

Exhibit No.:
Issue: Rate Design & Class Cost of Service
Witness: Timothy M. Rush
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2007-0291
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

SURREBUTTAL TESTIMONY

OF

TIMOTHY M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
September 2007**

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Case No. ER-2007-0291

1 **Q: Are you the same Timothy M. Rush who pre-filed Direct Testimony and Rebuttal**
2 **Testimony in this case?**

3 A: Yes, I am.

4 **Q: What is the purpose of your Surrebuttal Testimony?**

5 A: The purpose of my testimony is to clarify the position of the Company and respond to
6 issues presented in the Rebuttal Testimonies filed by other parties in this case addressing
7 rate design and class cost of service (“CCOS”).

8 **RATE DESIGN & CCOS**

9 **Q: Please explain the position of Kansas City Power & Light Company (“KCPL” or the**
10 **“Company”) regarding rate design in this proceeding.**

11 A: As stated in my Rebuttal Testimony in this proceeding, “The Company is recommending
12 an equal percentage increase to all customer classes with no changes in rate design. The
13 overall increase recommended is 8.3% to each of the tariffs.” We are not recommending
14 any shifts in revenues between customer classes.

15 As required by the Stipulation and Agreement (“S&A”) in the Experimental Regulatory
16 Plan in Case No. EO-2005-0329 in Section III.B.3.b.iv, of the S&A, “Rate Design, the
17 Signatory Parties agree not to file new or updated class cost of service studies or to
18 propose changes to rate structures in Rate Filing #2.” The Company believes that any
19 change to the rates that will cause customers to re-evaluate the rate they have chosen,

1 represents a rate structure change. By shifting revenues between classes, it would have
2 the effect of making it advantageous for customers to re-evaluate the best available rate
3 option. Additionally, by restructuring the rate design, by either limiting the availability
4 of a rate schedule, or by increasing different components by different levels, then
5 customers will find it advantageous to re-evaluate rate options. It is the Company's
6 opinion that any rate design proposal other than an equal shift in rates uniformly to all
7 classes does not comply with the provisions of the S&A.

8 **Q: Have you reviewed the Rebuttal Testimony provided by the parties in this case?**

9 A: Yes. I have reviewed the Rebuttal Testimony of James Watkins on behalf of
10 Commission Staff, Gary Price on behalf of the U.S. Department of Energy ("DOE"),
11 Russell Trippensee and Barbara Meisenheimer on behalf of the Office of Public Counsel
12 ("OPC"), and Joseph Herz on behalf of Trigen.

13 **Q: Do you wish to address any of the issues provided by these Witnesses?**

14 A: Yes. The testimony of James Watkins summarizes the issues using the following
15 categories: class revenue shifts, all electric & separately metered space heating rates, and
16 Large Power Service revenue shifts between demand and energy. I would like to address
17 my concerns using these same categories.

18 **Class Revenue Shifts**

19 **Q: Please describe your concerns with the class revenue shift proposals.**

20 A: Class revenue shifts are proposed by Commission Staff and by DOE. The Company
21 maintains that any proposal that will change the relationships of the rates and will cause
22 customers to re-evaluate the rate they have chosen is not consistent with the agreement
23 entered into by the parties in the Experimental Regulatory Plan. DOE was not a

1 signatory to the Experimental Regulatory Plan and believes it is not obligated by those
2 terms. However, testimony provided by Barbara Meisenheimer supports that DOE
3 extensively participated in the process and did not oppose the plan. I agree with her point
4 that DOE did in fact participate in the Experimental Regulatory Plan. Further, the DOE
5 proposal would be implemented over the next three rate cases based on the CCOS study
6 completed by Mr. Price. This method will require extensive, ongoing evaluation and
7 adjustment to apply the equalization in light of the significant changes in rate base and
8 expense expected in those cases. Further, it is improper to adjust class revenue
9 responsibility by relying on “stale and out of period” information, a concept offered in
10 Mr. Price’s own Rebuttal Testimony (page 3, line 6).

11 **Q: Are there any other reasons why shifting revenues between classes is not**
12 **appropriate at this time?**

13 A: Yes. One of the Company’s primary concerns is the fact that any shift between class
14 revenues, as well as changes in the rate design structure, will result in customer shifts
15 between classes. This fact is true because rate design changes result in customers shifting
16 to other rates where the customers will be better off. Staff, DOE, Ford Motor Company,
17 Praxair, and Missouri Industrial Energy Consumers and Trigen have not taken this
18 expected reaction by customers into account in any of the proposals presented. In my
19 Rebuttal Testimony, I addressed the revenue shifts which resulted from customers
20 changing classes in the Large Power Service Class and the significant impacts that will
21 have on customers. In order to address the issue, we would essentially need to go back
22 and re-bill customers on various rate structures to determine if they would be better off
23 on one rate versus another. This is an extremely time consuming and difficult task. This

1 is one of the reasons that rate design cases are so complicated and often take up to several
2 years to complete. If these shifts are not addressed in the rate design, the Company will
3 be shorted in the recovery of its overall revenue requirement.

