

Exhibit No.

Issue: Rate Design-Discounted  
Rates for Space-heating

Witness: Joseph A. Herz

Type of Exhibit: Direct Testimony

Sponsoring Party: Trigen-Kansas City

Case No. ER-2007-0291

Date Testimony Prepared: August 3, 2007

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

JOSEPH A. HERZ

ON BEHALF OF  
TRIGEN-KANSAS CITY ENERGY CORP.

Exhibit No. 701  
Case No(s) ER-2007-0291  
Date 10/1/07 Rptr MV

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**DIRECT TESTIMONY OF**  
**JOSEPH A. HERZ**

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1    Introduction

2    Q.    Please state your name, position and place of employment.

3    A.    My name is Joseph A. Herz. I am employed by Sawvel and Associates, Inc. (Sawvel). I  
4           am the vice president of Sawvel, which is an independent consulting firm. My office is  
5           located at 970 W Road, Burr Oak, Kansas 66936.

6  
7    Q.    Please state your professional experience and educational background.

8    A.    I graduated from the University of Nebraska in 1971 with a Bachelor of Science in  
9           Electrical Engineering. From 1970 to 1972, I worked for the Nebraska Public Power  
10          District, where I was assigned to the General Engineering Offices in the Distribution  
11          Department. My principal duties consisted of revising and updating the District's  
12          distribution specifications and standards and analyzing distribution work orders as prepared  
13          by the District's regional offices. In 1972, I transferred to the Lincoln Electric System  
14          where I was responsible for the design and supervision of various additions and  
15          modifications (both overhead and underground) to the electric distribution system. In  
16          1973, I accepted a position with a national consulting engineering firm. My activities  
17          consisted primarily of planning and analytical studies related to electric power supply  
18          arrangements, feasibility studies and rate studies. On August 1, 1978, I became the sole  
19          proprietor of Sawvel, an independent consulting and engineering firm. In this capacity, I  
20          continue to provide consulting services relative to utility systems, principally in the areas of

1 cost of service and rate design for electric, water, gas and wastewater utilities, electric  
2 power supply and transmission arrangements, utility feasibility analyses, assistance in  
3 financing utility purchases as well as development of expert testimony before regulatory  
4 bodies.

5 I am registered as a Professional Engineer, and a member of a number of  
6 professional associations including the Institute of Electrical and Electronics Engineers,  
7 Inc., the National Society of Professional Engineers, the Ohio Society of Professional  
8 Engineers, the American Water Works Association, the American Standardization Society  
9 for Testing and Materials, and the American Public Power Association.

10  
11 Q. Have you previously participated in regulatory engagements before any state or federal  
12 regulatory commissions?

13 A. Yes, I testified before the Missouri Public Service Commission (Commission) in Kansas  
14 City Power and Light Company's (KCPL) last rate case filing (Case No. ER-2006-0314).  
15 In addition, I have sponsored testimony before the following regulatory agencies; the  
16 Federal Power Commission and its successor, the Federal Energy Regulatory Commission  
17 ("FERC"), the Colorado Public Utilities Commission, the Florida Public Service  
18 Commission, the Public Utilities Commission of Hawaii, the Public Service Commission  
19 of Indiana, the Kansas Corporation Commission, the Michigan Public Service  
20 Commission, the Montana Public Service Commission, the New Mexico Public Regulation  
21 Commission, the Public Utilities Commission of Ohio, the Public Utilities Commission of  
22 Texas, the Utah Public Service Commission, the Wisconsin Public Service Commission  
23 and the Public Service Commission of Wyoming.

1 Q. On whose behalf are you appearing in this proceeding?

2 A. I am appearing on behalf of Trigen-Kansas City Energy Corporation (Trigen) who is an  
3 intervenor in this proceeding.  
4

5 Q. What is the nature of Trigen's business?

6 A. Trigen operates a district steam heating system that primarily serves commercial and  
7 industrial customers in the Kansas City, Missouri downtown area. Trigen's district steam  
8 heating system was previously owned and operated by KCPL. Trigen's customers are also,  
9 without exception, electric customers of KCPL. Unlike KCPL in its provision of electric  
10 power and lighting services, each of Trigen's customers has an alternative to supply its  
11 heating and cooling needs from KCPL and the gas utility.  
12

13 Recommendations

14 Q. Please summarize the conclusions you have reached with respect to your review of the  
15 space-heating related rate discounts in KCPL's general service tariffs.

