

1 BEFORE THE PUBLIC SERVICE COMMISSION 2 STATE OF MISSOURI 3 4 TRANSCRIPT OF PROCEEDINGS 5 6 Evidentiary Hearing 7 September 25, 2018 Jefferson City, Missouri 8 9 Volume 13 10 11 12 In The Matter Of Kansas City) Power & Light Company's Request) File No. ER-2018-0145 for Authority To Implement a) 13 General Rate Increase for) Electric Service 14) In the Matter of KCP&L Greater) 15 Missouri Operations Company's) File No. ER-2018-0146 Request for Authority to Implement a General Rate 16)) Increase for Electric Service) 17 18 RONALD D. PRIDGIN, Presiding DEPUTY CHIEF REGULATORY LAW JUDGE 19 RYAN SILVEY, Chairman 20 WILLIAM P. KENNEY DANIEL Y. HALL 21 SCOTT T. RUPP, MAIDA J. COLEMAN 22 COMMISSIONERS 23 REPORTED BY: 24 Tracy Taylor, CCR No. 939 TIGER COURT REPORTING, LLC 25

1 APPEARANCES 2 ROBERT J. HACK ROGER W. STEINER 3 Kansas City Power & Light Company 1200 Main, 16th Floor Kansas City, Missouri 64105 4 816.556.2791 5 FOR: Kansas City Power & Light Company JAMES M. FISCHER 6 Fischer & Dority, PC 7 101 Madison, Suite 400 Jefferson City, Missouri 65101 573.636.6758 8 Kansas City Power & Light Company FOR: 9 CAROLE L. ILES 10 Bryan Cave Leighton Paisner 221 Bolivar Street, Suite 101 11 Jefferson City, Missouri 65101 573.556.6622 12 FOR: Missouri Industrial Energy Consumers 13 DAVID WOODSMALL Woodsmall Law Office 14 308 E. High Street, Suite 204 Jefferson City, Missouri 65101 15 573.797.0005 FOR: Midwest Energy Consumers Group 16 MARC POSTON 17 301 West High Street Jefferson City, Missouri 65102 18 573.522.3304 FOR: Missouri Division of Energy 19 TIM OPITZ 409 Vandiver Drive 20 Building 5, Suite 205 21 Columbia, Missouri 65202 FOR: Renew Missouri Advocates 22 MARK W. COMLEY 23 Newman, Comley & Ruth 601 Monroe Street, Suite 301 24 Jefferson City, Missouri 65102-0537 573.634.2266 25 FOR: Advanced Energy Management Alliance

1		WILLIAMS
2	RYAN SI	Department of Economic Development
3		Office of the Public Counsel 200 Madison Street
4		PO Box 2230 Jefferson City, Missouri 65102
5	FOR:	573.526.4975 Office of the Public Counsel
6	MARK J	OHNSON
7	NICOLE ALEXANI	MERS DRA KLAUS
8		Department of Economic Development Public Service Commission 200 Madison Street
9		PO Box 360
10		Jefferson City, Missouri 65102-0360 573.751.7431
11	FOR:	Staff of the Missouri Public Service Commission
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1	JUDGE PRIDGIN: Good morning. We are on
2	the record. And we are resuming the hearings in Files
3	Number ER-2018-0145 and 0146. I'm Ron Pridgin. I'm
4	the Regulatory Law Judge assigned to preside over this
5	hearing. It's being held September 25th, 2018. We're
6	in the Governor Office Building in Jefferson City
7	Missouri. The time is 8:30 a.m.
8	When we went into recess yesterday, I
9	believe the parties wanted to negotiate further on
10	some rate design issues. And I believe Staff filed a
11	second revised list of issues and we have a few issues
12	to try today and then we also have Thursday set aside
13	for presentation of stipulations and agreements.
14	I'm assuming that contemplates a the
15	signatories filing a rate design stipulation so the
16	Commission would have time to read that and ask
17	questions about that.
18	MR. FISCHER: Yes, Your Honor. I'm told
19	that while we haven't filed the stipulation, we have a
20	couple edits to do, we should file it within the hour.
21	I think the list of issues as filed by Staff last
22	night would be the correct road map for the hearing
23	today.
24	JUDGE PRIDGIN: Okay. Thank you. Just a
25	couple of housekeeping things. First, I apologize.

