

EXHIBIT

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Case No.:

KCP&L 403

Cost of Service/

Rate Design

Meisenheimer/Direct

Public Counsel

ER-2010-0355

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

Kansas City Power & Light

Class Cost of Service and Rate Design

CASE NO. ER-2010-0355

November 24, 2010

OPC Exhibit No. KCP2403
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File No. ER-2010-0355

Kansas City Power & Light
Class Cost of Service and Rate Design

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**Direct Testimony
of
Barbara Meisenheimer**

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

3 **A.** Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
4 P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for
5 William Woods University.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

7 **A.** I hold a Bachelor of Science degree in Mathematics from the University of
8 Missouri-Columbia (UMC) and have completed the comprehensive exams for a
9 Ph.D. in Economics from the same institution. My two fields of study are
10 Quantitative Economics and Industrial Organization. My outside field of study is
11 Statistics.

12 I have been with the Office of the Public Counsel since January 1996. I have
13 testified before the Missouri Public Service Commission (Commission) on
14 economic issues and policy issues in the areas of telecommunications, gas, electric,
15 water and sewer. In rate cases my testimony has addressed class cost of service,
16 rate design, miscellaneous tariff issues, low-income and conservation programs and

1 revenue requirement issues related to the development of class revenues, billing
2 units, low-income program costs, incentive programs and fuel cost recovery.

3 Over the past 15 years I have also taught courses for the following
4 institutions: University of Missouri-Columbia, William Woods University, and
5 Lincoln University. I currently teach undergraduate and graduate level economics
6 courses and undergraduate statistics for William Woods University.

7 **Q. HAVE YOU TESTIFIED IN PAST KANSAS CITY POWER & LIGHT RATE CASES?**

8 A. Yes. I testified on class cost of service and rate design issues in Case No. ER-2006-
9 0314 and in Case No. ER-2007-0291. I also testified in Case No. ER-2005-0436
10 regarding class cost of service and rate design for KCP&L's Greater Missouri
11 Operations (GMO) service area previously acquired from Aquila Inc. and on class
12 cost of service and rate design in Aquila Inc. Case No. EO-2002-384.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. My direct testimony addresses Public Counsel's class cost of service and rate design
15 recommendations as well as economic and public policy considerations that Public
16 Counsel encourages the Commission to consider in resolving the issues in this case.

17 ***II. COST OF SERVICE AND RATE DESIGN***

18 **Q. HAS PUBLIC COUNSEL PREPARED A CCOS STUDY FOR THIS CASE?**

19 A. No.

20

1 Q. HAVE YOU REVIEWED THE CCOS STUDY SUBMITTED BY KCP&L IN THIS CASE?

2 A. Yes.

3 Q. ARE YOU SATISFIED TO USE THE CCOS STUDY RESULTS PRESENTED IN THE
4 DIRECT TESTIMONY OF KCP&L WITNESS PAUL NORMAND AS A GUIDE TO
5 SETTING CLASS RATES IN THIS CASE?

6 A. Yes. In recent cases, Public Counsel prepared and filed electric class cost of
7 service studies that utilize Time of Use based allocations and other methods
8 different from the Staff and Company. However, in this case, Public Counsel had
9 insufficient internal and consulting resources available to develop the Time of
10 Use allocators. As a result, although Public Counsel does not endorse or agree
11 with each of the Company's allocation methods, I have reviewed the allocations
12 and methods and am satisfied to use the Company's study results as a guide in
13 setting rates.

14 Q. HAS THE COMPANY PROPOSED SHIFTS IN CLASS REVENUE RESPONSIBILITY
15 BASED ON THE CCOS STUDY RESULTS?

16 A. No. KCP&L witness Tim Rush indicates that the Company prefers to address
17 revenue shifts between and within classes in a separate proceeding opting in this
18 case for an equal percentage increase to all rate elements for all rate classes.

