MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

RATE DESIGN
AND
MISCELLANEOUS TARIFF ISSUES

TRIGEN KANSAS CITY ENERGY CORPORATION

CASE NO. HR-2008-0300

Jefferson City, Missouri
August 15, 2008

RATE DESIGN AND MISCELLANEOUS TARIFF ISSUES REPORT

STAFF'S RATE DESIGN AND MISCELLANEOUS TARIFF ISSUES REPORT

I. Rate Design

A. Overview

Trigen's steam operations provide service to approximately 55 commercial and industrial customers located in the downtown Kansas City area. Prior to 1990 Trigen's steam operation was part of Kansas City Power & Light Company. In Case No. HM-90-4, the Commission authorized the sale of those assets and authorized Trigen to provide steam service in the designated Kansas City area.

The Staff's direct testimony and Cost of Service Report recommended that Trigen be permitted to raise its steam rates by its requested amount of $1,228,000 (a 19.5% increase). The current case is the first rate case before the Commission since the sale of steam assets to Trigen.

Staff Expert: Curt Wells

B. Existing Rate Design

Trigen presently has three steam rate schedules: Standard Steam Service; Alternate Heating Source (Small), and Alternate Heating Source (Large). Staff evaluated these schedules, applying appropriate normalizations and annualizations to the billing units provided to more accurately depict Trigen's steam costs and revenue on a going-forward basis. For more detailed information on the adjustments to steam sales and rate revenue included in Staff's case, please see the "Income Statement" section of the Cost of Service Report authored by Staff witness Anne Ross filed August 1, 2008. Consistent with the

revenue requirement determination, Staff developed billing units for the proposed rate structure on a weather-normalized and annualized basis for the test year customers.

C. Trigen's Proposed Rate Design

Trigen is first proposing to split the customers currently served by the Standard Steam Service tariff into service under two new tariffs, the Standard Commercial Service (SCS) tariff and the Large Commercial Service (LCS) tariff. The most significant changes to the current Standard Steam Service tariff are the increase in the usage charge and the addition of a blocked demand charge on the Large Commercial Service tariff. Trigen's second proposal is to replace the Large Alternate Heating Source tariff and Small Alternate Heating Source tariff with a single Interruptible Heating Service tariff.

Customers are better differentiated based on usage under the proposed structure. The existing rate structure has a single rate for all firm customers (ranging from 15 to over 34,000 Mlbs/year), and two size-differentiated classes for Alternate Heating Source (AHS) customers, the smaller of which has one customer. The proposed structure divides firm customers based on usage (greater or less than 5,000 Mlbs/year), and provides demand metering for the larger customer class. The two AHS classes are combined into a single interruptible class (IHS) with essentially the same rate structure as the currentAHS (Large) class. Rate structures developed to better reflect fixed and variable costs have been found to be an appropriate means of cost recovery. Measuring demand to better determine load does provide both Trigen and its customers more visibility into their usage patterns. Staff finds these changes acceptable.

D. Staff's Analysis of Trigen's Proposed Rate Design

Since Staff weather-normalized and annualized usage for each individual customer and Trigen did not, Staff adjusted its starting point downward to reflect these changes. As a result, the percentage increase needed to reach Trigen's proposed revenue requirement was approximately 25.5%, rather than the 19.5% proposed by Trigen. Staff applied this same overall percentage increase to Staff's adjusted current revenue for each rate class to determine that class's revenue target.

The Interruptible class structure was carried over from the current AHS(Large) rate class with essentially the same capacity charges and an increase in the usage charge identical to the SCS and LCS class increases. Trigen did not provide any studies or arguments to show that a larger than average increase was warranted for the IHS customers. For these reasons, Staff determined that this class should receive the system average increase.

Trigen's proposed rate structure includes Demand or Capacity charges for the larger customers. A complete demand history was not available for all of the customers. For five of the LCS customers and five of the IHS customers, Staff relied on Trigen-provided estimates of peak demand. Due to Staff's adjustments for weather normalization, annualization of the number of customers, and differences in peak data, the revenue calculated for each class differed between Trigen and Staff.

