

Exhibit No.:
Issues: Class Cost of Service
Rate Design
Witness: James C. Watkins
Sponsoring Party: MO PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2007-0291
Date Testimony Prepared: August 30, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES C. WATKINS

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2007-0291

Jefferson City, Missouri

August 2007

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

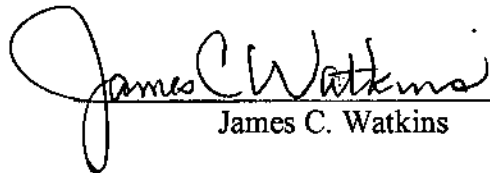
In the Matter of the Application of Kansas)
City Power and Light Company for)
Approval to Make Certain Changes in its)
Charges for Electric Service To)
Implement Its Regulatory Plan.)

Case No. ER-2007-0291

AFFIDAVIT OF JAMES C. WATKINS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 8 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


James C. Watkins

Subscribed and sworn to before me this 29th day of August, 2007.



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


Notary Public

My commission expires 9-21-10

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JAMES C. WATKINS

KANSAS CITY POWER AND LIGHT COMPANY

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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 testimony in this case on August 7, 2007?

A. Yes.

EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to address the remaining class cost-of-service and rate design issues as identified during the settlement conference last week. 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.

Class Revenue Shifts

Q. What class revenue shifts have been proposed?

A. In my direct testimony I recommended increasing the revenue responsibility of the Residential class by approximately 1.8% and reducing the revenue responsibility of the Medium General Service class by approximately 5% to shift precisely \$3,536,542 from the Medium General Service class to the Residential class.

In his direct testimony (p.9, ll.15-18) Mr. Gary C. Price, on behalf of The Department of Energy – National Nuclear Security Administration (DOE-NNSA), recommended equalizing the classes' rates of return (based on his class cost-of-service study) over a period of three (3) rate cases.

No other party proposed a shift in revenue responsibility between classes.

All Electric & Separately-Metered Space Heating Rates

Q. What adjustments to the all electric and separately-metered space heating rates have been proposed?

A. Mr. Joseph A. Herz, on behalf of Trigen-Kansas City Energy Corporation, presented five (5) proposals in his direct testimony (pp. 5-6):

1. Eliminate the rate discounts over a period of three rate cases.
2. Require KCPL to present a complete cost-of-service and/or cost-effectiveness study and analysis of rate discounts for space heating and allow KCPL the opportunity to present its preferred phase-out plan.
3. Impute revenues to the rate discounts if KCPL fails to file such study in its next rate case.

1 4. Restrict availability of the all electric and space heating rates to customers
2 currently served on those rates.

3 5. Require KCPL to investigate, monitor and police the eligibility of customers
4 served on the all electric and space heating rates.

5 The Staff did not file a proposal in its direct testimony; however, the Staff supports
6 some of Trigen's proposals or modifications of those proposals as discussed below.

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

8 Q. What revenue shifts have been proposed within the Large Power Service class?

9 A. Mr. Maurice Brubaker, on behalf of Ford Motor Company, Praxair, Inc. and
10 Missouri Industrial Energy Consumers, presented in his direct testimony (p.6, ll. 13-18) a
11 proposal to reduce the energy charges and increase the demand charges on the Large Power
12 Service rate schedule.

13 The Staff supports a modified version of this specific proposal if certain conditions are
14 met to reduce customer impacts and assure that KCPL will not lose revenue due to current
15 LPS customers switching to Large General Service (LGS).

16 **ISSUES**

17 **Class Revenue Shifts**

18 Q. What is the Staff's response to the DOE-NNSA proposal presented by Mr.
19 Gary C. Price to move class revenues to cost of service over the next three cases?

