

Exhibit No.

**Issue: Overview, Corporate
Structure**

Witness: Charles L. Abbott

Type of Exhibit: Direct Testimony

Sponsoring Party: Trigen-Kansas City

Case No. HR-_____

Date Testimony Prepared: March 3, 2008

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

CHARLES L. ABBOTT

TRIGEN-KANSAS CITY ENERGY CORP.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF CHARLES L. ABBOTT
ON BEHALF OF TRIGEN-KANSAS CITY ENERGY CORP.
CASE NO. HR _____**

1 Q. Please state your name and business address.

2 A. My name is Charles L. Abbott and my business address is The Trigen Companies,
3 99 Summer Street, Boston, MA 02110.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by ThermalSource LLC as Senior Vice President for Boston and
7 the Midwest Region for the Trigen Companies, including Trigen-Kansas City
8 Energy Corporation.

9

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

11 A. I am appearing on behalf of Trigen-Kansas City Energy Corporation hereinafter
12 referred to as "Trigen" or the "Company".

13

14 Q. Please describe your educational background and professional experience.

15 A. I received a Bachelor of Science in Civil Engineering from the University of
16 Vermont in 1980 and a Masters in Business Administration from the University of
17 Denver in 1998. I am a licensed professional engineer in the State of Texas. I
18 have been employed by Trigen Philadelphia Energy Corporation, Trigen Colorado
19 Energy Corporation, Trigen Baltimore Energy Corporation, Tractebel Power Inc.
20 and ThermalSource LLC in progressively responsible operations and general
21 management capacities since 1993. Prior to that time I worked extensively on the

1 design, construction and operation of large fossil fuel-fired electric generating
2 stations.

3

4 Q. Please summarize the purpose and content of your testimony.

5 A. The purpose of my testimony is to provide an overview of the business of Trigen,
6 its ownership structure, a brief history of the business, the progress the Company
7 has realized since being acquired by Thermal North America, Inc. ("TNAI") on
8 June 28, 2005, the goals and objectives of our rate case, and the reasons for the
9 requested rate increase and rate design modifications.

10

11 Q. Have you ever testified before this Commission or any other regulatory
12 commission?

13 A. I have never testified before the Missouri Public Service Commission. In 1999, I
14 testified before the Colorado Public Service Commission regarding the sale of a
15 natural gas transmission pipeline.

16

17 Q. You previously stated that you are currently employed by ThermalSource LLC.
18 What is the relationship between ThermalSource LLC and Trigen-Kansas City
19 Energy Corporation?

20 A. ThermalSource, a wholly owned subsidiary of TNAI, is a management services
21 company for all subsidiaries of TNAI. Trigen-Kansas City Energy Corporation is
22 one of these subsidiaries. On December 13, 2007, TNAI was acquired by Veolia
23 Energy North America Holdings, Inc. ("VENAH"). VENAH's parent company,

1 Veolia Environnement (including operations by its Dalkia affiliates) is the largest
2 owner of district energy companies in the world.
3

4 Q. Where are the other Trigen Companies located that ThermalSource manages on
5 behalf of Thermal North America, Inc.?

6 A. There are subsidiaries located in Baltimore, Maryland; Boston, Massachusetts;
7 Trenton, New Jersey; Philadelphia, Pennsylvania; Oklahoma City, Oklahoma;
8 Tulsa, Oklahoma; St Louis, Missouri; Las Vegas, Nevada; Atlanta, Georgia; and
9 Los Angeles, California.
10

11 Q. What are "The Trigen Companies"?

12 A. "THE TRIGEN COMPANIES" refers to the following operating units: Trigen-
13 Glendale Energy Company, LLC; Trigen-Las Vegas Energy Company, LLC;
14 Grays Ferry Cogeneration Partnership; Trenton Energy Corporation; Trigen-
15 Baltimore Energy Corporation; Trigen-Boston Energy Corporation; Trigen
16 Building Services Corporation; Trigen-Kansas City Energy Corporation; Trigen-
17 LA Energy Corporation; Trigen-Missouri Energy Corporation; Trigen-Oklahoma
18 City Energy Corporation; Trigen-Philadelphia Energy Corporation; Trigen-St.
19 Louis Energy Corporation; Trigen Atlantic Station, LLC; and Trigen-Tulsa
20 Energy Corporation. These are "The Trigen Companies" managed by
21 ThermalSource on behalf of Thermal North America Inc.
22

23 Q. Are costs allocated for the management services provided by ThermalSource?

1 A. Yes. The costs incurred by both TNAI and ThermalSource are either retained at
2 the corporate level or allocated between the Trigen Companies in accordance with
3 the cost allocation manual previously filed with the Commission.¹

4

5 Q. When did the Commission last approve a rate increase for Trigen?

6 A. Trigen has not adjusted its tariff rates for steam service since the Kansas City
7 Power & Light Company divested its steam business in 1990.

