocate system energy benefits on a different basis as
11 KCPL has proposed.

12
13 **Q. IN YOUR UPDATE, ARE YOU PROPOSING TO REALLOCATE THE PROFITS**
14 **ON OFF-SYSTEM SALES BOTH ON A JURISDICTIONAL AND CLASS BASIS?**

15 A. Yes. However, I am waiting to receive from the Company for the off-system sales data for
16 the 12-months ending 9/30/2005 that would allow me to make the jurisdictional reallocation.

17
18 **Q. WHAT NUMBERS HAVE YOU USED IN THIS TESTIMONY FOR OFF-SYSTEM**
19 **SALES.**

20 A. Until I receive the requested information from KCPL, I have used herein the amounts derived
21 from the Mo. PSC Staff rebuttal testimony filed on September 8, 2006. Specifically, I used
22 the Missouri jurisdictional allocator of ** [REDACTED] ** shown on page 14, line 21 of Cory G.
23 Featherstone’s Rebuttal Testimony and the off-system sales margins of approximately

** [REDACTED] ** proposed by Steve M. Traxler at page 4, line 1 of his Rebuttal Testimony. The off-system sales margins in included in KCPL's Mo. CCOS was about ** [REDACTED] **. ** The updated amount that I have included herein is about ** [REDACTED] [REDACTED] **. ** The reallocations and resulting impacts on KCPL's COSS are shown on pages 1 through 3 of Schedule GCP-1. The results are summarized in Tables 1A and 2A below. Tables 1A and 2A are the updated versions of the tables included in my Direct Testimony. **

As discussed in my Direct Testimony, Table 1A shows in Column (c) the floor or minimum relative return that DOE-NNSA recommends in this proceeding. The change in relative rates of return from Column (b) to Column (c) represents a 25% move toward the system average return. The change between the remaining columns also represents a 25% move toward the system average return until the system average is achieved in Column (f).

1 Q. HAVE YOU QUANTIFIED THE AMOUNT OF INCREASE THAT WOULD BE
2 REQUIRED IN THIS PROCEEDING TO MOVE ALL RATE CLASSES TO LEVEL
3 SHOWN IN COLUMN (C) OF TABLE 1A?

4 A. Schedule GCP-1, Page 1 of 3, Line 40, quantifies the Total Revenue Adjustment that would
5 be required to move all classes to the system average rate of return based on my proposed
6 modification to KCPL's COSS. My proposal is to adjust the present rates for each rate class
7 in a manner that would either increase or decrease the class revenues as shown in Table 2A.

8 **



9
10 **

11 Q. TO MAKE SURE IT IS CLEAR REGARDING YOUR PROPOSAL, ARE YOU
12 RECOMMENDING TO CHANGE PRESENT RATES BY THE PERCENTAGES
13 SHOWN IN COLUMN (F) OF TABLE 2A EVEN IF KCPL IS GRANTED NO
14 INCREASE IN THIS CASE?

1 A. Yes, that is correct. I also show in Schedule GCP-2 what the proposed total percentage
2 changes in present rates would be if KCPL were granted overall increases of 2.5%, 5.0%,
3 7.0% and 10%.

4
5 **Q. TO FURTHER CLARIFY YOUR PROPOSAL, HOW DO YOU PROPOSE THAT**
6 **YOUR ADJUSTMENT BE MADE OVER THE NEXT THREE RATE CASES TO**
7 **MOVE EACH RATE CLASS TOWARD THE SYSTEM AVERAGE RATE OF**
8 **RETURN?**

9 A. If a COSS is filed in the next rate case the present rate revenue for that test year would need
10 to be adjusted to at least achieve the relative rates of return shown in Column (d) of Table
11 1A. If, for example, the relative rate of return derived from that CCOS study in the next rate
12 case was shown for the Residential class to be between ** [REDACTED] **, then no
13 adjustment to the then present rates for that class would be required for purposes of moving
14 the class toward the system average rate of return. Similarly, if the relative rate of return
15 derived from that CCOS study was shown for the Large Power class to be between ** [REDACTED]
16 [REDACTED] **, then no adjustment to the then present rates for that class would be required for
17 purposes of moving the class toward the system average rate of return in the next rate case.

18
19 **Q. HOW WOULD YOU APPLY YOUR PROPOSAL IN THE NEXT RATE CASE IF**
20 **THERE IS NO CCOS STUDY FILED?**

21 A. In the event a CCOS study is not filed in the next three rate cases, then present rate revenue
22 for each rate class would need to be adjusted on a dollar per mWh hour basis in each of the

1 next three rate cases. The dollar per mWh amount would be as shown on Line 42, Page 1 of
2 Schedule GCP-1.

