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Issues: Rate Design
Revenue Allocation Method
Witness: Gary C. Price
Type of Exhibit: Direct Testimony
Sponsoring Party: DOE-NSSA
Case No.: ER-2006-0314
Direct Testimony Date: August 22, 2006

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2006-0314

DIRECT TESTIMONY

OF

GARY C. PRICE

ON BEHALF OF

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

**Kansas City, Missouri
August, 2006**

FILED

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Service Commission

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Date 10-16-06 Rptr RF

1 **DIRECT 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 **Q. BY WHOM ARE YOU EMPLOYED?**

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

13 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

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

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

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

3 **I. QUALIFICATIONS**

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

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

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

21 From 1977 through 1995, I was primarily an independent consultant. During those years, I
22 was involved in a number of gas and electric utility matters, including the preparation of

1 power supply studies, rate studies and have analyzed numerous cost of service studies
2 presented by various parties to regulatory proceedings.

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

14 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY**
15 **COMMISSION?**

16 A. Yes. Since 1977, I have testified numerous times before the Federal Energy Regulatory
17 Commission ("FERC"), the Missouri Public Service Commission (MoPSC"), the Minnesota
18 Public Service Commission, the Public Service Commission of New York, the Texas Public
19 Utility Commission and the Public Service Commission of Wisconsin.

20 **II. PROPOSED REVENUE ALLOCATION FORMULA**

21 **Q. DO YOU AGREE WITH KCPL'S PROPOSED REVENUE CHANGE ALLOCATION**
22 **FORMULA?**

1 A. No. Although KCPL prepared a test year class cost of service study, it did not rely on its
2 results to assign revenue increases to the individual classes of service. Instead, KCPL is
3 proposing that the requested increase be applied "across the board" or, each rate class should
4 receive the average percentage increase.

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

7 A. KCPL'S witness Tim M. Rush in his Direct Testimony on pages 4 through 6 explains the
8 Company's reasons for not relying upon the class cost of service study to allocate its
9 proposed revenue increase.

10 **Q. WHAT REASONS DID MR. RUSH GIVE FOR NOT USING THE CLASS COST OF**
11 **SERVICE STUDY?**

12 A. Mr. Rush gave the following reasons for not using the class cost of service study:

- 13 1) The Company is requesting an 11.46% increase. To reflect the full changes described in
14 the class cost of service would result in an overall increase of over 20% to the residential
15 class.
- 16 2) He stated that this issue would be more appropriately addressed in a future rate design
17 case.
- 18 3) He does not believe that it is appropriate to increase rates more than the average increase
19 of 11.46% in this case.
- 20 4) Mr. Rush stated that minimal increases above the average return would add undue burden
21 to other customers at this time.

1 5) He stated that it was not appropriate now to address this issue because the Company is
2 making significant investments designed to assist customers in managing their energy
3 bill.

4 6) He stated that the appropriate time for addressing this issue is after the Regulatory Plan is
5 fully in effect and the base load coal plant is in service.

6 **Q. DO YOU AGREE WITH MR. RUSH'S REASONING?**

7 A. No. First, his assumption that the residential class increase would have to be over 20%
8 assumes (1) that the Company will receive its full requested increase of 11.46% and (2) that
9 the class rate of returns would have to be adjusted fully in this rate case. However, as in other
10 times in the past, the Company may not receive the requested increase but a lower increase or
11 even a decrease. Even if KCPL received the full requested increase, a gradual approach could
12 be used to adjust the classes' individual rate of returns closer to the system average. These
13 adjustments could be made over the next four rate cases filed by the Company as part of its
14 Regulatory Plan.

15 Secondly, Mr. Rush believes it is appropriate to increase rates up but not in excess of the
16 level of the Company's requested increase. In his view, even additional minimal increases
17 would add an undue burden to customers at this time. Mr. Rush provided no factual
18 justification for his position.

19 **Q. IS MR. RUSH SAYING THAT IF THE COMPANY RECEIVES NO INCREASE IN**
20 **THIS PROCEEDING THAT IT WOULD BE APPROPRIATE TO SHIFT REVENUE**
21 **RESPONSIBILITY AMONG THE CLASSES AS LONG AS THEIR OVERALL**
22 **RATES DO NOT INCREASE ABOVE THE 11.46% RETURN REQUESTED BY**
23 **KCPL?**

1 A. Although Mr. Rush shows concern for some of the classes of customers that are currently
2 paying much less than the system average rate of return, he completely fails to recognize that
3 other classes of customers are currently being burdened by paying much more than the
4 system average rate of return and are, consequently, subsidizing the other classes.

