

Exhibit No.:
Issues: Rate Design
Revenue Allocation Method
Witness: Gary C. Price
Type of Exhibit: Direct Testimony
Sponsoring Party: DOE-NSSA
Case No.: ER-2007-0291
Direct Testimony Date: August 7, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2007-0291

DIRECT TESTIMONY

OF

GARY C. PRICE

ON BEHALF OF

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

**Kansas City, Missouri
August 2007**

PUBLIC VERSION

“** _____ **” Designates “Highly Confidential” or “Proprietary” Information.
Such Information Should be Treated Confidentially
Pursuant to the Standard Protective Order

1 **DIRECT TESTIMONY**
2 **OF**
3 **GARY C. PRICE**
4 **KANSAS CITY POWER & LIGHT**
5 **CASE NO. ER-2007-0291**
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. ON WHOSE BEHALF ARE YOU APPEARING?**

16 A. Keres Consulting Inc. holds a contract with the United States Department of Energy to
17 provide a number of services, including assistance with utility procurement, contracts and
18 rates administration, as well as intervention in utility rate proceedings that significantly
19 impact large DOE facilities. Rhema Services Inc. is a subcontractor to Keres Consulting Inc.
20 Keres Consulting/Rhema Services Inc. have been retained by the United States Department
21 of Energy to review Kansas City Power and Light Company's ("KCPL" or "Company")
22 application to the Missouri Public Service Commission ("MPSC" or "Commission") to
23 increase Missouri electric retail rates. The testimony I am presenting is offered on behalf of
24 the United States Department of Energy that is representing the interest of the National
25 Nuclear Security Administration ("DOE-NNSA") and other affected Federal Executive
26 Agencies.

1 **Q. WHAT WAS YOUR ASSIGNMENT IN THIS CASE?**

2 A. My assignment was to review KCPL's proposed rate design and revenue change allocation
3 proposal.
4

5 **I. QUALIFICATIONS**

6 **Q. PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS.**

7 A. I have worked as a consulting engineer, developing power system analyses and presenting
8 expert testimony in various utility rate matters, such as cost of service, cost allocation and
9 rate design. Recently, much of my work has been in the areas of power supply analysis, cost
10 of service analysis, rate design, as well as providing litigation support to law firms in
11 processing or negotiating rate cases before various regulatory agencies. From 1999 through
12 2002, I spent a considerable amount of time supporting various functions of the ISO New
13 England, Inc., including developing and presenting to the FERC in testimony the cost of
14 service analysis supporting the self-funding tariffs in effect for Calendar Year 2000, 2001,
15 2002 and 2003.
16

17 From January 1995 through July 1999, I was Vice President-Customer Services and
18 Marketing at Wisconsin Public Power Inc. In this position, I supervised four departments in
19 the areas of Rates and Forecasting, Distribution Services, Information Services and Customer
20 Services and Marketing. In addition to these duties, I was directly involved and provided
21 technical guidance and support in rate cases before the FERC and the PSCW. I was also a
22 member of the Mid-Continent Area Power Pool ("MAPP") Rates and Tariff Task Force
23 which was responsible for developing rates and tariffs for the proposed regional ISO.

1 From 1977 through 1995, I was primarily an independent consultant. During those years, I
2 was involved in a number of gas and electric utility matters, including the preparation of
3 power supply studies, rate studies and have analyzed numerous cost of service studies
4 presented by various parties to regulatory proceedings.

5
6 I graduated from the University of Alabama in 1970 with a Bachelor of Science degree in
7 Electrical Engineering. Upon graduation, I joined the Tennessee Valley Authority ("TVA")
8 in the Division of Power Marketing as a Power Supply Engineer. From 1970 to 1975, my
9 responsibilities as a Power Supply Engineer involved the development of power supply
10 arrangements including, but not limited to, contract and rate development for electric sales to
11 large industrial customers served directly by TVA. In addition, I completed all the required
12 course work at the University of Tennessee for a Masters of Science Degree in Electrical
13 Engineering. In 1975, my position at TVA changed to Rate Engineer and my responsibilities
14 included the preparation of cost of service studies, feasibility studies, and other economic
15 analyses for both the TVA power system and for TVA's municipal and cooperative
16 customers.