16 A. The following conclusions and findings are discussed in my testimony regarding KCPL's  
17 discounted all electric general service tariff rates and the provisions for separately metered  
18 space-heating rate discounts:<sup>1</sup>

- 19 1. KCPL's discounted rates related to space-heating are unreasonable and unfairly  
20 discriminate between commercial and industrial customers, some of which may be  
21 competing with each other, by charging different amounts for identical usage under  
22 similar circumstances;

---

<sup>1</sup> The discounted all electric general service tariff rates and the provisions for separately metered space-heating rate discounts are sometimes collectively referred to herein as "space-heating rate discounts", "discounted rates related to space-heating", or simply "discounted rates".

- 1           2. Such discounted space-heating rates send price signals that favor low load factor,  
2           high demand use for selective end use customers, which directly conflicts with the  
3           price signals sent other commercial and industrial customers in the same general  
4           service class;
- 5           3. If, in fact, certain sizes and types of commercial and industrial space-heating  
6           equipment are desirable on KCPL's system, there are programs already approved  
7           by which KCPL provides technical assistance and evaluation, and even funding in  
8           the form of rebates that are targeted directly toward such equipment;
- 9           4. Discounted rates for selective, behind the meter use create additional, and  
10          unnecessary, burdens and cost to administer, monitor and police that as a practical  
11          matter are not possible to fully implement or to maintain;
- 12          5. The discounted rates seem to be a matter of simply continuing past practices, and it  
13          has not been shown that such discounted rates are beneficial or needed for  
14          competitive reasons and indeed may have the potential to adversely impact  
15          competition; and
- 16          6. KCPL's proposal to increase all rates by the overall percentage rate increase will  
17          effectively increase the size<sup>2</sup> of the space-heating rate discounts which is  
18          inconsistent with the last rate case where the general service space-heating rate  
19          discounts were reduced.

20  
21       Q.     Based on your conclusions and findings, what are your recommendations to the  
22               Commission with respect to KCPL's general service tariffs?

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<sup>2</sup> By "size" I'm referring to the difference on the energy rate charges per kWh energy between standard general service rates and the corresponding discounted dollar amount of the space-heating customer's monthly billing.

1 A. But for the Commission's Report and Order in KCPL's last rate case discussed later in my  
2 testimony, it would be my recommendation that KCPL's all electric general service tariffs  
3 should be terminated, and that the separately metered space-heating provisions should be  
4 eliminated from KCPL's standard general service tariffs. In light of the Commission's  
5 Report and Order, however, it is my recommendation the Commission:

- 6 1. Unless and until the Commission has been presented and reviewed the appropriate  
7 cost of service and/or cost-effectiveness studies, and has made a determination that  
8 there is a cost-basis for KCPL's discriminatory, preferential rate treatment of  
9 commercial and industrial customers receiving service under these discounted  
10 rates,<sup>3</sup> the discounted space-heating rates should be increased more than the  
11 standard general service rates in this and the next two KCPL rate cases so that the  
12 discounted rates and standard tariff rates reach parity over KCPL's three rate cases.  
13 Until rate parity is attained, the discounted rates relating to space-heating should  
14 increase a minimum of 5% more than the standard general service rates as in  
15 KCPL's last rate case.
- 16 2. Require KCPL, as soon as possible but not later than its next rate case, to present  
17 complete cost of service and/or cost-effectiveness studies and analyses of the  
18 general service space-heating rate discounts, and allow KCPL the opportunity to  
19 present its preferred alternative phase out plan for the remaining commercial and  
20 industrial customers served under the all electric general service tariffs and the  
21 separately metered space-heating tariffs consistent with findings of such studies and  
22 analyses;

---

<sup>3</sup> It is generally held that two customers with the exact same usage, regardless of end use, should be treated the same, unless there is some cost-basis for discriminating.