1	The building's HVAC system is having some trouble.
2	You'll notice some folks working in the hall behind me
3	and so you may get some unpleasant smells and
4	temperatures and noises. They assured me the fire
5	alarm should not go off, which means it probably will,
6	so we will we will deal with it accordingly if that
7	happens.
8	I do believe agenda is scheduled Thursday
9	for 8:30. And so my best guess I haven't seen the
10	agenda. My best guess, we would probably be ready to
11	go 9:30 or 10:00 Thursday morning after agenda to give
12	people time to go to that and get back down here for
13	the hearing.
14	And I believe parties wanted to do and
15	I'll leave it up to you, if you want to do since
16	you just have so few issues left, if you want to do
17	
	one opening statement or if you want to do many
18	one opening statement or if you want to do many openings in front of each issue, that's whichever you
18 19	
	openings in front of each issue, that's whichever you
19	openings in front of each issue, that's whichever you prefer. Then I don't know if you have a preference
19 20	openings in front of each issue, that's whichever you prefer. Then I don't know if you have a preference or Mr. Hack?
19 20 21	openings in front of each issue, that's whichever you prefer. Then I don't know if you have a preference or Mr. Hack? MR. HACK: I think all of our issues
19 20 21 22	openings in front of each issue, that's whichever you prefer. Then I don't know if you have a preference or Mr. Hack? MR. HACK: I think all of our issues our witnesses will go up kind of as a group, so we'll
19 20 21 22 23	openings in front of each issue, that's whichever you prefer. Then I don't know if you have a preference or Mr. Hack? MR. HACK: I think all of our issues our witnesses will go up kind of as a group, so we'll probably just do it all at once.

1 per party. 2 Okay. Anything further from counsel or from the Bench before we begin opening statements? 3 MR. SMITH: Yes. Public Counsel has a 4 5 few orders that we'd like to the Commission to take official notice of. Those orders are ER-2009-0089, 6 ER-2009-0090 --7 8 MR. WOODSMALL: Are these the Report and 9 Orders, or what order are they? MR. SMITH: So the first one is an order 10 approving Non-Unanimous Stipulation and Agreement and 11 12 Authorizing Tariff Filing. MR. WOODSMALL: What date is that? 13 MR. SMITH: Issued June 10th, 2009. 14 The 15 second is titled the same and issued the same date. The third is a Report and Order ER-2014-0370 issued 16 17 September 2nd, 2015. The fourth is ER-2016-0156. 18 That's an order approving a Stipulation and Agreement. It was issued August 19th, 2016. I have two more. 19 20 ER-2016-0156 is also the same case, but it's the Non-Unanimous Stipulation and Agreement 21 regarding revenue increases among the various customer 22 23 classes. That was filed July 29th, 2016. And the last one I have is ER-2016-0285 and that's a Report 24 and Order issued May 3rd, 2017. 25

1 JUDGE PRIDGIN: All right. Thank you. 2 Any objections? MR. WOODSMALL: Not an objection, more 3 clarification. It confuses me -- the Commission's 4 required to publish their -- their orders. So is it 5 6 your opinion that we need to take official notice of Commission orders? 7 8 MR. SMITH: I believe taking official 9 notice is permitted by rule and so it is my opinion that we should take official notice. 10 MR. WOODSMALL: I don't have a problem. 11 12 It's just -- I've always just cited them without ever taking notice of them. 13 14 JUDGE PRIDGIN: I'm not hearing an 15 objection so the Commission will take notice of the orders, Mr. Smith. Noted. Anything further before we 16 17 proceed to opening statements? MR. SMITH: No, Judge. Thank you. 18 JUDGE PRIDGIN: Thank you. Okay. KCP&L, 19 20 when you're ready, Mr. Fischer. MR. FISCHER: Thank you. May it please 21 the Commission. May it please the Commission. I'm 22 23 Jim Fischer, representing the companies in this 24 matter. And I've got just a very brief opening. Our remaining issues -- we're -- we're 25

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1	very happy we were able to settle the revenue
2	requirement issues. And you're going to see most of
3	the bulk of the rate design issues, which were quite
4	complicated. And again, I'd like to commend the
5	parties for sticking with us through late into the
б	evenings last week and over the weekend to get a lot
7	of these issues resolved and we believe they're in the
8	public interest and at the appropriate time, we hope
9	you'll approve them.
10	At the outset, I guess I should probably
11	apologize for the lack of clarity of the Company's
12	position statement on this particular issue because
13	whenever we filed our testimony, we were assuming we
14	were going to be talking about a revenue requirement
15	increase, rather than a decrease. So all the
16	testimony that we had on how to allocate that was
17	based upon the idea that there would be an increase.
18	But I would like to mark an exhibit,
19	which would address our position under the current
20	circumstances where we stipulated or we've agreed
21	to a rate reduction.
22	JUDGE PRIDGIN: And I believe this would
23	be Exhibit Number 180.
24	(Exhibit 180 was marked for
25	identification.)

