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Rate Design
Witness: James C. Watkins
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES C. WATKINS

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri

September 2007

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SURREBUTTAL TESTIMONY

OF

JAMES C. WATKINS

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2007-0291

Q. Please state your name and business address.

A. My name is James C. Watkins and my business address is Missouri Public Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Who is your employer and what is your present position?

A. I am employed by the Missouri Public Service Commission (Commission) and my title is Manager, Economic Analysis, Energy Department, Operations Division.

Q. Are you the same James C. Watkins that prefiled direct and rebuttal testimony in this case?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to respond to the rebuttal testimony of the other parties regarding the remaining class cost-of-service and rate design issues. These issues may be summarized as relating to class revenue shifts, all-electric and separately-metered general service space heating rates, and shifts between demand and energy charges within the Large Power Service (LPS) rate class.

Surrebuttal Testimony of
James C. Watkins

1 **Class Revenue Shifts**

2 Q. Please summarize your response to the other parties' rebuttal testimony on
3 class revenue shifts.

4 A. The Staff's proposal is permitted by the KCPL Experimental Regulatory Plan;
5 is consistent with the results of the class cost-of-service studies presented in KCPL's last rate
6 case, Case No. ER-2006-0314 (Rate Filing #1); and is consistent with the DOE-NNSA class
7 cost-of-service study filed in this case (Rate Filing #2).

8 **All-Electric & Separately-Metered Space Heating Rates**

9 Q. Please summarize your response to the other parties' rebuttal testimony on all-
10 electric and separately-metered space heating rates.

11 A. The Staff's proposal to phase-out the all-electric and separately-metered space
12 heating rates is permitted by the KCPL Experimental Regulatory Plan and should be adopted
13 in this case.

14 **LPS Within-Class Revenue Shifts Between Demand and Energy Charges**

15 **ISSUES**

16 **Class Revenue Shifts**

17 **Response to Timothy M. Rush (KCPL)**

18 Q. What was KCPL's response to the class revenue shifts proposed by the Staff?

19 A. According to the rebuttal testimony of KCPL witness Timothy M. Rush, the
20 Company believes that anything other than an equal percentage increase to the rates of all rate
21 classes would "cause customers to re-evaluate the rate they have chosen," and, thus, would
22 represent a "rate structure change," which, the Signatory Parties to the Stipulation and

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1 Agreement in KCPL's Experimental Regulatory Plan in Case No. EO-2005-0329 (Regulatory
2 Plan) agreed not to propose in this case (Rate Filing #2). (Rebuttal p.2, ll. 1-6)

3 Q. Has the Staff proposed "rate structure changes?"

4 A. No. Staff would not purposefully violate an agreement to which it was a
5 signatory party.

6 Q. Does your testimony address the definition of "rate structure" as used in the
7 Regulatory Plan Stipulation and Agreement?

8 A. No. Staff witness Janice Pyatte is explaining in her surrebuttal testimony
9 Staff's understanding of the term "rate structure" as used in the Regulatory Plan Stipulation
10 and Agreement, the Staff's basis of that understanding, and what the Staff believes is
11 allowable under that language.

12 **Response to Barbara A. Meisenheimer & Russell W. Trippensee (OPC)**

13 Q. What was OPC's response to the class revenue shifts proposed by the Staff?

14 A. Ms. Meisenheimer's response was similar to that of Mr. Rush and is addressed
15 in the surrebuttal testimony of Ms. Pyatte. Mr. Trippensee challenges the validity of the
16 Staff's class cost-of-service study (CCOS) in KCPL's last rate case (Case No. ER-2006-0314)
17 and the Staff's claim that the addition of Iatan 2 will compound any current misalignments
18 between class costs and class revenues. (p. 5, ll. 12-19) (p. 6, ll. 1-2)

19 Q. Is the Staff's recommendation based solely on the results of its CCOS study in
20 Case No. ER-2006-0314?

21 A. No. All of the CCOS studies presented in KCPL's last rate case, with the
22 exception of one of the CCOS studies prepared by Ms. Meisenheimer, indicated that rates for

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1 the Residential rate class should be increased by at least 5.18%¹. All of those CCOS studies
2 indicated that rates for the Medium General Service rate class should be reduced by at least
3 8.75%. Among other rate changes in Case No. ER-2006-0314, rates were actually increased
4 for Residential customers by only 2.00% and reduced for the Medium General Service
5 customers by only 0.45%. Simple arithmetic shows that, at a minimum, Residential rates
6 should be increased by an additional 3.18% ($5.18\% - 2.00\% = 3.18\%$) and Medium General
7 Service rates should be reduced by an additional 8.30% ($8.75\% - 0.45\% = 8.30\%$). The Staff's
8 recommended increase in this case of 1.80% to Residential rates and reduction of 5.00% to
9 the Medium General Service rates is still less than shown to be required by any of the CCOS
10 studies, except one of the studies offered by Ms. Meisenheimer.