- 1           3. In the event KCPL does not file such cost of service and/or cost-effectiveness  
2           studies before, or as part of its next rate case, require KCPL to impute revenues  
3           associated with the discounted rates in the all electric general service tariffs and  
4           separately metered space-heating provisions, and impute revenues equal to KCPL's  
5           cost of administering the general service discounted space-heating rates as part of  
6           KCPL's next rate case Application;
- 7           4. Restrict the availability of such tariffs and tariff provisions to those qualifying  
8           commercial and industrial physical locations being served under such general  
9           service discounted rates related to space-heating tariffs or tariff provisions as of the  
10          true up date, or as an alternative, the operation of law date of this proceeding; and,
- 11          5. Require KCPL to investigate and determine whether the commercial and industrial  
12          customers currently served under the general service all electric tariffs, and the  
13          separately metered space-heating provisions of the standard general service tariffs,  
14          meet the eligibility requirements for those discounted rates. The Commission  
15          should require KCPL to remove from the rate discount those customers that the  
16          Company's investigation determines are no longer eligible for such rate discounts.  
17          In addition the Commission should require KCPL to monitor and police the  
18          eligibility requirements of those customers receiving the discount rates for reporting  
19          in the Company's direct testimony in KCPL's next rate filing.
- 20

21   Background

22   Q.     What is the focus of your testimony?



1 A. My testimony focuses on KCPL's general service tariffs applicable to KCPL's commercial  
2 and industrial customers that would affect Trigen and customers of Trigen. Because  
3 KCPL's electric service area overlays all of Trigen's district steam heating service area,  
4 and because KCPL has special programs and rate discounts described later in my testimony  
5 that promote electric space-heating, Trigen has an interest and is impacted by KCPL's  
6 general service tariff rates applicable to commercial and industrial customers affected by  
7 this proceeding.

8  
9 Q. What are the KCPL general service tariffs that affect Trigen and Trigen's customers?

10 A. KCPL has three general service categories applicable to commercial and industrial  
11 customers: small, medium and large. Within each of these three general service categories,  
12 KCPL has two general service tariffs – one which I'll refer to as the standard general  
13 service tariff, the other is an "all electric" general service tariff.<sup>4</sup> The standard and all  
14 electric tariffs within each of the three general service categories have the same rate  
15 structure (i.e., a seasonal, load factor energy rate structure) and the same energy rates  
16 during the four summer months (i.e., May 16 through September 15), but different energy  
17 rates for the winter season (i.e., the eight month period from September 16 through May  
18 15). Within each of the three general service categories, the all electric tariffs have  
19 substantially lower winter season energy rates, with the greatest reduction or rate discounts  
20 occurring in the low load factor energy rate energy blocks (i.e., the first 180 hours use per  
21 month which is a load factor of less than 25%). In other words, it's the low load factor

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<sup>4</sup> The reference to standard general service tariffs in my testimony includes the Small General Service Schedule SGS Sheet No. 9, Medium General Service Schedule MGS Sheet No. 10, and Large General Service Schedule LGS Sheet No. 11. The reference to all electric general service tariffs in my testimony includes the Small General Service All Electric Schedule SGA Sheet No. 17, Medium General Service All Electric Schedule MGA Sheet No. 18, and Large General Service All Electric Schedule LGA Sheet No. 19.

1 energy use by commercial and industrial customers taking service under the all electric  
2 tariff that receive the most significant space-heating rate discounts.

3  
4 Q. Are there any other discounted rates related to space-heating in KCPL's general service  
5 tariffs?

6 A. Yes. In each of the small, medium and large standard general service tariffs, there is a  
7 special rate provision for separately metered space-heating. Like the discounted all electric  
8 general service tariff rates, the separately metered space-heating provision provides for a  
9 substantially lower winter season energy rate. Just as is the case with the all electric tariff,  
10 the separately metered space-heating provision provides for a substantial rate discount from  
11 the standard tariff rate that most significantly benefits low load factor energy use by  
12 commercial and industrial customers served under the separately metered space-heating  
13 provision.

14  
15 Q. What impacts, if any, do the space-heating rate discounts have on the KCPL standard tariff  
16 commercial and industrial customer?