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1	MR. FISCHER: I've got the first sheet up
2	on the the ELMO there. Based on the revenue
3	decreases set forth in the Non-Unanimous Stipulation
4	that we filed on Wednesday, the Company's position is
5	that the class revenue shifts would be as follows for
6	KCPL. With an overall revenue decrease of 2.39
7	percent, class revenues should be adjusted as follows:
8	Residentials would get a 1.43 percent decrease and all
9	other classes would get a 2.99 percent decrease.
10	For GMO, which is the other situation, it
11	would be our position that residentials should receive
12	a 2.52 percent decrease; large power, large general
13	service, small general service would receive just over
14	a 4 percent decrease; and all other classes would
15	receive a 2.42 percent decrease.
16	The Company's recommended class shifts
17	would move toward class revenues based on our cost
18	class cost-of-service study. The Company but it
19	doesn't get all the way. It's just a step in the
20	right direction from our perspective. The Company's
21	witness, Marisol Miller, can answer specific questions
22	about how we came to those recommended shifts.
23	The Company's class cost-of-service study
24	allocates production costs on the basis of the Average
25	and Excess methodology, which is commonly used across

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1	the Company and accepted by regulatory authorities
2	throughout throughout the nation. The only other
3	methodology for allocation of production costs in the
4	record is the Staff's I think they call it detailed
5	Base, Intermediate, Peak method or BIP method.
6	That's not as commonly used at all. And
7	Staff's application of the BIP methodology suffers
8	from a variety of flaws and weaknesses that are
9	explained by our witnesses Brad Lutz and Tom Sullivan
10	for the Company and I think Mr. Brubaker also
11	addresses it for MIEC. I think when you compare the
12	results of our class cost-of-service study to the
13	Staff and industrials, you'll see that ours is
14	probably the middle ground road.
15	The Company wants to ensure that our
16	industrial rates are competitive with other Midwestern
17	utilities. Mr. Brubaker has included in his Direct
18	Testimony a ranking of Midwestern public utilities
19	that shows that KCPL's industrial rates are the sixth
20	highest out of 41 Midwestern vertically integrated
21	companies. I think GMO's ranked at 27 on that list.
22	We believe that this case is an
23	opportunity to take steps toward ensuring our
24	industrial rates are competitive with other Midwestern
25	public utilities and we would, therefore, encourage

1	the Commission to adopt the Company's proposed class
2	revenue shifts and lower the industrial rates by more
3	than the residential class.
4	Thank you for your attention. I'm happy
5	to answer questions, and we've got several technical
6	subject matter experts coming up shortly.
7	JUDGE PRIDGIN: Mr. Fischer, thank you.
8	Any Bench questions; Mr. Chairman? Commissioner Hall?
9	COMMISSIONER HALL: No, thank you.
10	JUDGE PRIDGIN: Thank you. Opening from
11	Staff?
12	MS. KLAUS: Good morning. May it please
13	the Commission. My name is Alexandra Klaus and I am
14	here on behalf of Staff regarding the overarching
15	issues of class cost-of-service, or CCOS, and rate
16	design.
17	Staff has a unique role in these cases in
18	that Staff is here to provide the Commission the
19	information that it needs in order to balance the
20	interests of the Company and the customers. Staff
21	takes this role very seriously and is ever mindful of
22	it, especially as we delve into issues like class
23	cost-of-service and rate design.
24	Before diving into CCOS, I'd like to note
25	that most of what follows will focus on KCPL. While

1 Staff completed a study for GMO to calculate a 2 functionalized customer charge for the residential class, that study is not reliable for other purposes 3 due to the absence of 12 months of data for the 4 customer classes established under GMO's reconfigured 5 classes and rate structures. 6 7 As taken from the Commission's order in 8 the last KCPL rate case issued May 3rd, 2017, a class 9 cost-of-service study attempts to allocate or assign a utility's total cost of providing service to all 10 customer classes such that it reasonably reflects cost 11 12 causation. CCOS studies should serve as a quide to 13 14 setting revenue requirements and they're not precise. 15 They're based on direct-filed revenue requirement and the allocation of that revenue requirement among 16 17 specific accounts using a specific rate of return. Unless the Commission approves that exact set of 18 accounting schedules, as well as the direct-filed 19 20 billing determinants in setting the revenue requirement in a particular case, there is an inherent 21 disconnect between the CCOS results used in providing 22 23 a party's class cost-of-service and rate design recommendations and the actual cost-of-service that 24 would result at the conclusion of a case. 25

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1	The results of a CCOS study are only one
2	element that the Commission should consider when
3	determining rates. Other factors that the Commission
4	should take into consideration include the customer's
5	ability to understand their rates, rate continuity,
6	rate stability, revenue stability, a minimization of
7	rate shock and the ability to meet incremental costs,
8	such as the market cost of energy.
9	The Commission has before it various CCOS
10	studies completed by Staff and by the companies and
11	additional recommendations from MIEC, MECG based off
12	of the Company's CCOS study. Staff's recommended
13	study is a Base, Intermediate, Peak, or BIP,
14	production allocation while the Company's study uses
15	an Average and Excess, or A and E, production
16	allocation.
17	There are differences between these
18	studies and one important distinction is the source of
19	numbers utilized for each study. For instance,
20	Staff's CCOS is based on Staff's revenue requirement
21	reduction of 19 million dollars. And the other study
22	and recommendations are based off KCPL's direct-filed
23	revenue requirement of an increase of approximately
24	16 million dollars.
25	This is especially of note because