20 A. There are two problems with the DOE-NNSA proposal. First, the proposal
21 would require the Commission to adopt DOE-NNSA's class revenue targets. These targets
22 are unreasonable because they are based on the results of a class cost-of-service study that is
23 flawed by Mr. Price's selection of allocation factors. The Staff's proposal, on the other hand,

1 is based on a consensus of the results of all of the parties' class cost-of-service studies that
2 were presented in the last KCPL rate case (Case No. ER-2006-0314).

3 Second, adopting the DOE-NNSA proposal to establish fixed revenue shifts in
4 KCPL's next two rate cases could require the Commission to not consider all relevant factors,
5 including overall customer impacts, in setting just and reasonable rates in those cases.

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

7 Q. What is the Staff's response to Trigen's proposals?

8 A. The Staff supports restricting the availability of the all electric and separately-
9 metered space heating rates to customers currently served on one of those rate schedules, but
10 only for so long as they continuously remain on that rate schedule. The Staff also supports
11 providing KCPL an opportunity to present a complete cost-of-service study and/or cost-
12 effectiveness study and analysis in its next rate case to justify any rate discounts for space
13 heating and, if not justified, to allow KCPL the opportunity to present its preferred phase-out
14 plan. Because the Staff is not convinced that there remains any justification for negotiated
15 lower priced rates for all electric or space heating applications, the Staff agrees with Trigen
16 that the all electric and space heating rates should be increased in this case by more than the
17 general application rates. The Staff does not agree, however, that increasing each of the
18 winter energy blocks of the all electric rates and the separately-metered space heating rate by
19 five percent (5%) is the most effective means of taking a further step to eliminate these rates.

20 Q. What is the Staff's position on continuing the all electric and space heating
21 rates for non-residential customers?

22 A. The Staff sees no justification for continuing them; however, abruptly
23 eliminating them would dramatically increase bills to affected customers. Further, KCPL

1 should have an opportunity to justify continuing these separate rates before they are
2 eliminated.

3 Q. What does the Staff propose be done with these rates?

4 A. The Staff proposes a step be taken toward phasing them out. First, because the
5 separately-metered space heating rate is now above the tail-block rate of the corresponding
6 general application tariff, only customers with a relatively high cost to serve, with relatively
7 low load factors would economically choose to remain on the rate. Thus, the separately-
8 metered space heating rates should be increased by 10%, on a revenue-neutral basis, *i.e.*, prior
9 to any shifts in class revenue responsibility, to eliminate a significant portion of the discount
10 that is being provided to customers with low load factors. None of any reduction in revenue
11 responsibility for the Medium General Service (MGS) rate class should be applied to these
12 separately-metered space heating rates.

13 Second, since the largest discounts on the all electric rates are in the initial (low load
14 factor) winter energy block, these rates should also be increased by ten percent (10%).

15 Finally, the second winter blocks of the all electric rates should be increased by five
16 percent (5%) to move them closer to the general application rates. The impacts of these
17 changes are shown in Schedule JCW-1.

18 Q. Does the Staff have any further responses to any of Trigen's proposals?

19 A. Yes. KCPL should not be required to file a study of the all electric and
20 separately-metered space heating rates in its next case. And if it does not, revenues should
21 not be imputed for all separately-metered space heating and all electric customers. Rather,
22 KCPL should be given the opportunity to file such a study before these rates are completely
23 phased out.

1 The Staff also does not agree that KCPL should investigate and determine whether
2 customers served under these rate schedules remain eligible for these rates. This would be a
3 very awkward (from a customer service standpoint), time consuming and costly venture to
4 embark on when the rates are being phased out anyway.

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

6 Q. Does the Staff support the Ford Motor Company, Praxair, Inc. and Missouri
7 Industrial Energy Consumers' proposals to reduce the energy charges and increase the
8 demand charges on the Large Power Service rate schedule presented by Mr. Brubaker?

9 A. Without a current study of how low the seasonal tail-block energy charges on
10 the Large Power Service rate should be, the Staff can neither support nor oppose their specific
11 proposal; however, the Staff would note that from its perspective the tail block energy charges
12 should contain a component for the utilization of generating capacity.