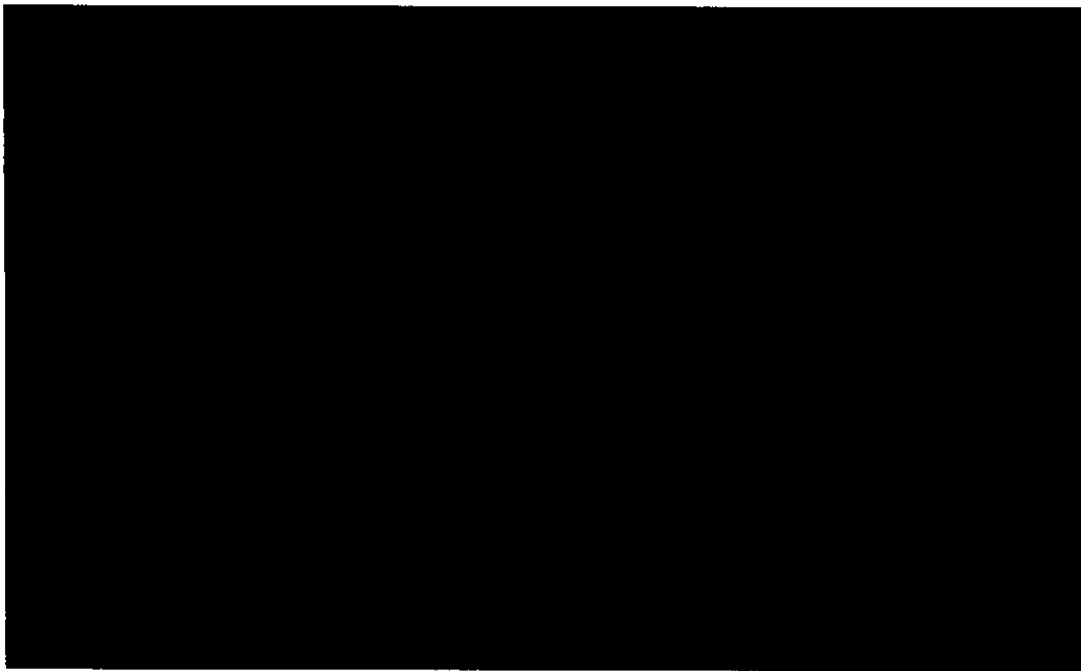
3
4 **Q. HAVE YOU REVIEWED THE PROPOSALS BY OTHER PARTIES WITH**
5 **REGARDS TO REVENUE ALLOCATION AND RATE DESIGN?**

6 A. Yes. I have reviewed the testimonies of Mo. PSC Staff ("Staff") Witness, James A. Busch;
7 Maurice Brubaker on behalf of Ford Motor Company, Praxair, Inc. and Missouri Industrial
8 Energy Consumers ("Praxair"); and, Barbara A. Meisenheimer on behalf of the Office of the
9 Public Counsel ("OPC").

10 I have addressed KCPL's proposal in my Direct Testimony filed on August 22, 2006. Each
11 of the parties presented a CCOS as the basis for their recommendation. My recommendation,
12 on the other hand, is based on KCPL's filed CCOS with the modification for the allocation of
13 profits on off-system sales which was discussed earlier.

14
15 In all cases, the parties agree, based on the results of their CCOS, that the present rates of the
16 Residential Rate Class produce revenues that are below (in some cases far below) its cost of
17 service. Additionally, all parties are showing that the present rates for the Small GS, Medium
18 GS and the Large GS classes produce revenues that are above the cost of service. Except for
19 OPC, the parties are also showing that the present rates for the Large Power class produce
20 revenues that are significantly above the cost of service.

21
22 Table 3 compares the recommendations of the various parties assuming that there is no
23 overall increase granted in this case. **



1 **

2 **Q. WHAT IS YOUR POSITION REGARDING THE RECOMMENDATIONS OF THE**
3 **PARTIES AS SHOWN IN YOUR TABLE 3?**

4 A. The results of all four CCOS (KCPL, Mo. PSC Staff, OPC, and Praxair) presented in this
5 case relative to the residential class rate of return versus the system rate of return are fairly
6 consistent. They all agree that the residential class is significantly deficient. However,
7 although the results of three of the four CCOS studies (KCPL, Mo. PSC Staff, and Praxair)
8 are also fairly consistent in that all commercial and industrial classes rates of return are much
9 higher than the system average, the results of the fourth CCOS study presented by OPC is
10 very inconsistent with any of the other cost of services presented in this case for these
11 classes. That inconsistency makes me question OPC's results. OPC's CCOS study shows a
12 much larger decrease for all commercial and industrial classes, except Large Power. For the
13 Large Power class, OPC shows a large increase is required. Except for OPC's CCOS, all

1 other studies show the Large Power class relative rate of return to be much higher than the
2 system average rate of return which would justify a decrease.