Staff used the class target revenues as calculated above to make adjustments to Trigen's proposed rates. Trigen's proposed rate structure includes the same usage charge across all rates (implicit in the SCS class as part of its Steam Charge), a blocked Demand or Capacity charge, and a meter charge. When making the rate adjustments, the usage charge and meter charges were held constant. For the SCS class, Staff adjusted each block of the

Steam Charge by an equal percentage to reach target class revenue. For the LCS and IHS classes, Staff adjusted the rate for each block of the Demand and Capacity Charges, respectively, by an equal percentage to reach target class revenue. Proposed class billing units, rates, and revenue are at Appendix II, Schedule CW-1.

Staff Expert: Curt Wells

II. Miscellaneous Tariff Charges

A. Overview

The Tariffs/Rate Design Energy Staff performed an analysis of Trigen's Miscellaneous Services tariffs. The Staff addressed the following issues:

- Non-Sufficient Funds Charge (Bad Check Charge)
- Interest on Customers' Deposit
- Estimation of Bills
- 48-month Termination Liability

Staff Expert: Michael J. Ensrud

B. Non-sufficient Funds Charge

Trigen does not currently have a tariffed "Non-Sufficient Funds" (NSF) Charge, also known as a "Bad Check Charge." In its response to Staff's DR 138, Trigen stated that it does not charge a NSF charge when a customer's check does not provide sufficient funds to pay its bill. Trigen also indicated that this is a rare occurrence, and Trigen has no desire to implement an NSF tariff at this time.

At this point in time, Staff will not pursue the implementation of a NSF tariff due to the rarity of these occurrences and Trigen's preference to not establish one.

C. Interest on Customers' Deposit

Trigen has proposed to revise its tariff sheet regarding customer deposits and Staff recommends modification to Trigen's proposal.

1. New (Proposed by Trigen)

Trigen has proposed to revise its tariff sheet regarding customer deposits as follows:

> *Interest at the Prime lending rate as published in the Wall Street Journal compounded annually will accrue on a cash deposit held by the Company pursuant to this paragraph. Upon termination of steam service to a Customer, the Company shall refund to the Customer the amount of any such cash deposit (and interest, if any, thereon) remaining after the application of such deposit and interest to the indebtedness of the Customer to the Company.*
> (P.S.C. MO. No. 2, Sheet No. 9)

2. New (Proposed by Staff)

Staff recommends Trigen's proposal be modified to the language proposed by Staff since Trigen's proposal lacks specificity and is open to multiple interpretations.

> *Interest at the Prime lending rate, as published in the Wall Street Journal as of the last date of publication for the proceeding year, will be the interest rate on customer deposits for the current year, or any fraction thereof, that a customer's deposit is held. A customer's deposit shall earn interest, compounded annually, and such interest will accrue on a cash deposit held by the Company pursuant to this paragraph. Upon termination of steam service to a Customer, the Company shall refund to the Customer the amount of any such cash deposit (plus interest, if any, thereon) remaining after the application of such deposit and interest to the indebtedness of the Customer to the Company.*
> (P.S.C. MO. No. 2, Sheet No. 9)

The use of a mechanism for calculating a variable rate of interest on Customer Deposits utilizing a published variable rate, such as the Prime lending rate as published in Wall Street Journal, is an accepted practice in Missouri utility regulation. Staff's proposed tariff language provides the detail necessary to determine the specific method of calculation of

the interest rate. It also includes a date-specific as to what particular prime rate will be used in the calculation of interest paid on customer deposits. Staff's tariff language also includes the specificity necessary to result in a decipherable, unique, method of calculation.

D. Estimation of Bills

The proposed tariff contains the following language:

> *4.11 UNMETERED SERVICE. The Company may require the Customer to pay for steam service as the Company may estimate from available information, to have been used but not registered by Company's meter for any reason whatsoever, and,* **if the Company deems necessary,** *to increase the amount of such Customer's cash deposit or indemnity bond or other credit arrangement before steam service is restored.*
> **(Emphasis Added)**

(P.S.C. MO. No. 2, Sheets 18 and 19)

Both the existing tariff language and the proposed, additional tariff language is at odds with the Commission's rule 4 CSR 240-10.040 Service and Billing Practices for Commercial and Industrial Customers of Electric, Gas, Water and Steam Heat Utilities, Section (2):

> *(2) Except for the provisions of this rule, all bills rendered to customers for metered service furnished will show the reading of the meter at the beginning and end of the period for which the bill is rendered and shall give the dates of readings, the number of units of service supplied and the basis of charge or reference.*

The rule does not make an exception or specific provision for stopped, or slow or fast meters.