8

9 Q. Why is Trigen filing for rate modifications at this time?

10 A. Trigen is seeking to modify its tariffs because there have been significant changes
11 in its operating costs, fuel costs, and capital structure since 1990. Of particular
12 importance is the imbalance between the energy (commodity) portion of our
13 current rates, which remain keyed to 1990 fuel and consumable prices, and what
14 Trigen is currently paying for these commodities. In addition, metering
15 technology is in place today that makes it possible to record data that was
16 previously not economically available, allowing the Company to implement
17 demand based rates for its larger customers on a more cost effective basis than
18 before.

19

20 Q. Does the structure of Trigen's rate filing differ from more typical rate case filings
21 due to the fact that Trigen has not had a rate adjustment in eighteen years and has
22 never filed an independent rate case?

¹ The allocation process is discussed by Company witness Jason Spreyer, while Company witness Steven Carver describes how these costs were recognized for ratemaking purposes.

1 A. Yes. Trigen has intentionally assembled an extremely conservative rate case
2 approach, choosing to present a streamlined case as an initial step in fixing long
3 standing rate issues. This approach seeks to harvest the "low-hanging fruit" in an
4 expedient manner at the expense of foregoing more aggressive positions that
5 could invite controversy. As an example of this conservative approach, I point to
6 our consultants on this case. You may have noticed that several of our selected
7 experts have appeared before this Commission representing consumer interests;
8 indeed consumer-side work makes up the bulk of their practice.

9
10 Q. Do the proposed tariffs represent an attempt by the Company to recover the entire
11 revenue deficiency?

12 A. No. The Company has not filed tariffs seeking to increase rates to cover the entire
13 calculated revenue deficiency for several reasons. While Company witness Brian
14 Kirk will address this subject in greater detail, I would also like to briefly discuss
15 a few of those reasons. Trigen-Kansas City has avoided filing a rate increase
16 application for many years to the cumulative benefit of our customers. In recent
17 years, the Company has implemented several strategies to mitigate the need for
18 rate relief, including a doubling of steam sales to process customers, the extension
19 of its service territory to serve Truman Medical Center and the addition of Sprint
20 Arena as a tariff customer.

21
22 In the eighteen years that Trigen's steam tariff rates have been in effect, the
23 ownership of Trigen-Kansas City has changed several times. Our existing book

1 depreciation rates were authorized by the Commission in the late 1980's, when
2 the steam distribution system and the steam production facilities were owned by
3 KCPL. For the first time in twenty years, we are proposing to change those
4 depreciation rates – downward. Under prior ownership, Trigen had inadvertently
5 overlooked the regulatory requirement that our plant accounting needed to
6 conform to net original cost starting with the purchase of the steam properties in
7 1990. The Company committed resources over the last several years to correct
8 that plant accounting deficiency. Furthermore, the Company now maintains its
9 accounting records in conformance with the FERC uniform system of accounts,
10 rather than the systems inherited from prior owners or those employed for our
11 unregulated operations. The number of these cumulative changes is part of the
12 basis Trigen elected to seek what we believe is a conservative rate increase.

13
14 Finally, we have not sought a full rate increase in order to mitigate customer
15 attrition. Unlike many other regulated services, Trigen must compete with other
16 possible forms of heating such as electricity or natural gas. Although KCPL has
17 recently twice increased its rates and is expected to soon file another rate case to
18 further increase its rates, Trigen has limited its rate increase request to maintain its
19 customer base, ultimately to the benefit of all ratepayers. All of our customers
20 have other options for thermal supply and we must move carefully.

21
22 Q. Please briefly identify the other witnesses sponsoring testimony on behalf of
23 Trigen-Kansas City.

1 A. Mr. Brian Kirk will discuss the subject of commodity costs, competitive
2 limitations and the proposed rate structure, along with other key elements of the
3 Company's business operations. Mr. Jason Spreyer sponsors the Company's
4 accounting records, will address affiliate cost allocations and address related
5 ratemaking considerations. Mr. Steven Carver will provide testimony regarding
6 Trigen's overall revenue deficiency. Mr. Steven Hill will provide testimony
7 regarding Trigen's recommended rate of return, and Mr. Peter Huck of American
8 Appraisal Associates, Inc. will provide testimony regarding Trigen's
9 recommended depreciation rates.