17 A. Standard tariff customers in essence pay more for their electric service as a consequence of  
18 the discounted space-heating rates under the all-electric tariffs and KCPL's separately  
19 metered space-heating provisions. In other words, the standard tariff customer provides a  
20 cross-subsidy to those customers receiving discounted service. In its last rate case filing  
21 (Case No. 2006-0314), KCPL sought Commission approval to expand the availability of  
22 the all-electric general service rate discounts to commercial and industrial customers that  
23 are not all electric customers. On behalf of Trigen, I filed testimony opposing KCPL's

1 proposal to broaden the availability of the all-electric space-heating rate discounts. I  
2 recommended in the last KCPL rate case that the Commission eliminate the space-heating  
3 rate discounts altogether or, as an alternative, the Commission restrict the availability of  
4 such space-heating discounts to those qualifying commercial and industrial customers then  
5 currently being served under the discounted rates, and that the Commission require KCPL,  
6 in its next rate case filing (which would be this proceeding) to present a cost of service  
7 study of serving, and phase out plan for, those commercial and industrial customers served  
8 under the discounted rate tariffs.. I also recommended that KCPL be ordered to determine  
9 if the customers receiving service under the discounted rates continue to qualify for such  
10 rates and to remove them from the discounted rates if they are no longer qualified.

11  
12 Q. What did the Commission do?

13 A. In its Report and Order in KCPL's last rate case, the Commission stated that it "is  
14 concerned that during KCPL's winter season, commercial and industrial customers under  
15 the all-electric general service tariffs pay about 23% less for the entire electricity usage  
16 than they would otherwise pay under the standard general service tariff, and that  
17 commercial and industrial customers under the separately metered space-heating  
18 provisions...pay about 54% less for such usage than they would pay under the standard  
19 general service tariff". The Commission went on to say that it "will adopt Staff's  
20 suggestion, and Trigen's alternative suggestion, that the Commission restrict the existing  
21 general service all-electric rate schedules and the separately metered space-heating  
22 provisions of KCPL's standard general service tariffs to existing customers until there is a  
23 comprehensive class cost of service study."

1           Although the Commission's Order restricted the discounted rates to "existing  
2 customers", i.e., *any* existing KCPL customer, it did not restrict the discounted rates to just  
3 the commercial and industrial customers that were then receiving service under the all-  
4 electric general service tariffs or separately metered space-heating provisions of the  
5 standard general service tariffs that qualified for such service.<sup>5</sup>

6           This matter has been appealed by Trigen, and to my knowledge has not yet been  
7 decided as of the preparation of my direct testimony. The Commission's Order also did not  
8 order KCPL to actually *conduct* a comprehensive class cost of service study or to  
9 investigate and remove customers who no longer qualify for the discounted rates.

10  
11 KCPL's Proposed Rate Design

12 Q.    What is KCPL proposing to do in this proceeding?

13 A.    KCPL is proposing to increase the general service tariff rates, including the space-heating  
14 rate discounts, by the overall revenue increase sought by the Company (i.e., 8.3%). In his  
15 direct testimony at page 5, KCPL witness Rush states that in the last rate case, "the  
16 Company implemented numerous changes as a result of a class cost of service study, line  
17 loss study and a stipulation and agreement between the parties on the rate design"; and that  
18 "the parties agreed in the Stipulation and Agreement not to file new or updated class cost of  
19 service studies or to propose changes to rate structures in this case." I would like to  
20 address a couple of matters regarding the Stipulation and Agreement, and the class cost of  
21 service study, as they relate to the commercial and industrial space-heating rate discounts.

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<sup>5</sup> In order to make the restriction meaningful, and not subjective, the general service space-heating discounts should be restricted to existing physical locations for these commercial and industrial customers actually receiving the discounted service presently and whose billing units are included in the test year true-up, or as of the operation of law date of the Commission's Order in this proceeding.

1 Q. Please address the class cost of service study point.

2 A. It should be pointed out the class cost of service study in the last case lumped all of the  
3 standard tariff, all-electric tariff, and separately metered space-heating commercial and  
4 industrial tariff customers together into one of three general service categories; small,  
5 medium and large. In other words, the referenced class cost of service study did not  
6 investigate or calculate the cost of serving or the cost-effectiveness of discounts for space-  
7 heating commercial and industrial customers and the space-heating rate discounts; but  
8 rather looked at the general service standard tariff and space-heating customers as a whole.  
9 In fact, the same is true for KCPL's prior class cost of service study that was done in 1996.  
10 The standard tariff versus space-heating discounted rates are the result of maintaining price  
11 differentials in effect prior to KCPL's 1996 class cost of service study. In other words,  
12 even though KCPL conducted class cost of service studies in 1996 and in the last rate case,  
13 there are no cost of service, or cost-effectiveness analyses that supports or provides the  
14 basis for space-heating rate discounts. The time is well past due for a comprehensive class  
15 cost of service study that will specifically address KCPL's discounted space-heating rates  
16 for commercial and industrial customers.