It is Staff's recommendation that Trigen needs the ability to estimate bills in the event of a meter malfunction, but the current tariff and Trigen's proposed tariff are both too broad. The proposed language allows Trigen to arbitrarily impose an estimated amount of un-

metered billing upon customers. While the ability to estimate is necessary, it must also be constrained.

Another section of the existing tariff somewhat conflicts with the *4.11* *UNMETERED SERVICE* section. It contains the following conditions:

> *6.5.1 Due to Missing or Defective Meter. In the event of delayed or waived meter installation or when installed meters fail to register, the quantity delivered during the period in question shall be estimated by the Company's election, upon (i) past Customer usage during a similar period and under similar conditions, (ii) comparable usage during the period in question by other buildings of the Customer or by other customer's buildings, duly measured by functioning meters, (iii) Customer usage measured by a duly tested and calibrated meter during a subsequent period, adjusting for degree days, or (iv) some combination of these methods (in which case the determination shall be based on an averaging of the results), and the Customer shall pay for service during said period on this estimated amount except that the Company shall not rebill for a period to exceed four (4) months upon discovery of the meter failure. All billings based upon estimated usage shall indicate the method of estimation employed and shall set forth in reasonable detail the calculation of the amounts billed.*
>
> (P.S.C. MO. No. 2, Sheet 23)

"Un-metered service" occurs when steam is provided to a customer's premise where a meter is installed, but is not functioning. In other words, the meter is not rendering a reading. A "non-existent meter" means there is no meter at the customer's premises because either service has commenced before the installation of a meter or a meter was removed for repair without a replacement being available.

Staff analyzed Trigen's use of estimated bills. Between January 2005 and June 2007, Trigen's average estimated billing was $423.01 per-month. Between July 2007 and June 2008 Trigen's average of estimated billing increased to $1248.65 per-month. (Trigen's response to Staff DR #140) While Trigen's use of estimated billing is increasing approximately three-

fold, Staff still does not consider Trigen's use of estimated billing to be excessive when compared to total revenues that Trigen bills.

Staff proposes Trigen's estimated billing tariff language eliminate the language that gives Trigen unlimited discretion in estimating bills. The constraints listed in "*6.5.1 Due to Missing or Defective Meter"* should limit Trigen's discretion in section *4.11 UNMETERED SERVICE.* Staff proposes these two sections be combined, and include the following provisions:

- Non-existent or stopped meters can be estimated for a period no longer than twelve (12) months back. Unmetered usage going back further than four months is forfeited.
- A slow-reading meter can only be adjusted for billing purposes, going back twelve (12)-months from date of corrective action.
- A fast-reading meter can only be adjusted for billing purposes, going back 4-months from date of corrective action.
- Customer may ask Trigen to test meter at any time. If the meter is inaccurate by more than 3%, adjustments for billing purposes, are appropriate.
- Any time Trigen estimates a customer's billing, the estimated amount shall be accompanied by a written statement showing the methodology used to "estimate" the customer's usage.

Combining the two tariff clauses into one should result in a single tariff clause that allows Trigen to estimate usage, but do so in a manner that is constrained by limitations set forth in the tariff.

E. 48-Month Termination Liability

Trigen proposes the following language be added to its Steam Service Agreements:

> *Customer may terminate this agreement prior to the initial term of years by paying Company a termination fee equal to the lesser of the months remaining under the term of forty-eight (48) multiplied by the monthly demand charge (in the case of LCS and IHS customers) or the minimum charge per month (in the case of SCS customers).*

(P.S.C. MO. No. 2, Sheets 30)

Essentially, this proposed addendum to the service agreement establishes a termination liability for those who subscribe to service, but terminate service in less than 48 months.

After considering the potential impact on customer growth, and the possibility that this provision would discourage prospective customers from taking steam service from Trigen, Staff recommends rejection of Trigen's proposed 48-month termination liability tariff.