13 In order to reduce some of the customer impacts and assure that KCPL will not lose
14 revenue due to rate switching, certain conditions should be met in the redesign of the Large
15 Power Service rate schedule.

16 Q. What are these conditions?

17 A. First, any reduction in the energy charges should be accomplished on a
18 proportional or equal-percentage basis. This will assure that the reduction in each customer's
19 total charge for energy will be the same percentage amount. Mr. Brubaker has not presented
20 any cost-based reason for a disproportionate reduction in the load factor based energy rates,
21 which already provide lower average energy rates for higher load factor customers.

22 Second, there is no cost justification for continuing the declining block demand
23 charge. Its only justification, when implemented in KCPL's last rate design case, was that it

1 was what the parties agreed to. No one has shown a cost-based justification, and the Staff
2 sees none. No other electric utility under the Commission's jurisdiction has a blocked
3 demand charge. Unlike energy usage where higher load factor usage has a lower per unit cost
4 of providing service, bigger is not better for demand-related costs. Higher demands have the
5 same per unit costs as lower demands. Thus, the offsetting increases to the demand charges
6 from reducing the energy charges should be applied so as to reduce or eliminate the declining
7 block demand rates. Thus, the over 7,500 kW block should be increased until it recovers the
8 lost revenue from reducing the energy charge or is equal to the rate for demands between
9 5,000 and 7,500 kW. Then both of those blocks should be increased until they recover the
10 remaining lost revenue from reducing the energy charge or become equal to the rate for
11 demands between 2,500 and 5,000 kW. Then all three of those blocks should be increased
12 until they recover the remaining lost revenue from reducing the energy charge or become
13 equal to the rate for demands up to 2,500 kW. Then all demand blocks should be increased
14 equally until they recover the remaining lost revenue from reducing the energy charge.

15 Finally, because this rate design change may force some customers to migrate to the
16 Large General Service rate schedule, causing KCPL to lose revenues, any lost revenues
17 should be recovered by proportionately increasing the demand and energy charges on the
18 Large Power Rate. It would be unreasonable to require KCPL to forfeit these revenues or to
19 require Large General Service customers not involved in the redesign of the Large Power
20 Rate to pay higher bills to make up the difference.

21 Q. Please summarize your testimony.

Rebuttal Testimony of
James C. Watkins

1 A. The Staff supports to some extent, or does not oppose, all of the class cost-of-
2 service/rate design proposals presented in direct testimony, if the Staff's proposed
3 modifications are adopted in implementing those proposals.

4 Q. Are there any other items that need to be addressed?

5 A. KCPL inadvertently filed proposed all electric tariff sheets on which the title
6 had been changed from "All Electric" to "Space Heating." This change should not appear or
7 be approved when KCPL files its compliance tariffs.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes, it does.

REVENUE IMPACTS OF THE STAFF'S RECOMMENDED ADJUSTMENTS TO KCPL'S
ALL-ELECTRIC AND SEPARATELY-METERED SPACE HEATING RATES

SMALL GENERAL SERVICE - SECONDARY

	Winter	Annual	Number of Customers
All-Electric	7.11%	4.13%	710
Separately Metered	2.65%	1.63%	353

MEDIUM GENERAL SERVICE - SECONDARY

	Winter	Annual	Number of Customers
All-Electric	5.30%	2.97%	498
Separately Metered	2.78%	1.59%	116

MEDIUM GENERAL SERVICE - PRIMARY

	Winter	Annual	Number of Customers
All-Electric	5.32%	2.07%	2

LARGE GENERAL SERVICE - SECONDARY

	Winter	Annual	Number of Customers
All-Electric	5.13%	2.95%	230
Separately Metered	2.62%	1.55%	42

LARGE GENERAL SERVICE - PRIMARY

	Winter	Annual	Number of Customers
All-Electric	4.94%	2.88%	12