1	Staff's cost-of-service study recognized a decrease in
2	net investment and expenses, while the Company's did
3	not. The Commission's recognition of CCOS studies
4	being based on direct-filed revenue requirement is
5	important here as the agreed-upon revenue requirement
6	in the Stipulation and Agreement is remarkably similar
7	to Staff's cost-of-service recommendation.
8	Staff is mindful of the Commission's
9	preference that Staff present alternatives when they
10	are available. And Staff prepared in direct an A and
11	E with a 19 million dollar revenue reduction, which
12	Staff compared to MIEC's requested revenue by class.
13	More recently, Staff Witnesses Lange and
14	Kliethermes prepared a demonstrative exhibit that has
15	been provided to the parties this morning and that I'm
16	happy to provide the Commission with at this time, if
17	that's preferred. Ms. Lange and Ms. Kliethermes may
18	refer to those calculations during their testimonies
19	today.
20	Either way, this table put together CCOS
21	results of the A and E study Staff performed in direct
22	with the class rate shift that Mr. Brubaker is
23	recommending for KCPL. And the misalignment that
24	Mr. Brubaker's recommendation causes is shown in a
25	final column, specifically where Mr. Brubaker is

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1	requesting that the LGS class rates be reduced to
2	10 million dollars below the A and E allocated cost of
3	serving that class, and residential rates would be
4	increased 8.4 million dollars above the cost of
5	serving that class.
6	Staff Witnesses Lange and Kliethermes can
7	explain that why this shows what we have is not
8	necessarily an A and E versus BIP issue. We have an
9	issue of the reasonableness of the costs and the
10	revenue studied relative to the agreed-upon revenue
11	requirement in this case.
12	But to the extent that we do have an
13	A and E versus BIP issue, of these two production
14	allocation methods, only Staff's BIP recognizes
15	disparity in capacity and fuel costs. Again, as
16	stated in that 2017 order, the BIP method uniquely
17	recognizes the trade-offs that exist between the cost
18	of installing a plant, the generation capabilities of
19	a plant and the cost of obtaining energy from that
20	plant.
21	This takes into consideration the
22	differences in the capacity costs associated with
23	units that run at a stable level much of the year
24	versus the capacity costs associated with units that
25	quickly dispatch only a few hours a year, as well as

1	those units that end up somewhere in between those two
2	extremes.
3	BIP also considers the inverse
4	relationship between the cost of capacity and the cost
5	of energy produced by base, intermediate and peaking
6	units. Comparatively, other CCOS methodologies tend
7	to assume that energy costs are the same amount
8	regardless of the hour of the consumption or the
9	source of the energy and/or do not consider the
10	operating characteristics of plants and assume that
11	capacity costs are equal among all types of plants.
12	So why does all of this matter? It
13	matters because it gets to the heart of the first
14	issue we're examining here today; namely, what revenue
15	neutral changes to class revenue responsibility, if
16	any, should the Commission order for each utility?
17	As previously mentioned, there is a need
18	for certain information in order to conduct a reliable
19	CCOS for GMO. Because of this, Staff does not
20	recommend any deliberate inter-class revenue neutral
21	shifts to revenue responsibility for GMO.
22	With respect to KCPL, Staff found that
23	all classes are contributing revenues at or near their
24	cost-of-service and contributing to the Company's
25	overall return. While the large general service,

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1	large power service and lighting classes contribute to
2	overall returns at a level below system average, that
3	variance is within the expected variance of the
4	precision of a CCOS study.
5	More to the point, Staff recommended
6	revenue responsibility shifts only if KCPL's revenues
7	are ordered to be reduced, which is consistent with
8	the Stipulation and Agreement's contemplated
9	21 million dollar reduction for KCPL.
10	At such a significant decrease, Staff
11	recommends a revenue neutral shift in revenue
12	responsibility from the small general service class in
13	the amount of 7.5 million dollars and a shift from the
14	median general service class in the amount of 2.5 of
15	2 million dollars, excuse me, to be spread equally
16	among the remaining classes. As applied to the
17	21 million dollar decrease, that works out to about a
18	1 percent reduction for the residential, small
19	general, large general, large power and lighting
20	classes; a bigger reduction of about 3.8 percent to
21	MGS and a larger reduction of about 14.7 percent to
22	the SGS class.
23	In light of the level of decrease agreed
24	to in the September 19th stipulation, Staff has
25	prepared exemplar rates that are moderation chiefly

1	between Staff's positions with MI MIEC, MEGC on both
2	rate design and CCOS, but it's also a compromise
3	between Staff and OPC on CCOS, and Staff and the
4	Company on rate design.
5	There are also several rate design issues
6	that we're here to discuss today, including
7	residential rate design and what rate design should be
8	ordered for each utility's non-residential classes.
9	I'll quickly address Staff's positions on these
10	issues.
11	If the residential class is ordered an
12	increase, as recommended by Mr. Brubaker, Staff
13	recommends use of its residential customer charges of
14	\$12.82 for KCPL and \$12.38 for GMO. In the event of a
15	decrease to the revenue requirement of the residential
16	class, Staff is comfortable with the results of the
17	forthcoming Stipulation and Agreement.
18	Regarding what rate design should be
19	ordered for each utility's non-residential classes,
20	Staff looked at functionalized costs in its CCOS
21	report. And in general, non-residential first and
22	second block energy charges are over-collecting. So
23	Staff recommends that any decrease in this case be
24	applied to those blocks.
25	Given the level of decrease contemplated