3
4 Although many of the parties in this case have been critical of KCPL's COSS, no one has
5 been able to show it to be unreliable for purposes of determining the relative rates of return
6 for each rate class.

7
8 In fact, Praxair Witness Mr. Brubaker states at page 37 of his August 22, 2006 Direct
9 Testimony beginning at Line 3 as follows:

10 "Even though it has many shortcomings which I have corrected, KCPL's class cost of service
11 study shows, directionally, the same thing as my cost of service studies show: namely, that
12 Residential customers are being undercharged, and other customer classes are being
13 overcharged."

14
15 Additionally, as shown on Pages 21 and 22 of the Direct Testimony filed by Mo. PSC Staff
16 Witness Janice Pyatte on August 22, 2006, the results of Staff's CCOS are very similar to
17 KCPL's CCOS results. Witness Pyatte, beginning at Line 17 on page 21 and continuing on to
18 page 22, stated as follows:

19 "The reason that Staff's percentage increases appear higher than those shown in KCP&L's
20 study is because the Company incorrectly computed them from operating revenue, rather
21 than rate revenue."

1 For purposes of this case, I believe the Commission can rely on the Company's CCOS study,
2 as modified herein, to correct the significant under-recovery and over-recovery of costs by
3 the rate classes. It is my opinion that the corrections are significant and must begin with this
4 rate case. The corrective action should be gradual, over four (4) rate cases, as I have
5 discussed above.


6
7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.
9

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariff to) Case No. ER-2006-0314
Begin the Implementation of Its Regulatory Plan)

STATE OF WISCONSIN)
) SS.
COUNTY OF DANE)


“My name is GARY C. PRICE. I am of legal age and a resident of the State of Wisconsin. I certify that the foregoing testimony and exhibits, offered by me on behalf of the Department of Energy – National Nuclear Security Administration, are true and correct to the best of my knowledge and belief.”



Gary C. Price

SUBSCRIBED AND SWORN to before me, a notary public, on this 14th day of September, 2006.




Notary Public in and for the State of
Wisconsin

My Commission Expires: 7-11-2010

Kansas City Power & Light Company
Case No. 2006-0314
Class Cost of Service for Missouri Customers
For the Test Year Ended September 30, 2005
Adjusted KCPL COSS to Reflect Reallocation of Profit on Sales

Public Version

Line No.	Description (a)	Missouri Retail Col. 601 (b)	Residential Col. 602 (c)	Small Gen. Service Col. 603 (d)	Medium Gen. Service Col. 604 (e)	Large Gen. Service Col. 605 (f)	Large Pwr Service Col. 606 (g)	Other Lighting Col. 608 (h)	Reference (i)
1	Revenue								
2	Sales Revenue								
3									
4	Other Revenue								
5	Bulk Power Sales Revenue								
6	Profit on Bulk Sales								
7	Revenue Change (Reallocation of Profit on Bulk Sales)								
8	Other Bulk Power Sales Rev								
9	Total Bulk Power Sales								
10									
11	Other Revenue								
12	Total Other Revenue								
13									
14	Total Revenue								
15									
16	Electric Operating Expenses								
17	Electric Operating Expenses (Before Income Taxes)								
18									
19	Federal & State Income Taxes								
20	Income Tax Change (Reallocation of Profit on Bulk Sales)								
21	Adjusted Federal & State Income Taxes								
22									
23	Total Electric Operating Expense								
24									
25	Net Electric Operating Income								
26									
27	Total Rate Base								
28									
29	Earned Rate of Return								
30	Relative Rate of Return								
31									
32	Equal Rate of Return								
33									
34	Rate of Return Change								
35									
36	Return Change to Equalize Rates of Return								
37									
38	Revenue Factor								
39									
40	Revenue Change to Equalize Rates of Return (\$)								
41	Revenue Change to Equalize Rates of Return (%)								
42	Revenue Change over 4 Periods								
43	Current Retail Sales (mWh)								
44	Revenue Change per mWh per Rate Period								

Kansas City Power & Light Company

Case No. 2006-0314

Class Cost of Service for Missouri Customers

For the Test Year Ended September 30, 2005

Adjustments to KCPL COSS to Realocate Profit on Sales

Public Version

Line No.	Description (a)	Missouri Retail Col. 601 (b)	Residential Col. 602 (c)	Small Gen. Service Col. 603 (d)	Medium Gen. Service Col. 604 (e)	Large Gen. Service Col. 605 (f)	Large Pwr. Service Col. 606 (g)	Other Lighting Col. 608 (h)	Reference (i)
1	Class Allocations								
2	Profit on Sales - Per KCPL (Energy 3)								
3									
4	Profit on Sales - Per DOE-NNSA (Energy 1)								
5									
6	Revenue Change								
7									
8	Return Change								
9									
10	Income Tax Change								
11									
12									
13	Revenue Factor								
14	Return Factor								
15	Composite Tax Factor								
16									
17	Class Energy Allocations								
18	Energy Alloc (Energy 3)								
19									
20	Energy Alloc (Energy 1)								