Staff Expert: Michael J. Ensrud

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Trigen-Kansas City Energy Corporation to Implement a General Rate Increase for Regulated Steam Heating Service Provided to Customers in the Company's Missouri Service Area	))))))	Case No. HR-2008-0300

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: That he has participated in the preparation of the foregoing Staff Report in pages 4 to 9; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud

Subscribed and sworn to before me this 14th day of August, 2008.

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Trigen-Kansas City Energy Corporation to Implement a General Rate Increase for Regulated Steam Heating Service Provided to Customers in the Company's Missouri Service Area	))))))	Case No. HR-2008-0300

AFFIDAVIT OF CURT WELLS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Curt Wells, of lawful age, on his oath states: That he has participated in the preparation of the foregoing Staff Report in pages 1 to 4; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Curt Wells

Subscribed and sworn to before me this 14th day of August, 2008.

SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Notary Public

APPENDIX I

STAFF CREDENTIALS

Michael J. Ensrud

Curt Wells

Michael J. Ensrud

My educational and professional experience is as follows:

I have a Bachelor of Science from Drake University. I attended the NARUC Annual Regulatory Studies Program at Michigan State University. In the regulatory field, I've worked for CompTel Missouri, and CommuniGroup, Inc., Teleconnect, TeleCom* USA, and General Telephone Company of the Midwest in the private sector. In addition, I have four-years of experience with the Iowa Public Utility Board – Iowa's equivalent to the Missouri Commission.

I have filed written testimony and have testified in several cases before Missouri Public Service Commission. Schedule 1 lists the cases where I have filed testimony (or otherwise materially participated) as a Staff witness before this Commission. (There are numerous cases going back to the mid-1980s where I filed testimony on behalf of Teleconnect (TeleCom*USA), CompTel of Missouri & CommuniGroup, Inc. - various private entities or trade associations - that are not listed). I have also testified in other jurisdictions.

Cases that I have testified (or otherwise materially participated) in as a Staff witness:

Atmos Energy Corporation - GR-2006-0387 - Miscellaneous Rate Issues & Seasonal Reconnection Charge.

Missouri Gas Energy (a Division of Southern Union Company) - GR-2006-0422 - Miscellaneous Rate Issues & Seasonal Reconnection Charge.

AmerenUE (Union Electric Company) - GR- 2007-0003 - Miscellaneous Rate Issues & Seasonal Reconnection Charge.

Laclede Gas Company - GR-2005-0284 - Miscellaneous Rate Issues & Credit Scoring / **GR - 2007-0208** - Miscellaneous Rate Issues & Credit Scoring & Rate Switching Customers

Southern Missouri Natural Gas Company (Southern Missouri Natural Gas Company) - GE-2005-0189 - Promotional Practices

Empire District Electric Company of Joplin - ER-2006-0315 - Street Lighting

Missouri Gas Utilities, Inc. (MGU) - GR-2008-0060 - Miscellaneous Rate Issues

Curt Wells

Present Position:

I am a Regulatory Economist in the Economic Analysis Section, Energy Department, Operations Division of the Missouri Public Service Commission.

Educational Background and Work Experience:

I have a Bachelor's degree in Economics from Duke University, a Master's degree in Economics from The Pennsylvania State University, and a Master's degree in Applied Economics from Southern Methodist University. I have been employed by the Missouri Public Service Commission since February, 2006. Prior to joining the Commission, I completed a career in the U.S. Air Force, which included assignments as a navigator in weather reconnaissance aircraft, and later in the Purchasing/Contracting area as Contract Negotiator and Administrator, Contracting Policy Manager, Installation Purchasing Department Chief, and Contracting Program Manager.

CURT WELLS

TESTIMONY/REPORTS FILED
BEFORE
THE MISSOURI PUBLIC SERVICE COMMISSION

Case Number	Company	Issue
ER-2006-0315 Direct/Rebuttal	Empire District Electric	Revenue
ER-2006-0314 Direct/ True-up Direct	Kansas City Power & Light Company	Calculation of Normal Weather, Revenue
GR-2006-0387 Direct	ATMOS Energy Corporation	Calculation of Normal Weather
GR-2006-0422 Direct/Rebuttal/ Surrebuttal	Missouri Gas Energy	Calculation of Normal Weather
ER-2007-0002 Direct/Rebuttal	Union Electric d/b/a AmerenUE	Calculation of Normal Weather, Large Customer Annualization
GR-2007-0003 Direct	Union Electric d/b/a AmerenUE	Calculation of Normal Weather
ER-2007-0004 Direct/ Supplemental Direct	Aquila, Inc	Calculation of Normal Weather, Revenue
GR-2007-0208 Direct	Laclede Gas Company	Calculation of Normal Weather
ER-2007-0291 Direct/Rebuttal	Kansas City Power & Light Co.	Calculation of Normal Weather, Large Power Revenue
ER-2008-0093 Direct(Report)/ Surrebuttal	Empire District Electric	Revenue, Rate Design