1	in these cases, Staff does slightly revise its
2	recommendation so that the second block in second
3	block rates are not decreased to a level below the
4	tail block rate.
5	For the KCPL LPS class, in addition to
б	reducing the first and second block energy charge,
7	Staff recommends any reduction be applied to the
8	facility's charge and also that the demand charge
9	decline be eliminated.
10	Here with me today to answer more
11	specific questions that you may have are Robin
12	Kliethermes and Sarah Lange. We appreciate your
13	consideration of Staff's positions on these issues.
14	Thank you, and I'll do my best to answer any questions
15	that you may have.
16	JUDGE PRIDGIN: Ms. Klaus, thank you.
17	Any Bench questions? Mr. Chairman? Commissioner
18	Hall?
19	COMMISSIONER HALL: No questions.
20	JUDGE PRIDGIN: Thank you.
21	Public Counsel, opening statement?
22	MR. SMITH: Yes, Judge. Morning. The
23	Commission has the power to do justice. Justice in
24	this case is simple: Rate reductions for everyone.
25	But one two parties do not want that. They want a

1	rate increase for residentials in KCPL.
2	Again, this power the Commission has
3	the power do justice. To accomplish that goal, the
4	OPC asks the Commission to order for each customer
5	class an equal percentage allocation. That would be
6	2.39 percent for KCPL and 3.22 percent for KCPL/GMO.
7	And apply the reduction consistent with the
8	Stipulation Agreement filed yesterday.
9	The way I got to that calculation, I
10	think you saw the slide I guess it wasn't a slide
11	exactly, but the presentation on the ELMO, was
12	basically we took the Stipulation Agreement on the
13	revenues and we compared that to the decreases.
14	So we had stipulated revenues and you had a 21 million
15	dollar decrease for KCPL, a 24 million dollar decrease
16	for GMO. If that's accepted, the average for each
17	customer class is 2.39 percent for KCPL and 3.22
18	percent for GMO.
19	Although the OPC does give preference to
20	Staff's detailed Base, Intermediate, Peak methodology,
21	and the Commission also has given preference to
22	Staff's detailed Peak, Intermediate methodology, that
23	doesn't mean the Commission should do something other
24	than equal percentage allocation.
25	The OPC reasons that every class

1	cost-of-service study has pros and cons. It's a
2	guide. As was stated earlier, it's not perfect.
3	There are trade-offs. And the Commission should look
4	at each of these studies but only as an input.
5	The OPC argues that the equal percentage
6	allocation in this case is equitable. And the reason
7	why it's equitable is because one of the primary
8	drivers is federal tax reform. So who is the causer
9	of the cause for federal tax reform? Well, it wasn't
10	the industrial class, wasn't the residential class, it
11	wasn't any class. It was the federal government. So
12	an equal percentage allocation makes some sense.
13	Also, in ER-2014-0370, one of the Report
14	and Orders I referenced to have the Commission take
15	official notice of, there are all these parties. You
16	had actually many of the same parties. You had KCPL,
17	you had Staff, you had OPC, you had MECG, you had
18	MIEC. You also had the Department of Energy United
19	States Department of Energy. They all provided
20	different cost studies.
21	But you know what? They reached a
22	reasonable result in that case. And the Commission
23	found even though you have all these different
24	studies, it would be reasonable, it would be just, it
25	would be fair to do an equal percentage allocation.

1 Now, the Commission has reached a similar 2 conclusion in other orders, ER-2016-0156, ER-2009-089, 3 ER-2009-0090. So an equal percentage isn't really anything new or anything that should shock the 4 5 Commission. 6 In this case, it's also persuasive to 7 order equal percentage reductions because the 8 Commission Staff found -- I quess we wouldn't call it 9 a data issue as much as an incomplete production of data. There just simply wasn't enough information to 10 reliably do a class cost-of-service study on the GMO 11 12 side. So on the GMO's side, Staff's recommendation was an equal percentage allocation. So if it makes 13 14 sense you're doing it for GMO, kind of also makes some 15 sense that you'd apply that for KCPL. 16 Now, as an alternative to this approach, 17 the OPC does believe Staff's recommendation is the next best option. That's the next best option to do 18 That's the next best option where you're 19 justice. 20 going to give each customer class a rate reduction. And we also think that it's reasonable 21 because SGS, or the small businesses, the moms and 22 23 pops, there are a lot of differences, like I said, between the class cost-of-service studies, the A and E 24 and the detailed BIP, but one of the things that 25