10
11 Q. Does any of the overall rate increase you are seeking include the recovery of costs
12 associated with TNAI's recent purchase of Trigen-KC and the subsequent
13 purchase of TNAI by VENAH?

14 A. No. The Company has not sought recovery of any transaction, implementation or
15 other acquisition related costs.

16
17 Q. In quantifying overall revenue requirement, does the Company's proposed rate
18 base investment represent net original cost?

19 A. Yes. Trigen has painstakingly reconstructed the regulatory books for Trigen-
20 Kansas City to faithfully represent net original cost. Mr. Jason Spreyer, Vice
21 President and Controller of ThermalSource LLC, will provide testimony
22 regarding Trigen's process for reconstructing the regulatory books of the
23 Company.

1

2 Q. Please summarize Trigen's business activity since its acquisition by TNAI in mid-
3 2005.

4 A. There have been a number of positive developments for the business since June
5 28, 2005. Trigen has entered into contracts to provide service to a number of new
6 customers. These customers include the Truman Medical Center, the Sprint
7 Arena, expanded steam service to Bartle Hall, and new process steam sales to a
8 soybean processing facility operated by Cargill. These new customers
9 collectively represent more than \$7 million in proforma revenue, providing for
10 responsible revenue growth that will benefit the ratepayers.

11

12 Most recently, Trigen has terminated its agreement with Johnson Controls, Inc.
13 ("JCI") for their provision of steam plant and distribution system Operation and
14 Maintenance services to all of TNAI's operating companies. While JCI's
15 experience has been a benefit since June, 2005, we believe that direct control and
16 management of the personnel having day-to-day responsibility to maintain our
17 assets offers the possibility for increased system-wide efficiency. However,
18 Trigen has not lost experienced personnel in exchange for a shorter management
19 chain. The very people JCI employed to perform such work have joined
20 ThermalSource LLC as employees. The direct testimony of Mr. Kirk will also
21 address this transition.

22

1 Q. Could you summarize the key drivers underlying TNAI's decision to terminate
2 the JCI agreement?

3 A. TNAI found that it could best meet the needs of its customers with the direct
4 management of O&M activities.
5

6 Q. Is Trigen seeking to recover any costs that might be associated with the
7 termination of the JCI agreement from utility customers in the current rate case
8 filing?

9 A. No.
10

11 Q. Does Trigen have any other cases currently pending before the Commission?

12 A. No. However, Trigen was ordered in Case No. HA-2006-0294 to file a final
13 report and recommendation with the Commission concerning construction and
14 funding of the pipeline necessary to serve the additional territory authorized in
15 that case. By Order issued on December 20, 2007, Trigen was given until March
16 31, 2008, to file the ordered report.

17
18 Q. Does Trigen have any unpaid fees or assessments due to the Commission or any
19 overdue reports?

20 A. No.
21

22 Q. Is Trigen-KC proposing to modify the structure of its existing tariffs?

23 A. Yes. As Mr. Kirk will testify, steam metering technology has improved
24 significantly since 1990. In order to better utilize this technology, we are

1 proposing to modify Trigen's steam tariff to employ measured peak hour demand
2 values to determine demand charges for those larger customers where the
3 advanced metering technology has been installed. In general, other than fuel and
4 consumable expense, Trigen's operating costs are relatively fixed. While Trigen
5 has proposed to increase the usage charge component of its tariffs to cover these
6 variable costs, the remainder of its proposed rate elements provide for partial
7 recovery of the fixed costs. The implementation of a rate structure that employs
8 peak demands for those customers that are large enough to warrant the more
9 expensive metering technology provides a more equitable way to recover these
10 fixed costs from the larger customers.

11

12 Q. Do you believe that Trigen is a financially viable entity for the foreseeable future?

13 A.. Yes, without question. Since mid-2005, Trigen has made significant strides in
14 improving its operations and customer base. As a result, TNAI sees a significant
15 opportunity for the provision of district steam service in Kansas City for many
16 years. However, the long-term viability of Trigen's operations is partially reliant
17 on receiving adequate rate relief.

18 Q. Does this conclude your direct testimony?

19 A. Yes.

20

21


22

23

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 - _____

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)


Charles Abbott

SHAUNA B. SAMPERI
Notary Public
COMMONWEALTH OF MASSACHUSETTS
My Commission Expires
July 20, 2012

My commission expires: July 20, 2012