4 **Q: Are their other ways to address this problem?**

5 A: If you are making small changes in class revenue shifts, you can approximate an amount
6 of lost revenues that will result from customers shifting classes. However, the more
7 dramatic the class revenue shift and/or rate structure changes, the more difficult this
8 approximation process becomes.

9 **All Electric & Separately Metered Space Heating Rates**

10 **Q: Which witnesses provided proposals associated with the all-electric & separately**
11 **metered space heating rates?**

12 A: As part of Direct Testimony, proposals concerning all-electric & separately metered
13 space heating rates have been offered exclusively by Mr. Herz, representing Trigen. In
14 Rebuttal Testimony, Mr. Watkins on behalf of Commission Staff expresses support for
15 selected elements of the Trigen proposals and offers a new proposal related to this topic.

16 **Q: What is the new proposal?**

17 A: Mr. Watkins, in support of the Trigen position, proposes that steps be taken to begin the
18 phase out of the non-residential, all-electric & separately metered space heating rates
19 through three steps:

- 20 1. Increase the separately metered space heating rates by 10% on a revenue
21 neutral basis, prior to any shifts in class responsibility. Also, any approved
22 reduction in revenue responsibility for the Medium General Service Class
23 should not be applied to the separately metered space heating rates.

1 2. Increase the first block of the all-electric rate's winter energy blocks by 10%.

2 3. Increase the second block of the all-electric rate's winter energy blocks by 5%.

3 Mr. Watkins further proposes to restrict the availability of the all-electric and separately
4 metered space heating rates to customers currently served on one of those rate schedules,
5 but for so long as they continuously remain on that rate schedule.

6 **Q: What is your opinion concerning this new proposal?**

7 A: I believe that the efforts by Trigen and Commission Staff to change the all-electric &
8 separately metered space heating rates are premature and totally unsupported. Their
9 recommendations are not based on class cost of service studies or studies directed at the
10 specific design of the separated metered space heating and all-electric rates. It appears
11 that both Trigen and the Staff are trying to undo a rate design that was implemented in
12 1996 and supported by both Staff and Trigen.

13 I believe it is Trigen's intent to force customers from electric heating so as to move those
14 customers to be served by Trigen's steam and air conditioning services, solely for the
15 economic benefit of Trigen.

16 These rates were purposefully created and supported as part of a comprehensive rate
17 design case, Case No. EO-94-199, concluded in 1996. However, as expressed in my
18 Rebuttal Testimony, the Company will agree to perform cost studies that will evaluate the
19 all-electric and separately metered space heating rate schedules. We believe that studies
20 of this type would be best conducted as part of a larger comprehensive rate design study
21 that would be completed after the Iatan 2 rate case.

1 **Q: Were similar issues addressed in the last rate case?**

2 A: Yes. As part of the settlement among the parties in the last rate case, parties agreed to
3 specifically increase the winter energy charges for the space heating rates 5% above the
4 other rates for the classes. These issues have already been addressed before the
5 Commission, and without a rate design and class cost of service study, it would be
6 inappropriate to make additional rate design changes in this proceeding.

7 **Q: Are there problems with Mr. Watkins proposal and impact upon customers?**

8 A: Yes. Currently, the last energy block in the All-electric Small General Service rate is
9 higher than the corresponding Small General Service rate that is not All-electric. To
10 accept Staff or Trigen's proposal would simply exaggerate and continue the inappropriate
11 price signal already present as a result of the settlement in the last case. Additionally, all
12 of the separately metered space heating rates for the Small, Medium and Large General
13 Service rates are higher than the last energy block. As a result, many of the customers
14 currently on the separately metered space heating rate may be better off by consolidating
15 usage and moving to the basic rate without being separately metered.
16 By restricting the availability to customers currently served would create an difficult
17 hardship on current customers who have made decisions to install equipment that would
18 allow those customers to qualify for this rate.

19 **Q: Do you have other concerns regarding the overall proposals by both Trigen and**
20 **Staff?**

21 A: Yes. One of the most significant issues is that the result of their proposals will likely
22 increase rates for all other customers. By limiting, restricting, or curtailing the
23 applications of electric heating, customers will likely turn to natural gas or steam heating.

1 This will result in a reduction of electricity usage in off-peak periods and ultimately
2 increase rates to cover the fixed investments previously being recovered by those
3 customers. The electric heating rates were originally designed to encourage customers to
4 use electric heat and consume electricity during off-peak periods. Originally, electric
5 heating rates provided sharp discounts, but recovered variable costs and made a
6 contribution to the fixed costs of the Company. This is still true, except that electric
7 heating rates today are no longer as sharply discounted, and these rates now make a
8 significant contribution to the fixed costs of the Company.