17  
18 Q. Would such a cost of service study be inconsistent with the parties to the Stipulation and  
19 Agreement agreeing to not file new or updated class cost of service studies or to propose  
20 changes to the rate structure?

21 A. No, it would not. The issue here is not about changing inter-class cost of service study  
22 results for the small, medium and large general service classes as a whole or to modify the  
23 rate structures for these classes. The issue is to get a comprehensive class cost of service or

1 a cost-effectiveness study before the Commission that answers the question of whether the  
2 space-heating rate discounts for commercial and industrial customers can be cost justified,  
3 or are preferential and discriminatory, and, if so, to address an appropriate phase out plan  
4 of such space-heating rate discounts. It is my opinion that KCPL's continuing reluctance  
5 to undertake such a study, using the customer data and cost data in its possession, is  
6 attributable to the expectation that such studies or analyses will not support the generous  
7 discounts of concern to Trigen. The comprehensive class cost of service study sought by  
8 Trigen would not require a shifting of revenues between the small, medium and large  
9 general service classes. Within each of the general service categories, however,  
10 preferential treatment of space-heating commercial and industrial customers would be  
11 terminated. This can be done by eliminating all of the space-heating rate discounts from  
12 the small, medium and large general service tariffs, and leaving the current standard  
13 general service tariff structures in place. Of course, eliminating the space-heating rate  
14 discounts will result in a reduction of the standard general service tariff rates because the  
15 standard tariff rates would no longer need to subsidize the space-heating rate discounts.

16  
17 Q. How can you conclude that KCPL's space-heating rates are inefficient, discriminatory and  
18 preferential; don't you need to do a cost of service study to be able to make that  
19 determination?

20 A. No, in fact, the opposite is true -- that is, you need to do a comprehensive cost of service  
21 and/or cost-effectiveness studies and analyses to be able to make a determination that the  
22 discounted space-heating rates are cost justified and therefore not discriminatory. It is long  
23 standing practice of utility regulation that two customers with the exact same usage or other

1 service characteristics, regardless of end use, should be treated the same. In the case of  
2 KCPL, however, general service customers are treated differently depending on whether  
3 customers are billed under the standard tariff or under the discounted space-heating rates.  
4 Yet, other than the argument "we've always done it that way", there has not been any cost-  
5 based analyses supporting such preferential rate treatment in the Company's class cost of  
6 service study in either the last rate case or in the 1996 class cost of service study. Rather,  
7 the discriminatory, preferential discounted space-heating rates are simply a continuation of  
8 rate differentials that were in existence prior to the 1996 class cost of service study. Absent  
9 such studies that provide a cost-basis for the difference in rates, the discounted space-  
10 heating rates can only be viewed as discriminatory and preferential.

11 Furthermore, if building space-heating load is a reasonable objective for KCPL, it  
12 should be achieved through programs specifically designed to examine the relative costs  
13 and benefits of such an undertaking, not with additional discounts embedded in the all-  
14 electric/separately metered space-heating tariff – especially when such tariffs are not based  
15 on a detailed cost of service or cost-effectiveness study. KCPL's general service all  
16 electric tariff structure provides a huge rate discount on a commercial and industrial  
17 customer's entire winter usage, not just a discount on space-heating use. If space-heating is  
18 deemed to be important, it should be encouraged through specifically designed programs,  
19 not through rate discrimination.

20 Also, discounted rates for selective, behind-the-meter use create additional and  
21 unnecessary burdens and cost to administer, monitor and police which, as a practical  
22 matter, are not possible to fully implement or maintain. In order to apply discounted rates  
23 for selective end use, KCPL's tariffs require it to have an administrative process that

1 involves gathering information about commercial and industrial customer's space-heating  
2 system and periodic reporting on the specific applications associated with the usage of  
3 these customers. It is not clear that KCPL has developed and implemented a process under  
4 which it would remove a customer from a discounted rate if the customer no longer meets  
5 the requirements.