1 Q. WHAT SHIFTS IN CLASS REVENUE RESPONSIBILITY ARE SUGGESTED BY THE CCOS
2 RESULTS SHOWN IN TABLE 3 OF MR. NORMAND'S TESTIMONY?

3 A. Mr. Normand's COSS results indicate that the Residential class and Large
4 General Service class average rates of return are consistent with the system
5 average rate of return so no revenue neutral shifts are warranted. On the other
6 hand, the return provided by the Medium General Service class is 113% of the
7 system return and the Small General Service class is approximately 197% of the
8 system average return while the Large Power class is providing a return of only
9 66% of the system average return. In my opinion, Mr. Normand's CCOS results
10 support some reduction in the return provided by the Small General Service and
11 Medium General Service classes offset by an increase in the return provided by
12 the Large Power class.

13 Q. WHAT LEVEL OF REVENUE NEUTRAL SHIFTS DO YOU RECOMMEND?

14 A. Generally, Public Counsel recommends that, where the existing revenue structure
15 departs greatly from the class cost of service, the Commission should impose, at a
16 maximum, class revenue shifts equal to one half of the "revenue neutral shifts"
17 indicated by the class cost of service study. Revenue neutral shifts are shifts that
18 hold overall company revenue at the existing level but allow for the share
19 attributed to each class to be adjusted to reflect the cost responsibility of the class.
20 Based on the Company's CCOS study the rate base associated with the Large
21 Power class is \$407,165,225. Currently, the Company estimates that the Large
22 Power class provides a 4.252% return compared to the system average return of
23 6.396%. The maximum revenue neutral shift I would recommend would increase

1 the Large Power class by one half of the "revenue neutral shifts" indicated by the
2 class cost of service study or \$4,364,811 [$\$407,165,225 * \frac{1}{2} * (6.396\% - 4.252\%)$].
3 The Small General Service and Medium General Service classes should receive a
4 revenue neutral reduction with Small General Service receiving a greater share of
5 the reduction since Small General Service is substantially farther above cost of
6 service. I'd recommend that Small General Service receive approximately 88%
7 (\$3,848,970) of the \$4,364,811 revenue neutral reduction and Medium General
8 Service receiving the remaining 12% (\$515,841) of the reduction.

9 **Q. YOU INDICATED THAT \$4,364,811 IS THE MAXIMUM REVENUE NEUTRAL SHIFT**
10 **THAT YOU WOULD RECOMMEND. UNDER CERTAIN CIRCUMSTANCES MIGHT YOU**
11 **RECOMMEND LESSER REVENUE NEUTRAL SHIFTS?**

12 **A.** Yes. To level the rate impacts on customers facing substantial increases
13 associated with combining the impacts of revenue neutral shifts and revenue
14 requirement increases with the rate impacts of customers receiving decreases,
15 Public Counsel recommends that if the Commission determines that an overall
16 increase in revenue requirement is necessary, then no customer class should
17 receive a net decrease as the combined result of: (1) the revenue neutral shift that
18 is applied to that class, and (2) the share of the total revenue increase that is
19 applied to that class. Likewise, if the Commission determines that an overall
20 decrease in revenue requirement is necessary, then no customer class should
21 receive a net increase as the combined result of: (1) the revenue neutral shift that
22 is applied to that class, and (2) the share of the total revenue decrease that is
23 applied to that class.

1 Q. AT THIS TIME ARE YOU PROPOSING A LESSER REVENUE NEUTRAL SHIFT?

2 A. No.

3 Q. HOW DO THE COMPANY'S CURRENT RESIDENTIAL AND SMALL AND MEDIUM
4 GENERAL SERVICE CUSTOMER CHARGES COMPARE TO THE CUSTOMER RELATED
5 COSTS SUGGESTED BY MR. NORMAND'S CCOS STUDY?