Kansas City Power & Light Company

Case No. 2006-0314

Class Cost of Service for Missouri Customers

For the Test Year Ended September 30, 2005

KCP&L COSS As Filed

Public Version

Line No.	Description (a)	Missouri Retail Col. 601 (b)	Residential Col. 602 (c)	Small Gen. Service Col. 603 (d)	Medium Gen. Service Col. 604 (e)	Large Gen. Service Col. 605 (f)	Large Pwr Service Col. 606 (g)	Other Lighting Col. 608 (h)	Reference (i)
1	Revenue								
2	Sales Revenue								
3									
4	Other Revenue								
5	Bulk Power Sales Revenue								
6	Profit on Bulk Sales								
7	Revenue Change (Reallocation of Profit on Bulk Sales)								
8	Other Bulk Power Sales Rev								
9	Total Bulk Power Sales								
10									
11	Other Revenue								
12	Total Other Revenue								
13									
14	Total Revenue								
15									
16	Electric Operating Expenses								
17	Electric Operating Expenses (Before Income Taxes)								
18									
19	Federal & State Income Taxes								
20	Income Tax Change (Reallocation of Profit on Bulk Sales)								
21	Adjusted Federal & State Income Taxes								
22									
23	Total Electric Operating Expense								
24									
25	Net Electric Operating Income								
26									
27	Total Rate Base								
28									
29	Earned Rate of Return								
30	Relative Rate of Return								
31									
32	Equal Rate of Return								
33									
34	Rate of Return Change								
35									
36	Return Change to Equalize Rates of Return								
37									
38	Revenue Factor								
39									
40	Revenue Change to Equalize Rates of Return (\$)								
41	Revenue Change to Equalize Rates of Return (%)								

Kansas City Power & Light Company
Case No. 2006-0314
DOE-NNSA's Proposed Gradual Revenue Adjustment Toward Unity Rate of Return
Over A Four Year Period (YEAR 1)

Public Version

Line No.	Description (a)	Assumed % Increase 0.00%		Assumed % Increase 2.50%		Assumed % Increase 5.00%		Assumed % Increase 7.00%		Assumed % Increase 10.00%	
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
		(\$000)	%	(\$000)	%	(\$000)	%	(\$000)	%	(\$000)	%
1	Residential										
2	Small General Service										
3	Medium General Service										
4	Large General Service										
5	Large Power										
6	Street Light										
7	Total										
8	Check										

Kansas City Power & Light Company

Case No. 2006-0314

Table 2B Public Version

Kansas City Power & Light Company

DOE-NNSA's Proposed Gradual Revenue Adjustment Toward Unity Rate of Return

Line No.	Description	Revenue Adjustment To Equalize ROR - Per KCPL (1)			Per DOE-NNSA		
		Present Rate Revenue	Rate Change To Achieve Unity ROR		Gradual Change This Rate Filing		Adjusted Present Rate Revenue
		(\$000) (1)	(\$000) (2)	%	(\$000)	%	(\$000)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				(c) / (b)	(c) / 4	(e) / (b)	(b) + (e)
1	Residential						
2	Small General Service						
3	Medium General Service						
4	Large General Service						
5	Large Power						
6	Street Light						
7	Total						

(1) From Schedule GCP-1, Page 1, Line 2.

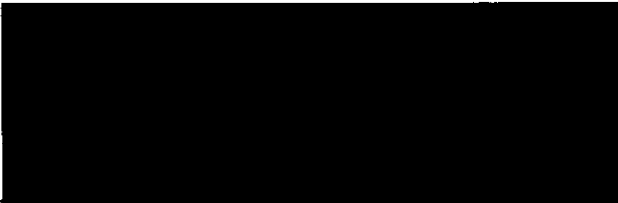
(2) From Schedule GCP-1, Page 1, Line 40.

Kansas City Power & Light Company

Case No. 2006-0314

Table 1A Public Version1

**DOE-NNSA Proposal To
To Adjust Relative Rates of Returns
Over KCPL's Over Four Rate Filings**

Line No.	Description	KCPL's Current Rates (1)	Relative Rates of Return Floor			
			This Rate Filing	2nd Rate Filing	3rd Rate Filing	4th Rate Filing
	(a)	(b)	(c)	(d)	(e)	(f)
1	Residential					
2	Small General Service					
3	Medium General Service					
4	Large General Service					
5	Large Power					
6	Street Light					
7	Total					

(1) From Schedule GCP-1, Page 1, Line 30.