6  
7 Q. Please address the Stipulation and Agreement point.

8 A. First, Trigen was not a signatory or a party to the Stipulation and Agreement. Second, it  
9 should be noted the Stipulation and Agreement provided for an additional, incremental 5%  
10 increase to the discounted space-heating rates on top of and in addition to the standard  
11 tariff general service rate increase; the effect of which was obviously to reduce the size of  
12 the space-heating rate discounts. In this proceeding, KCPL's proposal for an across the  
13 board increase that is equal to the overall increase of 8.3% effectively will now increase the  
14 size of the space-heating discounts by that amount (i.e., 8.3%). This is inconsistent with  
15 what was done in the last case. Also, it doesn't make sense that the space-heating rate  
16 discounts should be increased in light of the "concerns" expressed by the Commission in  
17 KCPL's last rate case. Nor would increasing the space-heating discounts appear to be  
18 consistent with the Commission's restriction of discounted space-heating rates to "existing"  
19 customers (regardless of one's definition) until there is a comprehensive class cost of  
20 service study for commercial and industrial space-heating service.

21 KCPL's proposal to increase the commercial and industrial space-heating discounts  
22 by the overall increase would potentially establish a bad precedent for future rate filings.  
23 As noted on page 4 of KCPL's Application in this proceeding, KCPL will file as many as



1 two additional rate Applications over the next four years. If, for example, the increases in  
2 the next two Applications were the same as that sought by KCPL in this proceeding (i.e.,  
3 8.3% increase in each of the next two rate filings), KCPL's approach would increase the  
4 commercial and industrial space-heating discounts by 27% (i.e., the result of compounding  
5 8.3% three times). Obviously, KCPL's approach which would increase the commercial  
6 and industrial space-heating rate discounts would compound the "concerns" of the  
7 Commission in the last rate case. Again, until completion of a comprehensive cost of  
8 service and/or cost-effectiveness study that analyses the commercial and industrial space-  
9 heating rate discounts, as well as KCPL's Affordability, Energy Efficiency and Demand  
10 Response programs, which is filed for the Commission's review and consideration, this  
11 preferential end-use rate treatment is unsupported and can only be viewed as preferential  
12 and discriminatory. Also, in my opinion, there is some question as to whether the  
13 commercial and industrial space-heating rate discounts result in revenues that are less than  
14 KCPL's incremental or marginal costs.<sup>6</sup>

15  
16 Q. Why doesn't Trigen prepare its own such cost of service and/or cost effective studies?

17 A. As a practical matter, it is not reasonable for any party other than KCPL to initially prepare  
18 and file such studies and analyses with the Commission. The data sources, and the  
19 assembling of the data required for these investigations lies within the Company, which  
20 outside parties cannot assemble. Once the data is assembled and a study is prepared by the  
21 Company, Trigen, the Commission's Staff and other parties can efficiently review,

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<sup>6</sup> See for example, KCPL's Highly Confidential Schedule BLC-1.

1 scrutinize, and challenge the analysis, and provide the Commission their respective  
2 findings and conclusions.  
3

4 Q. When will KCPL provide such cost of service and/or cost-effectiveness studies?

5 A. Unfortunately, it appears that unless the Commission provides a clear directive for KCPL  
6 to do so, it is not known if or when KCPL will ever file such studies on its own initiative.  
7 In the mean time, the preferential, discriminatory rate treatment continues; and the  
8 commercial and industrial space-heating discount rate concerns only grow, especially if the  
9 restriction of the availability of such space-heating rate discounts to "existing" customers is  
10 allowed to be anything broader than those physical locations receiving such space-heating  
11 discounts in the Company's final test year billing determinants at the time of true-up (or, at  
12 the latest, operation of law date in this proceeding) that can continue to qualify for such  
13 discounts.  
14

15 Space-heating Rate Discounts

16 Q. What do you recommend be done in this proceeding?

17 A. The obvious "fix" would be to eliminate the general service discounted space-heating rates  
18 that cause the standard tariff customers to subsidize the commercial and industrial  
19 customers served under KCPL's all electric tariffs and the separate space-heating  
20 provisions. General service tariff customers, which often are in competition with each  
21 other, that have identical monthly usage characteristics should have the same electric bill,  
22 and not be discriminated against by having different electric bills depending on what the  
23 electricity may or may not be used for behind (i.e., on the customers' side) the meter or