6 A. Generally, the Residential Service customer charges are similar to the cost levels
7 indicated by Mr. Normand's study. For example, for the Residential class, the
8 General Use customer charge is \$8.67 compared to a cost of \$8.88. The
9 Residential Time of Day customer charge is \$13.37 compared to a cost of \$13.15.
10 The difference between the rates and costs are more significant for Small General
11 and Medium General Service. For example, for the Small General Service class,
12 the primary or secondary metered service charge for 0-24 kW service is \$15.25
13 compared to a cost of \$12.62. For Medium General Service, the secondary
14 metered service charge for 0-199 kW service is \$42.22 compared to a cost of
15 \$48.31.

16 Q. WHAT IS YOUR POSITION ON CHANGES TO THE RESIDENTIAL AND SMALL
17 GENERAL SERVICE CUSTOMER CHARGES?

18 A. The Company's CCOS does not indicate that the Residential or Small General
19 Service customer charges need to be increased in this case. I recommend
20 maintaining the Residential and Small General Service customer charges at
21 current levels. Public Counsel is willing to review customer charges as well as
22 other rate elements in a separate proceeding as recommended by KCP&L.

1 **III. ECONOMIC CONSIDERATIONS**

2 **Q. SHOULD ECONOMIC CONSIDERATIONS FACTOR INTO THE COMMISSION'S DECISION**
3 **IN THIS CASE?**

4 **A.** Yes. While a class cost of service study provides the Commission with a general
5 guide for cost based rates, the Commission must, on a case by case basis, balance the
6 results of a cost of service study with other relevant factors that go into the rate
7 making decision process. Public Counsel has argued and the Commission has
8 recognized that other relevant factors to consider in setting rates include the value of
9 a service, the affordability of service, rate impacts, and rate continuity. In recent
10 years, Missourians have faced significant rate increases and substantial economic
11 challenges. In this case, Public Counsel urges the Commission to decide issues in a
12 manner that reasonably minimizes the impact on Residential and Small General
13 Service customers.

14 **Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN KCP&L'S SERVICE AREA.**

15 **A.** According to the Company's Minimum Filing Requirements, KCP&L serves
16 customers in portions of 13 counties primarily in Central and West Central Missouri.



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These counties have experienced high unemployment in recent years. As illustrated below, according to the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, the unemployment rate in many of these counties has more than doubled since 2006.

Local Area Unemployment Statistics

	Annual 2006	Annual 2007	Annual 2008	Annual 2009	Increase 2006-2009
Carroll County	4.6%	5.0%	7.0%	10.5%	128.3%
Cass County	5.0%	5.5%	6.1%	9.9%	98.0%
Chariton County	4.3%	4.3%	5.1%	8.5%	97.7%
Clay County	4.4%	4.4%	5.9%	8.4%	90.9%
Howard County	5.7%	5.8%	6.9%	10.2%	78.9%
Jackson County	4.8%	5.1%	6.1%	9.5%	97.9%
Johnson County	4.0%	4.6%	5.2%	8.4%	110.0%
Lafayette County	5.0%	5.2%	6.2%	8.8%	76.0%
Livingston County	4.2%	4.4%	5.1%	7.8%	85.7%
Pettis County	3.9%	3.9%	4.8%	7.8%	100.0%
Platte County	4.9%	5.3%	6.0%	10.7%	118.4%
Randolph County	4.5%	5.0%	5.7%	7.8%	73.3%
Saline County	4.6%	4.9%	5.9%	9.4%	104.3%

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Q. PLEASE COMMENT ON RECENT RATE INCREASES THAT HAVE IMPACTED KCP&L'S SERVICE AREA.

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From 2006 to 2009, investor owned utility customers in portions of KCP&L's service area have been impacted by significant rate increases. KCP&L increased companywide electric rates three times for a total of almost \$181M. Missouri American Water increased companywide water rates twice for a total of almost \$63M impacting communities such as Brunswick, Parkville and Riverside especially hard. Missouri Gas Energy, Union Electric Gas and Atmos all increased rates in 2007. Atmos also increased rates in 2010. A request for increase is pending for Union Electric Gas.