17
18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY**
19 **COMMISSION?**

20 A. Yes. Since 1977, I have testified numerous times before the Federal Energy Regulatory
21 Commission ("FERC"), the Missouri Public Service Commission, the Minnesota Public
22 Service Commission, the Public Service Commission of New York, the Texas Public Utility
23 Commission and the Public Service Commission of Wisconsin ("PSCW").

1 **II. CLASS REVENUE ALLOCATION FORMULA**

2 **Q. HAS KCPL PROPOSED A REVENUE ALLOCATION FORMULA?**

3 A. No. KCPL has not prepared a test year class cost of service study, and is proposing to assign
4 equal percentage revenue increases to the individual classes of service across the board.
5

6 **Q. WHY DID KCPL NOT RELY UPON THE TEST YEAR CLASS COST OF SERVICE**
7 **TO GUIDE IT IN THE ALLOCATION REVENUE CHANGES?**

8 A. KCPL'S witness Tim M. Rush in his Direct Testimony on page5 lines 8 through 10 explains
9 that, as part of the Regulatory Plan, the parties agreed in the Stipulation and Agreement not
10 to file new or updated class of service studies.

11 **Q. DID DOE – NNSA AGREE NOT TO FILE NEW OR UPDATED CLASS COST OF**
12 **SERVICES, AS PART OF THE REGULATORY PLAN STIPULATION AND**
13 **AGREEMENT?**

14 A. No. DOE – NNSA was not a signatory to the Regulatory Plan or its Stipulation and
15 Agreement. Neither is restricted from filing a class cost of service.

16 **Q. DID THE MISSOURI PUBLIC REGULATION COMMISSION APPROVE THE**
17 **EXPERIMENTAL REGULATORY PLAN CONTAINED IN THE STIPULATION?**

18 A. In its Report and Order in Case No. EO-2005-0329 the Commission approved the
19 Experimental Regularity Plan as being in the public interest. It is my understanding,
20 however, in Case WD66893 the Western District Court of Appeals reversed the
21 Commission's Order and Report. I have been advised by counsel that at this time the
22 Stipulation and Agreement entered between Kansas City Power & Light and the Staff of the
23 Missouri Public Service Commission, the Office of Public Council, Praxair, Inc., Missouri

Industrial Energy Consumers, Empire District Electric Company, Ford Motor Company, Aquila, Inc., and Missouri Joint Municipal Electric Utility Commission is merely an agreement among them neither approved by nor binding on the Commission. A number of entities who were engaged in the discussions that led to the Stipulation & Agreement were not signatories including the United States Department of Energy, the United States National Nuclear Security Administration and the Federal Executive Agencies.

Q. SHOULD THE COMMISSION REQUIRE THAT THE COMPANY FILE A CLASS COST OF SERVICE?

A. Yes. As it can be seen in Table 1 below, the discrepancies in relative revenue contribution between the residential and street lighting classes versus all other classes of service are extremely wide and this issue needs to be addressed by the Commission.

**Table 1
DOE-NNSA
Relative Rates of Return
Versus the Residential Class
At Present and Proposed KCPL Rates**

Line No.	Description	KCPL's Present Rates (1)	Percent Over<Under> Residential
	(a)	(b)	(c)
1	Residential	0.67	
2	Small General Service	1.32	97.01%
3	Medium General Service	1.51	125.37%
4	Large General Service	1.26	88.06%
5	Large Power	1.11	65.67%
6	Street Light	(0.11)	-116.42%
7	Total	1.00	

(1) From Schedule GCP-1, Page 1, Line 41.

1
2
3 **Q. PLEASE EXPLAIN TABLE 1?**

4 **A. Column (b) shows the class relative rates of return under the present and proposed**
5 **revenue responsibility per KCPL. Column (c) shows the percentage amount that**
6 **each class relative rate of return is above or below the residential class relative rate**
7 **of return under both present and proposed revenues per KCPL.**

8 **As one can see from the above Table 1, column (c), all classes (except lighting)**
9 **relative rates of return at present rates are much higher and some almost or above**
10 **twice those earned by the residential class. KCPL proposes to continue the above**
11 **large discrepancy in revenue responsibility.**