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1	emerges as the same is that those small general
2	service customers both deserve at least if you
3	believe the studies and you're religious about the
4	studies, the small general service customers deserve
5	the most reduction. And actually Staff's
6	recommendation gives them the most reduction.
7	As a part of our secondary
8	recommendation, OPC Witness Dr. Karl Pavlovic is here.
9	He has opined on this and found that Staff's Base,
10	Intermediate, Peak methodology does better line cost
11	characteristics of generating resources with class
12	specific load characteristics. That fancy vocabulary
13	is from him. So that's a direct quote from his
14	testimony.
15	And also, I think, you probably remember
16	as recently as a year ago in May, this Commission
17	expressed its preference for the Base, Intermediate,
18	Peak methodology. It happened in ER-2016-0285.
19	That's a rate case. Happened May 3rd, 2017 when that
20	order was issued. And guess what? KCPL was also at
21	the table. Guess what? A and E was also being
22	discussed. Guess what? Detailed Base, Intermediate,
23	Peak methodology was also being discussed.
24	And the Commission evaluated and it's
25	the situation I guess this is a little bit

different because now we have a reduction, but the 1 2 Commission found that in terms of the methodological differences, it preferred the BIP. It preferred the 3 Base, Intermediate, Peak methodology and it gave guite 4 5 a few reasons. 6 Again, there are trade-offs, but they did provide reasons. If you go to that order, at page 50, 7 8 paragraph 134, that's where you'll start to see the 9 good stuff, the juicy stuff, the stuff you want. The Commission described the BIP as the best study at 10 recognizing disparity in cap-- capacity and fuel 11 12 costs. Commission went on and described the 13 14 method, it's unique, recognizing the trade-offs that 15 exist between the cost of installing a plant, the generation capability of a plant, the cost of 16 17 obtaining energy from the plant. And they also recognize that unlike other methods, the BIP method 18 most reasonably assumes that some plants are going to 19 20 run virtually all year-round; those are your base plants. Some will be part of the year; those are your 21 intermediates. Some will be run rarely; those are 22 23 your peaks.

Now, the Commission explained also that this method was the best to account for SPP. And they

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1	came to that conclusion by reasoning that
2	participation in SPP results in price signal stacking
3	in a manner consistent with those experienced by a
4	utility with a generation fleet that includes the
5	relative amount of each Base, Intermediate, Peak
6	generating units in the NARUC manual.
7	In comparing these two methods, I think
8	I've said earlier Dr. Pavlovic did opine on each of
9	them. He he noticed actually there you know,
10	there's good things and bad things about both. One of
11	the things that he testified on that OPC has changed
12	their position on is AMI meters.
13	We actually think that rather than
14	ordering a reallocation of AMI meters in this case,
15	which you could, Dr. Pavlovic's testimony shows that
16	it's possible that there might be an over-allocation
17	of meters to certain industrial customers. But rather
18	than address this potential over-allocation, we're
19	recommending in the next class cost-of-service study
20	the Commission order that it be addressed in that
21	study.
22	So in addition to Dr. Pavlovic, of course
23	we have Dr. Marke. You're both familiar or all of
24	you are familiar with him. He's a Ph.D. level of
25	education. We have two doctors as witnesses today. I

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1	encourage you to ask Dr. Marke questions. He's OPC's
2	chief economist. He's a big picture thinker,
3	distinguished background and he puts in tremendous
4	hours over and above the call of duty. And he does it
5	to ensure the public interest is served. And I know
6	you think I'm just puffing him up, but literally
7	weekends and nights, he's he's working.
8	Also, we have Dr. Karl Pavlovic. He has
9	33 years of experience as a consultant. He's an
10	expert witness. He was educated at Yale, educated at
11	Purdue. He also has extremely competent and extremely
12	high qualifications. He's testified before FERC,
13	Maryland, Hawaii, Massachusetts, Illinois, Kansas, New
14	Jersey, Pennsylvania, New Hampshire, Maine, Louisiana,
15	Delaware, North Dakota, D.C., California, Alberta
16	Canada, kind of all over the place. And we are really
17	grateful to have him here with us today and on behalf
18	of ratepayers today. And we would ask the Commission
19	that if you have questions, this is this is a great
20	person to ask them to.
21	Now, as I said at the beginning of my
22	opening, this Commission has the power to do justice.
23	They need to have rate reductions for all classes to
24	do justice. That's what we envision success to be.
25	That's what we envision justice to be.

1	But at least in the current position of
2	MIEC and MECG I don't know if it might change to
3	something more reasonable today in their opening
4	statement, but at least in their position statement,
5	they actually want a residential rate increase for
б	KCPL. Even with 20 21 million dollars of potential
7	reductions.
8	And they also present the case for a
9	residential rate increase in a way that I would argue
10	is out of context. It is incomplete because it
11	doesn't show the advantage that some of their clients
12	get. I'll give you seven reasons why.
13	First, residential customers and SGS
14	customers subsidize industrial customers and they do
15	that because industrial customers opt out of MEEIA.
16	They don't pay. Guess who does? SGS and residential
17	customers.
18	Second, SB 564. It's new bill or it
19	became enacted now, so it's actually law as of the end
20	of August. And I think we have one utility who's
21	already given notice they want to take advantage of
22	some of those provisions; Ameren Missouri. But this
23	bill also gave some some good stuff for
24	industrials. It provided discounts for new load,
25	which is a good thing for industrials.