9 **Q: Are All-electric and Separately Metered Space Heating Rates available by other**
10 **utilities?**

11 A: Yes. Many utilities nationwide offer electric heating rates similar to KCPL's all-electric
12 rates. It is very common among electric utilities, particularly in areas where the utility is
13 summer peaking. In cases where utilities may not have rates that are specifically stated
14 as electric heating, those utilities often have much lower winter rates than summer rates
15 and often discount the winter demand charges. All of these decisions for rate design
16 structures are done in the context of an overall rate design case where all the issues are
17 addressed. If the Commission decision is to eliminate the electric heating rates, it should
18 first re-evaluate all its rate components for all rates in the context of an overall rate design
19 case.

20 **Q: Do you have any other concerns about the proposal presented by Trigen?**

21 A: Yes. In the Rebuttal Testimony of Mr. Herz, he makes representation that the rate design
22 proposal by KCPL "effectively will increase the size of the space-heating discounts
23 because as each demand and energy rate component is increased by the same percentage,

1 the difference between the proposed general service standard tariff rate and the general
2 service space-heating discounted rates will be increased and be larger than the difference
3 under current rates.” Mr. Herz presents schedules JAH-1 through JAH-4 to present his
4 position.

5 I disagree with his analysis on this point. First, the overall increase requested by the
6 Company is 8.3% on an annual basis. If you look at JAH-1 through JAH-4, you will see
7 in column (h) that the overall increase proposed for the all-electric rates are in the range
8 of 8.3%. The only difference being the rounding. These schedules simply demonstrate
9 that the Company is applying the proposed increase to all classes in a similar manner.

10 **Q: Will you summarize your position on the issue of the all-electric and separate meter**
11 **heating rate proposals presented by Trigen and Staff?**

12 A: Yes. As I have already indicated, the Company opposes the recommendations made by
13 both Mr. Herz of Trigen or Mr. Watkins of the Staff. I believe that Staff has broken the
14 agreement as set in the Experimental Regulatory Plan where the parties agreed: “Rate
15 Design, the Signatory Parties agree not to file new or updated class cost of service studies
16 or to propose changes to rate structures in Rate Filing #2.” Clearly, this is a proposed
17 change in rate structure, and it is my opinion that Staff has violated the agreement
18 previously entered into by Staff. Additionally, I believe that Trigen is pursuing this
19 recommended change as an opportunity to economically advantage Trigen by limiting,
20 modifying and/or discontinuing the all-electric and separate meter heating rates. No
21 studies have been performed and yet Staff and Trigen have intuitively determined
22 somehow that these rates are not cost based. As the Company continues to point out, a
23 rate design and class cost of service study should be conducted before any further

1 modifications are made to these rates. The Commission's decision in the last rate case
2 and the agreement by the parties to increase these rates more than the standard
3 comparable rate was a reasonable step to address their concerns until a cost study is
4 completed.

5 I would also point to Mr. Brubaker's testimony where he presents the argument that the
6 electric energy blocks for the Large Power Service rates should be lowered because they
7 are higher than the average energy cost of the utility. The same point can be made with
8 the all-electric and separate meter heating rates. These rates are well above the average
9 energy costs and additionally well above the marginal energy costs as filed in the
10 Company's cogeneration tariffs. Clearly, customers on these rates are contributing to the
11 fixed costs of the Company.

12 **Shifting of Revenue between Demand and Energy Charges**

13 **Q: Which witnesses provided proposals associated with the shifting of revenue between**
14 **demand and energy charges within the Large Power Service class?**

15 A: As part of Direct Testimony, proposals concerning Large Power Service ("LPS") class
16 revenue shifts between demand and energy have been offered exclusively by Maurice
17 Brubaker on behalf of Ford Motor Company, Praxair, and Missouri Industrial Energy
18 Consumers. In Rebuttal Testimony, Mr. Watkins on behalf of Commission Staff does not
19 support or oppose the proposal of Mr. Brubaker. However, he suggests conditions under
20 which the proposal should be applied. Mr. Watkins also offers a new proposal related to
21 the LPS demand blocking.

1 will determine in this case unless extensive additional work is performed by the parties to
2 evaluate the impact on customers. Some of the changes, if adopted by the Commission,
3 will have adverse impacts upon customers who had made economic investment decisions,
4 based upon the Company's rate structures and the availability of specific rate schedules.
5 It is the Company's position that the proposals being presented represent interests that
6 will impact customers far beyond those represented in this case and as such, further study
7 is needed before any changes should be made.

8 The last rate case specifically set out to address rate design and class cost of service. This
9 was the agreement in the Experimental Regulatory Plan. All the parties of this case
10 addressing rate design and class cost of service issues were also parties of the last case.
11 They all agreed to a specific rate design and class cost of service study. Any issues
12 unresolved were addressed before this Commission and were decided in that case. It
13 appears that the parties now want another "bite at the apple".


14 **Q: Does this conclude your testimony?**

15 **A:** Yes, it does.

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariff to) Case No. ER-2007-0291
Continue the Implementation of Its Regulatory Plan)

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Timothy M. Rush

Subscribed and sworn before me this 20th day of September 2007.

Nicole A. Wenz
Notary Public

My commission expires: Feb 4 2011