5 Although Mr. Rush acknowledges that the Company's class cost of service shows that the
6 residential and street light classes have been paying rates that contribute less than 75% to the
7 system average rate of return, he still wants to wait over 5 to 7 years before addressing and
8 correcting the problem where other rate classes have been contributing from 1.11 to 1.40
9 times the system average rate of return (Schedule LJL-1, Page 1 of 3, Line 0430). In my
10 opinion if KCPL was earning 25% below its expected rate of return it would not propose to
11 wait 5 to 7 years before filing for a correction in its system rate of return. I don't think KCPL
12 should wait that long to correct its rate inequity.

13 **III. PROPOSED RATE DESIGN**

14 **Q. HOW DO YOU RECOMMEND CORRECTING THE LARGE UNDERRECOVERY** 15 **NOW PRESENT IN THE RESIDENTIAL AND STREET LIGHTS CLASSES OF** 16 **SERVICE VERSUS THE SYSTEM AVERAGE?**

17 A. In my opinion, addressing this issue must begin now by using a gradual approach to rectify
18 the large disparity amongst the classes earned rate of return. DOE-NNSA recommends
19 equalizing the classes' rate of return over a period of four (4) rate cases period starting with
20 this rate case. In each rate case period, DOE-NNSA proposes to make rate adjustments that
21 would move by 25% each rate class' contribution to the system average rate of return. Table
22 1 illustrates the DOE-NNSA proposal.

Table 1
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	0.74	0.81	0.87	0.94	1.00
2	Small General Service	1.11	1.08	1.06	1.03	1.00
3	Medium General Service	1.40	1.30	1.20	1.10	1.00
4	Large General Service	1.21	1.16	1.11	1.05	1.00
5	Large Power	1.12	1.09	1.06	1.03	1.00
6	Street Light	0.39	0.54	0.70	0.85	1.00
7	Total	1.00	1.00	1.00	1.00	1.00

(1) From Schedule LJL-1, Page 2 of 3, Line 0430.

Table 1 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).

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. In Schedule LJL-1, Page 2 of 3, Line 870, the Company has quantified the Total Revenue Adjustment that would be required to move all classes to the system average rate of return. I propose to adjust the present rates for each rate class in a manner that would either increase or decrease the class revenues as shown in Table 2.

Table 2
Kansas City Power & Light Company
DOE-NNSSA's Proposed Gradual Revenue Adjustment Toward Unity Rate of Return

Description	Revenue Adjustment To Equalize ROR - Per KCPL (1)			Per DOE-NNSSA		
	Present Rate Revenue (\$000) (1)	Rate Change To Achieve Unity ROR		Gradual Change This Rate Filing		Adjusted Present Rate Revenue (\$000)
		(\$000) (2)	%	(\$000)	%	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
			(c) / (b)	(e) / 4	(f) / (b)	(b) + (e)
Residential	\$ 171,124.9	\$ 15,948.2	9.32%	3,987.1	2.33%	\$ 175,111.9
Small General Service	36,529.4	(1,247.3)	-3.41%	(311.8)	-0.85%	36,217.6
Medium General Service	62,341.0	(6,650.5)	-10.67%	(1,662.6)	-2.67%	60,678.4
Large General Service	109,019.5	(6,030.4)	-5.53%	(1,507.6)	-1.38%	107,511.9
Large Power	98,311.4	(2,705.1)	-2.75%	(676.3)	-0.69%	97,635.2
Street Light	6,047.4	685.0	11.33%	171.2	2.83%	6,218.6
Total	\$ 483,373.6	\$ 0.0	0.00%	0.0	0.00%	\$ 483,373.6

(1) From Schedule LJL-1, Page 3, Line 0900.

(2) From Schedule LJL-1, Page 2, Line 0870.

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

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

NOTE: EXECUTED AFFIDAVIT OF GARY PRICE FILED SEPARATELY

ON THIS DATE ON EFIS

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 Tariff to) Case No. ER-2006-0314
Begin the Implementation of Its Regulatory Plan)

AFFIDAVIT

STATE OF WISCONSIN)
) SS.
COUNTY OF DANE)


BEFORE ME, the undersigned notary public, this day personally appeared GARY C.
PRICE, to me known, who being duly sworn according to law, deposes and says:

"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 21 day of August,
2006.



Notary Public in and for the State of
Wisconsin

My Commission Expires: 6-24-07