1       whether or not a portion of the usage is submetered. Eliminating KCPL's practice of  
2       charging different rates to similar general service customers for substantially the same  
3       service (i.e., electricity use) rendered under similar circumstances is especially important  
4       when the general service customers being discriminated between are in competition with  
5       one another. In other words, there are questions as to whether these selective end user rate  
6       discounts materially contribute to undesirable effects. In light of the Commission's Order  
7       in the last rate case, however, I will be making an alternative recommendation. The  
8       Commission should direct KCPL to file, as soon as possible but not later than KCPL's next  
9       rate Application, the cost of service and/or cost-effectiveness studies described above.

10      A means for the Commission to provide an incentive for KCPL to file such studies and  
11      analyses would be to require KCPL in its next rate case to impute additional revenues to  
12      eliminate the discount to the standard general service tariffs so as to avoid subsidization by  
13      the remainder of the standard general service customers in the event KCPL does not file  
14      such studies and analyses on or before its next rate case. To the extent that KCPL's cost of  
15      policing, monitoring and administering these discounted rates are included in KCPL's  
16      revenue requirements, then additional revenue will need to be imputed to offset such costs,  
17      if the Commission were to concur that standard tariff customers should not pay more as a  
18      consequence of KCPL's continued use of discounted rates. While this imputation of  
19      revenues would result in standard tariff general service customers not paying more as a  
20      consequence of KCPL's discounted all-electric/space-heating general service tariffs and  
21      separately metered space-heating provisions, it would not address nor fix the discrimination  
22      problem between general service customers that may be competing with each other.

1           With respect to the general service space-heating rate discounts in this proceeding,  
2           the Commission should increase the discounted rates related to space-heating more than the  
3           standard tariff rates as it did in KCPL's last rate case (i.e., space-heating rates were  
4           increased an additional 5% on top of the standard general service rate increases) so as to  
5           reduce the size of the discount and to continue to move the discounted space-heating rates  
6           to be on par with the standard general service rates. The amount of additional rate  
7           increases applicable to the discounted space-heating rates should be that required to reduce  
8           the rate differential by one-third. By reducing the discounted space-heating versus  
9           standard tariff rate differentiated by one-third in this and KCPL's next two rate cases, the  
10          space-heating rates will reach parity with the general service rates over three KCPL rate  
11          case filings (this rate case and KCPL's next two rate cases). Of course if and when KCPL  
12          files the cost of service and/or cost-effectiveness studies discussed earlier, KCPL could  
13          propose an alternative phase out plan for consideration by the Commission.

14          Equally important, the Commission should revisit to whom the discounted rates are  
15          restricted and order that "existing" customers be those qualifying commercial and  
16          industrial physical locations receiving the space-heating discounts in the test year billing  
17          determinants, but no later than the Commission's operation of law date in this rate case.  
18          Finally, the Commission should require KCPL to monitor and enforce the eligibility  
19          requirements of these customers, and to report the results of such efforts to the Commission  
20          as part of KCPL's next rate case filing.

1 Conclusion

2 Q. Does this conclude your direct testimony?

3 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

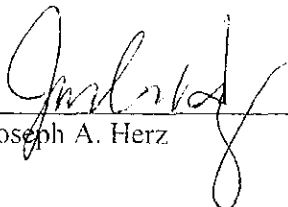
In the Matter of the Application of Kansas )  
City Power and Light Company for Approval )  
to Make Certain Changes in its Charges for )  
Electric Service to Implement its Regulatory )  
Plan )

Case No. ER-2007-0291

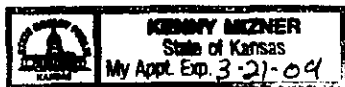
AFFIDAVIT OF JOSEPH A. HERZ


STATE OF KANSAS )  
 ) ss  
COUNTY OF JEWEL )

Joseph A. Herz, being of lawful age, on his oath states: that he has participated in the preparation of the attached Direct Testimony in question and answer form to be presented in the above case; that the answers in said Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers and schedules; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Joseph A. Herz

Subscribed and sworn to before me this 3 day of August, 2007.



  
\_\_\_\_\_  
Notary