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Issue: Residential Rate Design  
Witness: F. Jay Cummings  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Missouri Gas Energy  
Case No.: ER-2012-0175  
Date Testimony Prepared: September 12, 2012

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Service Commission

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. ER-2012-0175**

**REBUTTAL TESTIMONY**

**OF**

**F. JAY CUMMINGS**

**ON BEHALF OF**

**MISSOURI GAS ENERGY**

**September 12, 2012**

MGE Exhibit No. 629  
Date 10/17/12 Reporter MW  
File No. ER-2012-0175

**REBUTTAL TESTIMONY OF F. JAY CUMMINGS**

**CASE NO. ER-2012-0175**

**SEPTEMBER 12, 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 21, 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 21, 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 **Electric Space Heating ("Space Heating") schedules; and, (3) the design of energy**  
14 **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 who  
4 discusses any of the specific issues that I analyzed in my direct testimony.<sup>1</sup> The  
5 Staff recommends a winter revenue shift toward Space Heating services for  
6 Kansas City Power & Light Company Greater Missouri Operations - GMO-L&P  
7 ("GMO-L&P") as follows:

8 Staff recommends an additional 6% increase for the  
9 residential service (with electric space heating) two winter  
10 energy block rates (MO 920 rate schedule). Staff  
11 recommends an additional 6% increase for the residential  
12 service (space heating/water heating - separate meter) winter  
13 energy rate (MO 922 Frozen rate schedule). ... Staff  
14 recommends these adjustments to bring the winter season  
15 rate closer to its cost of service in the winter season.<sup>2</sup>

16 Staff does not recommend a winter revenue shift toward Space Heating services  
17 for Kansas City Power & Light Company Greater Missouri Operations - MPS  
18 ("GMO-MPS") based on its cost of service. Instead, Staff recommends that any  
19 revenue change for GMO-MPS be applied on an equal percentage basis to all  
20 customer classes, and presumably to all rate elements within each customer class.<sup>3</sup>

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<sup>1</sup> Rate design direct testimony was filed in this case by Michael S. Scheperle on behalf of the Commission Staff and Maurice Burbaker on behalf of Missouri Industrial Energy Consumers and Midwest Energy Consumer's Group.

<sup>2</sup> Direct Testimony of Michael S. Scheperle, page 3, lines 1-5, 7-8. The recommendation also appears in Staff's Rate Design and Class Cost-of-Service Report, page 2.

<sup>3</sup> Direct Testimony of Michael S. Scheperle, page 2, lines 17-19 and Staff's Rate Design and Class Cost-of-Service Report, page 2.

1 Q. DO YOU HAVE ANY OBSERVATIONS REGARDING STAFF'S  
2 RECOMMENDED REVENUE SHIFT FOR GMO-L&P?

3 A. Yes. Staff appropriately recognizes that Residential Space Heating service is  
4 underpriced for GMO-L&P in the winter. However, Staff's recommended winter  
5 revenue shift toward these services does not go far enough when compared to the  
6 Staff cost of service results for GMO-L&P.

7  
8 Q. PLEASE EXPLAIN WHY STAFF'S RECOMMENDATION FOR GMO-  
9 L&P DOES NOT GO FAR ENOUGH.

10 A. Rebuttal Schedule FJC-1, lines 5-6 shows Staff's recommended winter revenue  
11 shift and the shift required by the Staff cost of service for GM-L&P.<sup>4</sup> Staff's  
12 recommended Electric Space Heating winter revenue shift is only 23 percent of  
13 that required by the Staff cost of service.

14  
15 Another point of reference is provided by the Staff GMO-L&P cost of service  
16 based on its highest recommended revenue requirement and the resulting required  
17 9 percent increase in annual retail revenue for the Residential class.<sup>5</sup> For Electric

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<sup>4</sup> The Staff GMO-L&P 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 \$4.66 million for GMO-L&P. Rebuttal Schedule FJC-1, line 5 restates these results 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, line 5 shows the resulting difference between the winter cost of service and winter revenue by Residential rate schedule.

<sup>5</sup> The Staff cost of service is contained in it Excel file named "Scheperle - Staff CCOS - LP.xlsx." The Residential total and rate schedule percentage changes are calculated from the data shown in sheet labeled "RESG Reg," "RESSH-All Electric," and "RESO Other."

1 Space Heating, the Staff cost of service shows that annual retail revenue must  
2 increase by 20 percent while winter revenue must increase by 35 percent based on  
3 the Staff GMO-L&P cost of service at this revenue requirement.  
4

5 **Q. DOES STAFF RECOMMEND A WINTER REVENUE SHIFT TOWARD**  
6 **SPACE HEATING SERVICES FOR GMO-MPS AS IT DID FOR GMO-**  
7 **L&P?**

8 A. No. Staff does not address the fact that GMO-MPS' Residential Space Heating  
9 service is underpriced in the winter. Rebuttal Schedule FJC-1, line 2 shows that  
10 the Staff cost of service for GMO-MPS based on no Residential revenue increase  
11 requires a sizable increase in Space Heating winter revenue.<sup>6</sup>  
12

13 Another point of reference is provided by the Staff GMO-MPS cost of service  
14 based on its highest recommended revenue requirement and the resulting required  
15 4 percent increase in annual revenue for the Residential class.<sup>7</sup> For Electric Space  
16 Heating, the Staff cost of service shows that annual revenue must increase by 3

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<sup>6</sup> The Staff GMO-MPS 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 \$11.89 million for GMO-MPS. Rebuttal Schedule FJC-1, line 2 restates these results 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, line 2 shows the resulting difference between the winter cost of service and winter revenue by Residential rate schedule.