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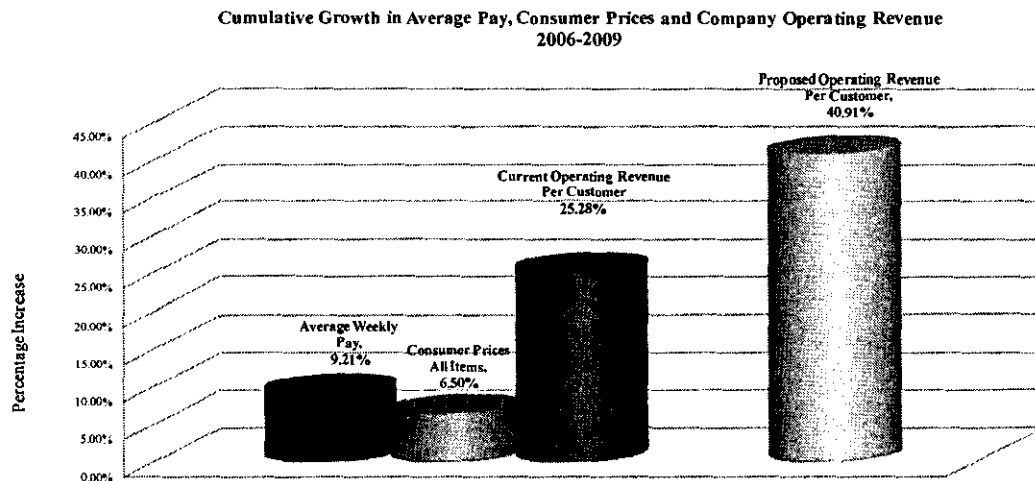
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1 Q. PLEASE COMMENT ON WAGES AND PRICES IN THE AREA.

2 A. Based on data obtained from the US Bureau of Labor Statistics, for the period 2006-
3 2009, workers' average pay has exhibited a higher percentage of growth than
4 consumer prices. However, the percentage of increase in pay is less than half the
5 percentage of growth in current operating revenue per customer and less than one
6 fourth of the growth in operating revenue per customer that will exist if KCP&L's
7 \$92.1M proposed increase is granted. The diagram shown below illustrates these
8 comparisons.



9
10 The diagram illustrates a 9.21% increase in average pay for the combined
11 period 2006-2009, while the increases granted in ER-2006-0314, ER-2007-0291 and
12 ER-20087-0089 combined with the proposed increase in this case will equate to
13 more than a 40% increase in operating revenue per customer.

14

1 Q. HAVE CONSUMERS EXPRESSED CONCERNS ABOUT THEIR ABILITY TO AFFORD
2 UTILITY RATE INCREASES?

3 A. Yes. Customers testifying in the recent public hearings have regularly voiced
4 frustration and concerns about the burden of additional rate increases given the
5 current state of the economy. Some customers have testified that they must work
6 extra hours or two jobs just to make ends meet. Some have testified that they must
7 choose between paying utility bills and buying food and medicine.

8 Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS
9 CASE?

10 A. In this case, the Commission should focus on ensuring that KCP&L tightens its belt
11 just as consumers are doing. The Commission should closely scrutinize KCP&L's
12 costs and rate of return in order to minimize any customer rate increases. The
13 Commission should also focus on allowing customers greater control over their
14 electric bills.

15 Q. HOW MIGHT THE COMMISSION DECIDE IN A MANNER THAT MINIMIZES THE RATE
16 IMPACT ON CONSUMERS?

17 A. With respect to the rate of return, the Commission is generally presented with a
18 range of returns that are considered reasonable by financial analysts. Setting rates to
19 produce a return at the lower end of the range can provide KCP&L the opportunity
20 to earn a reasonable return while also minimizing the rate increase imposed on
21 consumers. To allow customers greater control over electric bills, the Commission

1 should reject any proposals to increase the Residential or Small General Service
2 customer charges in this case.

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

4 **A. Yes.**