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1	And it also insulated them. There's a
2	there's a 2 percent cap. And if that cap goes over
3	2 percent, the customer classes that pay for that
4	excess are all of the other customer classes. So
5	industrials, if it goes over 2 percent, all the other
6	excess gets spread around to all the other customer
7	classes. So that's a good thing. That's a good thing
8	they have going for them. And I don't know if you'll
9	hear that today in their testimony. I don't think it
10	was there.
11	Another thing, industrials are getting a
12	decrease if you go with the OPC approach. Industrials
13	are getting a decrease if you go with the Staff
14	approach. Industrials are getting a decrease if you
15	go with the Company's approach. And the difference is
16	they want more. They want more. More and more and
17	more.
18	They also present EEI data, and the
19	Company referenced EEI data. Well, data is nothing
20	without context explanation. I would encourage you to
21	read pages 22 through 26 of Sarah Lange's Rebuttal
22	Testimony. She provides that the context you need.
23	And also again, Dr. Marke and Dr. Pavlovic are
24	available to opine on why that information is in
25	need desperate need of context.

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1	The fifth, as I've said before, GMO.
2	There's a problem with the data. We don't have a
3	complete set of data to reliably provide a class
4	cost-of-service recommendation. At least that was the
5	Staff's opinion in their testimony. At this point, it
6	is not adequately addressed by the industrials and so
7	they would prefer cost allocations other than an equal
8	percentage. That failure is not contained in OPC's
9	recommendation.
10	Six, tax cuts. Corporations have
11	received tax cuts. Businesses have received tax cuts.
12	And they've done so at greater levels than
13	residentials. So in addition, now we have a case
14	about tax cuts. In a case where one of the primary
15	drivers of the reduction is tax cuts and you have
16	other customer classes that want to double recover.
17	Not only did they get their their tax
18	recovery greater than the individual taxpayer, but now
19	they want to take away the reduction that could flow
20	through this case. And that same point can be said
21	for state tax reform. Corporations are set to get a
22	6.25 to 4 percent reduction starting around the end of
23	20 or the beginning of 2020.
24	And my seventh and final reason thank
25	you for sticking with me. I know this is a lot, but

1	I I could go on. Believe me, I'm trying to help
2	you out here.
3	The seventh reason is that commercial and
4	industrials can, at the end of the day, pass on costs.
5	Residential customers simply can't do that.
6	So in summary, success for the OPC,
7	success for the Commission, success for all the
8	parties in this case should be a rate reduction for
9	all cases or for all customer classes.
10	And right before I conclude, I think it
11	should be noted that there is a petition going around.
12	As a customer advocate, I have to let you know about
13	this. Ms. Dietrich let you know about it in her
14	testimony. Dr. Marke let you know about it in his
15	testimony. The petition has around 65,000 customers
16	who are asking Mayor Sly James, Senator Blunt, Senator
17	McCaskill, Representative Cleaver, they're all saying
18	what's going on? Why do we keep getting rate
19	increases? Please audit this company. What's going
20	on here?
21	And I believe there's there's actually
22	a separate petition, which was referred to in
23	Ms. Dietrich's testimony. It actually calls upon this
24	Missouri Public Service Commission to do something.
25	So this is a rare opportunity for this

1	Commission to do justice for these residential
2	customers. This is a rare opportunity. And that
3	should be respected. And Geoff Marke's testimony has
4	some of the communications. We've we've received a
5	lot of communications, and I'd encourage you to read
б	some of those e-mails. Some of them are are kind
7	of heartbreaking.
8	Again, at the beginning of my opening
9	I've asked for justice, a rate reduction for all
10	classes. We believe the best way to do that is an
11	equal allocation across customer classes, or in the
12	alternative, you can do an equal allocation to GMO and
13	go with Staff's methodology for the KCPL. Thank you.
14	The decision is in your hands and I stand ready for
15	any questions.
16	JUDGE PRIDGIN: Mr. Smith, thank you.
17	Any Bench questions?
18	All right. Thank you very much.
19	Opening from MECG.
20	MR. WOODSMALL: Good morning. David
21	Woodsmall on behalf of the Midwest Energy Consumers
22	Group. I'm here today to speak about the single most
23	important issue to the large industrial and commercial
24	customers in this case; the class cost-of-service
25	study, the allocation of revenues and the elimination