<sup>7</sup> The Staff cost of service is contained in it Excel file named "Scheperle - Staff CCOS - MPS.xlsx." The Residential total and rate schedule percentage changes are calculated from the data shown in sheet labeled "RESA Regular," "RESB All Electric," and "RESC Other."

1           percent while winter revenue must increase by 10 percent based on the Staff  
2           GMO-MPS cost of service at this revenue requirement.

3  
4           As explained in my direct testimony, the GMO-MPS and GMO-L&P cost of  
5           service results similarly require winter revenue shifts to the Residential Space  
6           Heating services for both GMO-MPS and GMO-L&P.<sup>8</sup> Clearly, GMO-MPS' and  
7           GMO-L&P's Residential Heating services require winter revenue shifts so that  
8           customers on other rate schedules do not inequitably pay a portion of the cost to  
9           provide Space Heating services. The Staff cost of service and the GMO-MPS and  
10          GMO-L&P cost of service results show that these inequities exist today.  
11          Furthermore, these inequities have persisted at least since KCP&L-GMO's last  
12          rate case and should be addressed in this case.<sup>9</sup>

13

14   **Q.   DO YOU ANY OTHER OBSERVATIONS REGARDING STAFF'S**  
15   **RECOMMENDATIONS?**

16   **A.**   Yes. I have two more observations. First, Staff's revenue shift to Space Heating  
17          for GMO-L&P is accomplished by increasing each winter rate by six percent. No  
18          explanation is provided for this rate design change that increases the rate  
19          differential between the first and second rate block. Staff's recommendation  
20          continues the historical pattern of an increasingly-pronounced winter declining

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<sup>8</sup> Direct Testimony of F. Jay Cummings, Case No. ER-2012-0175, page 12, lines 1-22, page 14, line 11 -  
page 15, line 10; page 19, lines 13-22; page 20, lines 12-23; page 25, line 3 - page 27, line 4, and  
Schedules FJC-3A, FJC-3B, FJC-8A, and FJC-8B.

<sup>9</sup> *Id.*, page 13, line 1 - page 14, line 9.

1 block rate structure, as explained in my direct testimony.<sup>10</sup> No support has been  
2 provided for continuing this trend. As a result, I recommend no change in the  
3 current rate design with the revenue shift assigned to rate blocks to maintain the  
4 current rate block differentials.<sup>11</sup>

5  
6 Second, Staff does not provide an assessment of the reasonableness of the  
7 continuation of GMO-MPS' and GMO-L&P's Residential Space Heating  
8 services. Staff only addresses winter revenue shifts toward Space Heating  
9 services to move them closer to their cost of service for GMO-L&P. I concluded  
10 in my direct testimony that these services should be eliminated based not only on  
11 cost of service results for both GMO-MPS and GMO-L&P but also on ratemaking  
12 and public policy considerations.

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

17 **A.** Yes. If the Commission-approved revenue increases for GMO-MPS and GMO-  
18 L&P fall within Staff's recommended revenue requirement ranges, the Residential  
19 rate changes will very likely be smaller than those shown in Schedule FJC-9A for

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<sup>10</sup> *Id.*, page 7, line 16 - page 8, line 13 and Schedule FJC-2B.

<sup>11</sup> *Id.*, page 25, line 3- page 27, line 4.

1 GMO-MPS and in Schedule FJC-9B for GMO-L&P, included with my direct  
2 testimony.<sup>12</sup>

3

4 **Q. DO YOU HAVE CHANGES IN THE RECOMMENDATIONS THAT YOU**  
5 **MADE IN YOUR DIRECT TESTIMONY AS A RESULT OF THE**  
6 **PARTIES' DIRECT TESTIMONY PERTAINING TO RATE DESIGN?**

7 A. No.

8

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

10 A. Yes.

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<sup>12</sup> Staff Accounting Schedules - Missouri Public Service - Electric, filed August 9, 2012, Accounting Schedule: 01. Staff Accounting Schedules - St. Joseph Light and Power - Electric, filed August 9, 2012, Accounting Schedule: 01.

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

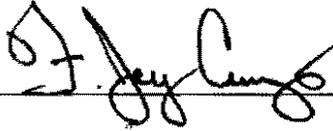
In the Matter of )  
KCP&L Greater Missouri Operations Company's )  
Request for Authority to Implement )  
General Rate Increase for Electric Service )

File No. ER-2012-0175

AFFIDAVIT

STATE OF TEXAS )  
 ) ) SS  
COUNTY OF DALLAS )

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 11<sup>th</sup> day of September, 2012.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

7/29/2015  
(SEAL)



Kansas City Power & Light Company Greater Missouri Operations  
Case No. ER-2012-0175  
**Winter Residential Shift at Current Revenue**

Line	Description	General Use	Electric Space Heating	Other Use	Total	Source/Explanation
	(a)	(b)	(c)	(d)	(f)	(g)
1	<b>GMO-MPS:</b>					
2	Staff Cost of Service- Required Revenue Shift	(3,728,564)	3,184,440	(96,384)	(640,508)	Based on Scherple - Staff CCOS-MPS.xlsx adjusted to reflect no annual revenue increase for the Residential class.
3	Staff Recommended Shift	-	-	-	-	No revenue shift recommended by Staff.
4	<b>GMO-L&amp;P:</b>					
5	Staff Cost of Service- Required Revenue Shift	(849,845)	4,672,660	(115,830)	3,706,986	Based on Scherple - Staff CCOS-LP.xlsx adjusted to reflect no annual revenue increase for the Residential class.
6	Staff Recommended Shift	-	1,095,561	-	1,095,561	Calculated based on a 6% increase in each winter block rate of Electric Space Heating and on the kWh by block provided in KCP&L-GMO's Response to MGE-5.