11 Q. Does the Staff's recommendation depend on whether or not Iatan 2 is added to
12 KCPL's rate base in Rate Filing #4?

13 A. No. Based on the CCOS studies' results offered by the parties in Case No.
14 ER-2006-0314, the Staff believes that further class revenue adjustments are required at this
15 time regardless of what happens with Iatan 2.

16 **Response to Gary C. Price (DOE-NNSA)**

17 Q. What was DOE-NNSA's response to the class revenue shifts proposed by the
18 Staff?

19 A. In his rebuttal testimony (p.3, ll.1-5) Mr. Gary C. Price, on behalf of The
20 Department of Energy – National Nuclear Security Administration (DOE-NNSA), stated that

¹ The 5.18% increase to the Residential class was taken from the CCOS study filed by Ms. Meisenheimer in her direct testimony. Ms. Meisenheimer subsequently filed an updated CCOS study that indicated that the minimum increase to the Residential class should be 5.66%, instead of 5.18%.

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1 | it is inappropriate to base the Staff's recommendation in this case on its, or any other, CCOS
2 | study in a prior case.

3 | Q. Did you base the Staff's recommended revenue shifts on the Staff's CCOS
4 | study in Case No. ER-2006-0314?

5 | A. Only in part. As discussed above, the Staff's recommendation is consistent
6 | with all but one of the CCOS studies filed in that case.

7 | Q. Is it appropriate to base the Staff's recommendation on CCOS studies
8 | performed for a prior case?

9 | A. Unless there has been a significant change in the relationship between a
10 | company's rate base, expenses, or revenue since the last CCOS study was performed, it is
11 | reasonable to assume that a current CCOS study would have the same general results as the
12 | previous study.

13 | Q. If that is the case, why does the DOE-NNSA study in this case differ so
14 | significantly from the results of the DOE-NNSA study in the last case?

15 | A. There are three possible reasons why the results would differ so much when
16 | there has been no significant change in the mix of rate base, expenses, or revenue.

17 | One possible reason is that there is an error in the CCOS model software used by
18 | DOE-NNSA.

19 | A second reason might be that KCPL's budgeted data used in the DOE-NNSA CCOS
20 | study in this case varies significantly from the actual weather normalized data used in this
21 | case to determine KCPL's overall cost of service (revenue requirement).

22 | A third reason, and perhaps the most likely, is the instability of the allocation methods
23 | used in the DOE-NNSA CCOS study. For example, DOE-NNSA's production capacity

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1 allocator based on coincident peak demand is very unstable because class contribution to
2 coincident peak demand is very dependent on the time at which the system peaks - summer or
3 winter; morning, afternoon, or evening; and weekday or weekend.

4 Q. What effect does the instability of the DOE-NNSA CCOS study results have
5 on DOE-NNSA's recommendation for class revenue shifts?

6 A. There are essentially two problems. First, in order to adjust class revenues to
7 equal class cost of service, a determination would have to be made by the Commission as to
8 what the appropriate cost of service is for each class. That determination has not been made.
9 Second, DOE-NNSA's CCOS study results are an erratically moving target.

10 Q. What information are you relying on when you claim that the DOE-NNSA's
11 CCOS study results are an erratically moving target?

12 A. I have put together the following tables to illustrate that point. The first table
13 is reproduced from Mr. Price's rebuttal testimony. It shows the results of both of DOE-
14 NNSA's CCOS studies.

15 **DOE - NSAA Class Cost of Service For Each Rate Case**
16 **(From Table 6, Gary C. Price Rebuttal Testimony, Page4)**

| | RES | SGS | MGS | LGS | LPS | LGT |
|------------------------------|---------------|---------------|----------------|---------------|----------------|---------------|
| Case No. ER-2006-0314 | 16.31% | -4.54% | -11.91% | -8.47% | -10.09% | 5.38% |
| Case No. ER-2007-0291 | 11.29% | -8.86% | -12.72% | -6.45% | -2.61% | 19.33% |

17
18 Because revenue shifts were made in the last case, we should expect the results of the
19 study in this case to reflect those revenue shifts. The table below shows the expected impact
20 on the CCOS study of those shifts.

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| | RES | SGS | MGS | LGS | LPS | LGT |
|---|--------|--------|---------|--------|---------|-------|
| DOE-NNSA CCOS Results Case No. ER-2006-0314 | 16.31% | -4.54% | -11.91% | -8.47% | -10.09% | 5.38% |
| S&A Revenue Shifts Case No. ER-2006-0314 | 2.00% | -0.45% | -0.45% | -0.45% | -2.54% | 0.00% |
| Expected Result (Row 1 – Row 2) | 14.31% | -4.09% | -11.46% | -8.02% | -7.55% | 5.38% |

Expected Class Cost of Service Results

The table below shows the difference between the results of the DOE-NNSA study in this case from the adjusted results of the DOE-NNSA study filed in the previous case. These differences are quite significant.