12 **Q. WHAT COST OF SERVICE DID YOU USE TO CALCULATE THE RELATIVE**
13 **RATES OF RETURN SHOWN IN TABLE NO. 1?**

14 **A. In ER-2006-0314, I relied on the class COS as filed by KCPL in that case. In this case,**
15 **since KCPL has not filed class COSS, I replicated KCPL's class COSS from the ER-2006-**
16 **0314 case. Using that model, I changed all the Missouri jurisdictional cost inputs and class**
17 **allocators. The Missouri jurisdictional cost inputs were those calculated by KCPL in this**
18 **filing and the allocators used for the test period were provided by KCPL in response to DOE-**
19 **NSSA's data request No.USDOE-NNSA50. The Non Firm Margin On Sales and Profits On**
20 **Energy Sales were allocated on the basis of class energy similarly to the allocation of these**
21 **two items between Kansas and Missouri jurisdictions as prescribed by the Commission in its**
22 **last Report and Order in KCPL case No. ER-2006-0314.**

1 **Q. DO YOU AGREE WITH THE ARGUMENT THAT SINCE THE REGULATORY**
2 **PLAN SETTLEMENT AND STIPULATION DOES NOT CALL FOR A CLASS**
3 **COST OF SERVICE TO BE FILED IN THIS CASE THAT ONE SHOULD NOT BE**
4 **FILED?**

5 A. I would agree that if the indices of return amongst classes were unity or close to unity, one
6 could argue that a class cost of service is not required. However, given the very large
7 discrepancies amongst classes as shown above in Table No. 1, I believe that this is a very
8 important issue and it should be presented to the Commission for a determination and
9 appropriate correction.

10 **Q. IN THE PRIOR CASE NO ER – 2006 – 0314, THERE WAS AN AGREEMENT AND**
11 **STIPULATION THAT RESULTED IN SHIFTING SOME REVENUE**
12 **RESPONSIBILITY TOWARD SOME CLASSES, WAS THIS NOT SUFFICIENT TO**
13 **PROPERLY ALIGN REVENUE RESPONSIBILITY AMONGST CLASSES?**

14 A. No. Although the revenue shift in the last case stipulation may have helped somewhat, the
15 difference among classes in their indices of revenue responsibility is still very wide.

16 **Q. WHAT RATE OF RETURN IS KCPL REQUESTING IN THIS CASE?**

17 A. KCPL is requesting from its Missouri jurisdiction an increase in rate revenue of \$45.4
18 million, or 8.3% above present rates. Of the \$45.4 million requested increase, \$36.15
19 million, or 6.61%, is based on a traditional revenue requirement and \$9.28 million is based
20 on the requested additional amortization. The \$36.15 million increase reflects an overall rate
21 of return of 8.83% as proposed by KCPL's witness Samuel C. Hadaway. KCPL's witness
22 John P. Weisensee shows in Columns 604 and 606, Lines 1-060 of Schedule 1, Page 4 of
23 Exhibit JPW-1 that KCPL is proposing to increase the rate of return earned under present

1 rates from 7.159% to Mr. Hadaway's proposed 8.83%, thereby adjusting the Missouri
2 jurisdiction index of return from about 81.1% ($7.159\% / 8.83\% = 0.8108$) to 100% ($8.83\% /$
3 $8.83\% = 1.0$).

4 **Q. ALTHOUGH KCPL'S MISSOURI JURISDICTIONAL INDEX OF RETURN AT**
5 **PRESENT RATES IS BELOW 100%, WOULD IT BE APPROPRIATE FOR KCPL TO**
6 **MAKE THAT SHORTFALL FROM ANOTHER JURISDICTION.**

7 A. No. The Missouri jurisdiction should pay KCPL's cost to serve the Missouri jurisdiction. It
8 would be inappropriate for other jurisdictions rate payers to pay Missouri's rate payers costs.
9 Similarly, each rate class within the Missouri jurisdiction should pay KCPL's cost to serve
10 that class. When it comes to setting rates for its Missouri's classes, KCPL has not requested
11 that each class pay its share of the total Missouri jurisdictional costs. It seems that KCPL is
12 only concerned with recovering the full index of return from each of its jurisdictions but not
13 from each of its customer classes..

14 **Q. IS KCPL REQUESTING THIS COMMISSION TO TREAT ITS OWN CLASSES OF**
15 **CUSTOMERS DIFFERENTLY THAN KCPL TREATS ITS OTHER AFFILIATES**
16 **OR JURISDICTION?**

17 A. It seems that the Company is only addressing its own needs on a jurisdictional basis and is
18 not concerned about which customer class within the jurisdiction pays. KCPL is asking the
19 Commission to grant them a 100% index of return for the jurisdiction while not addressing
20 the cost to its customers which have indices of return that vary between 0% and 151%.
21 KCPL fails to recognize that some of its classes of customers are currently being largely
22 burdened by paying a lot more than the system average rate of return and are, consequently,
23 subsidizing the other classes.