Standard Commercial Service (Rounded to Tariff Precision)

	Units	Rate		Revenue
Steam Charge (per Mlb)				
First 5 Mlbs	1,251.8	$ 21.38	$	26,763.48
Next 20 Mlbs	4,724.0	$ 20.10	$	94,952.40
Next 75 Mlbs	12,625.3	$ 17.29	$	218,291.44
Next 100 Mlbs	32,862.7	$ 15.56	$	511,343.61
			$	-
			$	-
Meter Charge(monthly)			$	-
First meter	324	$ 75.00	$	24,300.00
Each Add'l		$ 50.00	$	-
			$	**875,650.93**
		RevRequirement		875,604.83
			$	46.10

Large Commercial Service (Rounded to Tariff Precision)

	Units	Ann Rate	Monthly Rate	Revenue
Usage Charge (per Mlb)	507,828.5		$ 6.52	$ 3,311,041.82
Annual Demand Charge (Billed monthly, based on highest peak-hour demand during 2 preceding Dec-Mar)				
First 3 Mlbs/hr	612.0	$ 14,987.00	$ 1,248.92	$ 764,337.00
Next 2 Mlbs/hr	373.2	$ 12,756.00	$ 1,063.00	$ 396,711.60
Next 3 Mlbs/hr	380.7	$ 12,437.00	$ 1,036.42	$ 394,563.83
Over 8 Mlbs/hr	920.1	$ 11,991.00	$ 999.25	$ 919,409.93
Meter Charge(monthly)				
First meter	204		$ 100.00	$ 20,400.00
Each Add'l			$ 50.00	
				$ 5,806,464.17
			RevRequirement	5,806,564.89
				$ (100.72)

Interruptible Heating Source (Rounded to Tariff Precision)

	Units in block	Ann Rate	Monthly Rate (per add'l 100 lb/hr)	Revenue
Usage Charge (per Mlb)	86,024		$ 6.52	$ 560,876.48
Annual Capacity Charge (Billed monthly, based on peak-hour use during immediately preceding Dec-Mar)				
Capacity Base Charge				
First 3 Mlbs/hr	36	$ -	$ -	$ -
Over 3 and less than 5	36	$ 17,177.00	$ 1,431.42	$ 51,531.00
Over 5 and less than 8	12	$ 27,461.00	$ 2,288.42	$ 27,461.00
Over 8 and less than 1	0	$ 39,389.00	$ 3,282.42	$ -
Over 10 and less than	3	$ 45,433.00	$ 3,786.08	$ 11,358.25
Over 12 and less than	9	$ 51,159.00	$ 4,263.25	$ 38,369.25
Over 15 Mlbs/hr	12	$ 61,549.00	$ 5,129.08	$ 61,549.00
Capacity Usage Charge (Per add'l 100lbs/hr)				
First 3 Mlbs/hr	70.6	$ 5,726.00	$ 477.17	$ 33,687.97
Over 3 and less than 5	29.1	$ 6,149.00	$ 512.42	$ 14,911.33
Over 5 and less than 8	18.9	$ 5,142.00	$ 428.50	$ 8,098.65
Over 8 and less than 1	0.0	$ 3,976.00	$ 331.33	$ -
Over 10 and less than	3.0	$ 3,022.00	$ 251.83	$ 755.50
Over 12 and less than	25.8	$ 2,862.00	$ 238.50	$ 6,153.30
Over 15 Mlbs/hr	71.1	$ 2,756.00	$ 229.67	$ 16,329.30
Meter Charge(monthly)				
First meter	108		$ 100.00	$ 10,800.00
Each Add'l			$ 50.00	
				$ 841,881.02
			RevRequirement	$841,870
				$ 11.01
				$ (43.61)