| | RES | SGS | MGS | LGS | LPS | LGT |
|--|--------|--------|---------|--------|--------|--------|
| Case No. ER-2007-0291 CCOS Result | 11.29% | -8.86% | -12.72% | -6.45% | -2.61% | 19.33% |
| Expected Result | 14.31% | -4.09% | -11.46% | -8.02% | -7.55% | 5.38% |
| Deviation CCOS Result Less Expected | -3.02% | -4.77% | -1.26% | 1.57% | 4.94% | 13.95% |

DOE-NSAA CCOS Deviation From Expected

The table below shows another aspect of moving to the DOE-NNSA study results. If revenues had been shifted in the last case to the levels indicated by the DOE-NNSA study, the "correction" is the amount and direction they would need to be moved in this case to move to the DOE-NNSA study results in this case.

| | RES | SGS | MGS | LGS | LPS | LGT |
|--|--------|--------|---------|--------|---------|--------|
| Row 1 - DOE-NNSA CCOS Results Case No. ER-2006-0314 | 16.31% | -4.54% | -11.91% | -8.47% | -10.09% | 5.38% |
| Row 2 - DOE-NNSA CCOS Results Case No. ER-2007-0291 | 11.29% | -8.86% | -12.72% | -6.45% | -2.61% | 19.33% |
| Correction (Row 1 – Row 2) | -5.02% | -4.32% | -0.81% | 2.02% | 7.48% | 13.95% |

For example, if Residential rates had been increased by 16.31% on a revenue neutral basis in the last case, they would now have to be reduced by 5.02% in this case. If Large

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1 Power Service rates had been reduced by 10.09% on a revenue neutral basis in the last case,
2 they would now have to be increased by 7.48% in this case.

3 **All-Electric & Separately-Metered Space Heating Rates**

4 **Response to Joseph A. Herz (Trigen)**

5 Q. What is Mr. Herz's criticism of the Staff's proposed method for increasing
6 overall rates to recover the increase in KCPL's overall revenue requirement as it relates to the
7 all-electric and separately-metered space heating rates?

8 A. Mr. Herz argues that increasing the general service rates and the all-electric
9 rates by the same percentage will increase the discount to customers on the all-electric rates
10 on a ¢/kWh basis. (p. 4, l. 22 – p. 5, l. 3). He is correct. However, in criticizing the Staff, he
11 was not, and could not have been, aware of the Staff's rebuttal testimony in which the Staff
12 agreed with Trigen that the all-electric and space heating rates should be increased in this case
13 by more than the general application rates. (Watkins Rebuttal, p.4, ll. 15-17).

14 **Response to Timothy M. Rush (KCPL)**

15 Q. What is Mr. Rush's basic criticism of Trigen's proposals related to the all-
16 electric and separately-metered space heating rates?

17 A. Mr. Rush argues that the all-electric and space-heating rates were
18 "purposefully created" in Case No. EO-94-199 to "maintain the price differentials between
19 customers with electric heating that were in place prior to the rate design case." (p. 9, ll. 12-
20 18).

21 Q. Does limiting the impact on non-residential customers with electric space
22 heating of changes to the 1996 rate design remain a valid reason to continue those price
23 differentials into the future?

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1 A. No. However, those price differentials should continue to be phased out in
2 order to limit the rate impacts on non-residential electric space heating customers. The first
3 step of a phase-out was accomplished in Case No. ER-2006-0314. Another step should be
4 taken in this case by adopting the Staff's proposals. In Rate Case #3, if there is one, another
5 step should be taken, unless KCPL can present a study in that case to justify a differential
6 between the rates. The all-electric and space-heating rates should be eliminated in Rate Case
7 #4, unless KCPL can present, or has presented, a study in that case to justify a differential
8 between the rates.

9 **LPS Within-Class Revenue Shifts Between Demand and Energy Charges**

10 **Response to Timothy M. Rush (KCPL)**

11 Q. Is there an additional concern that Mr. Rush raises in regard to the proposal of
12 Ford Motor Company, Praxair, Inc. and Missouri Industrial Energy Consumers to reducing
13 the energy charges and increase the demand charges on the Large Power Service rate
14 schedule?

15 A. Yes. Mr. Rush raised the concern that if the proposal of Ford Motor Company,
16 Praxair, Inc. and Missouri Industrial Energy Consumers was adopted, the energy charge in
17 some blocks per kWh would fall below the parallel generation tariff rate, which is based on
18 KCPL's incremental energy cost. (p.3, l. 16-p. 4, l. 5).

19 Q. Should this be a concern?

20 A. Yes. Setting the incremental rate below incremental cost would thwart
21 conservation efforts and encourage the wasteful use of electricity. The Staff shares KCPL's
22 concern, and recommends that the Commission reject any proposal to reduce rates below
23 incremental cost.

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James C. Watkins

- 1 Q. Does this conclude your surrebuttal testimony?
- 2 A. Yes, it does.