1 As exposed in Table No. 1 above, the Company's class cost of service shows that the
2 residential and street light classes have been paying rates that contribute now less than 67 %
3 to the system average rate of return, KCPL still wants to wait almost two years before
4 addressing and correcting the problem where other rate classes have been contributing from
5 1.11 to 1.51 times the system average rate of return (Table 1, column b). I can confidently
6 say that if KCPL were earning below its expected rate of return they would not propose to
7 wait two years before filing for a correction in its system rate of return or make up the
8 difference from another jurisdiction .
9

10 **III. PROPOSED RATE DESIGN**

11 **Q. HOW DO YOU RECOMMEND CORRECTING THE LARGE UNDERRECOVERY** 12 **NOW PRESENT IN THE RESIDENTIAL AND STREET LIGHTS CLASSES OF** 13 **SERVICE VERSUS THE SYSTEM AVERAGE?**

14 A. In my opinion, addressing this issue must begin now by using gradual approach to rectify the
15 large disparity amongst the classes earned rate of return. DOE-NNSA recommends
16 equalizing the classes' rate of return over a period of three (3) rate cases period starting with
17 this rate case. In each rate case period, DOE-NNSA proposes to make rate adjustments that
18 would move by 33.3% each rate class' contribution to the system average rate of return.
19 Table 2 illustrates the DOE-NNSA proposal.

Table 2
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
	(a)	(b)	(c)	(d)	(e)
1	Residential	0.67	0.78	0.89	1.00
2	Small General Service	1.32	1.21	1.11	1.00
3	Medium General Service	1.51	1.34	1.17	1.00
4	Large General Service	1.26	1.17	1.09	1.00
5	Large Power	1.11	1.07	1.04	1.00
6	Street Light	(0.11)	0.26	0.63	1.00
7	Total	1.00	1.00	1.00	1.00

(1) From Schedule GCP-1, Page 2, Line 41.

Table 2 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 33.3% move toward the system average return. The change between the remaining columns also represents a 33.3% move toward the system average return until the system average is achieved in Column (e). It should be noted that in KCPL's first rate case under the Regulatory Plan (MPSC Case No. ER-2006-0314) DOE/NNSA recommended that in order that the move toward unity cost of service not be too great in any one case that there should be a 25% move in "revenue neutral" rates which amounted to an increase in the base revenues of the Residential Class \$3,978.1 million. In the Class Cost of Service Stipulation reached by the parties in the first rate case entered on November 9, 2006 the parties agreed to a gradualism move toward unity cost of service for the Residential Class of \$3,427,807. Thus the 33.3% move toward unity cost of service recommended in this

testimony is in actuality a continuation of the 25% move toward unity cost of service in each rate case recommended by DOE/NNSA in Case No. ER-2006-0314.

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

A. Yes. In Table 3 column (c) I have quantified the Total Revenue Adjustment that would be required to move all classes to the system average rate of return under present rates. In the first year of my three years proposal, I propose to adjust the present rates for each rate class in a manner that would either increase or decrease the present class revenues, before the requested increase, as shown in Table 3 column (e).

**** HIGHLY CONFIDENTIAL ****

**** HIGHLY CONFIDENTIAL ****

1 **Q. IF THE COMPANY WAS GRANTED A ZERO REVENUE INCREASE OR A**
2 **DECREASE, WOULD YOU STILL RECOMMEND A GRADUAL MOVEMENT OF**
3 **ALL CLASSES TO THE SYSTEM AVERAGE RATE OF RETURN AS SHOWN IN**
4 **TABLE 2?**

5 A. Yes. Table 4 below shows the classes proposed revenue requirement given a zero percent or
6 a full revenue increase under my proposal.

7 **** HIGHLY CONFIDENTIAL ****

8
9 **** HIGHLY CONFIDENTIAL ****

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

11 A. Yes, it does. My testimony will be updated to reflect new and updated revenue and revenue
12 requirement when filed by the Company or Staff.

My Commission Expires: _____