1	of the residential subsidy in this case.
2	As most of you know, Midwest Energy
3	Consumers Group is the primary representative of
4	business interests before the PSC and the General
5	Assembly. In this case, MECG members total 31 large
6	commercial and industrial customers of KCP&L/GMO.
7	They use approximately 1.5 billion kilowatt hours a
8	year from these utilities and employ over 40,000
9	individuals on the west side of this state.
10	We're talking about industrial customers
11	like Tyson Foods; Cargill; Central Plains Cement;
12	Nucor L&P hospitals like North Kansas City Hospital,
13	Liberty Hospital and Bothwell Hospital; casinos like
14	Ameristar Casino and Isle of Capri; Bioethanol
15	companies like Show-Me Ethanol and Mid-Missouri
16	Energy; and breweries like Boulevard Brewing. All
17	these companies ask you to set cost base rates and
18	eliminate the residential subsidy.
19	Now, the Commission is probably used to
20	me standing before it and taking positions that are
21	contrary to the utility. I'm pleased to say today
22	that's not the case. KCP&L and its customers have
23	agreed to a rate reduction. The remaining issue is
24	how do you allocate that rate reduction between the
25	various classes.

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1	On this issue, the industrial customers
2	and the utilities are in complete agreement. Given
3	the uncompetitive uncompetitiveness of KCP&L's
4	industrial rates, both KCP&L and the industrials agree
5	that more revenues should be imposed on the
6	residential class.
7	Now, I want to be very clear before I go
8	any further. The following slides are going to look
9	like that I'm being very critical of KCP&L and its
10	industrial rates. It is not my intention to be
11	critical of KCP&L on this issue. As I will
12	demonstrate, KCP&L has acknowledged the problem.
13	KCP&L has proposed steps in this case to start us on a
14	solution. So it's not KCP&L with the problem in this
15	case. It's the other parties that don't want to
16	eliminate the residential subsidy.
17	Now, I will agree with OPC on one thing
18	here. This is a rare opportunity to do justice. A
19	rare opportunity. You have a rate reduction. How do
20	you want to use the rate reduction? Do you want to
21	give it back to residential customers even though by
22	most by virtually all measures, we know that
23	KCP&L's rates are uncompetitive? Or do you want to
24	use that rate reduction to bring about cost base
25	rates, send proper price signals, and take care of

1	industrial customers that are leaving?
2	In its Direct Testimony, KCP&L
3	specifically acknowledged the problems associated with
4	its industrial rates. Mr. Lutz admits, quote, The
5	fact that the Company's industrial rates at face value
6	do not compare well with other locations is difficult
7	to debate, end quote.
8	MIEC's witness, Mr. Brubaker, provides
9	more color to this concern. As Mr. Brubaker points
10	out, from 2005 to 2017, KCP&L's industrial rates have
11	increased by 91 percent. This compares to an overall
12	industrial rate increase for the Midwest group of only
13	34 percent. It's not surprising when your industrial
14	rates go up three times faster than in then the
15	Midwest group over the course of 12 years, you're
16	going to have a problem, and that's where we're at.
17	This is hard to see. It's in your chart.
18	But Mr. Brubaker provides more color to this. He went
19	through and looked at the rates for 41 Midwest
20	utilities. And what did he find? Of those 41 Midwest
21	utilities, KCP&L's industrial rates are the sixth
22	highest. Utilities in Kansas, Oklahoma, Arkansas,
23	Iowa, Illinois all have lower industrial rates. All
24	are providing greater opportunities to industrial
25	customers to come there and leave Missouri.

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1	In an Empire decision that most of you
2	Commissioners remember from 2015, the Commission
3	expressly discussed the implications of uncompetitive
4	industrial rates. If industrial rates stay
5	uncompetitive, it becomes difficult for the area to
6	attract or retain industrial customers. While this
7	becomes a problem for area employment, it also becomes
8	a problem for the electric rates of all the remaining
9	customers.
10	Why is this? As the Commission
11	recognized, eventually these industrial customers will
12	leave and those costs will now be spread amongst a
13	much smaller number of billing determinants. As a
14	result, industrial customers leave, employment
15	declines and residential rates will necessarily
16	increase. It may seem like a worthwhile goal to keep
17	residential rates low at the cost of industrial
18	customers, but that will eventually come back to bite
19	you.
20	The Commission had this exactly right in
21	the Empire decision. We're seeing it playing out
22	here. As the evidence in this case demonstrates, once
23	KCP&L industrial rates started to increase and become
24	uncompetitive, KCP&L's industrial customers started to
25	leave. As Mr. Brubaker mentioned, over the past

1	12 years, KCP&L's rates have gone up three times the
2	Midwest average. At the same time that the rates were
3	going up, industrial customers were leaving. Since
4	2006, over 17 percent of KCP&L's industrial base has
5	left the system.
6	While residential customers may file
7	comments or, as Mr. Smith talked about, may do
8	petitions and show up at local public hearings,
9	industrial customer simply wave good-bye as they leave
10	the state.
11	And for any of you that have worked on
12	economic development issues in the General Assembly or
13	in the Governor's office, it is tough to attract these
14	customers once they leave. Inevitably you will throw
15	millions of dollars at industrial customers and they
16	will simply leave you hanging at the alter when they
17	go to another state. The moral of the story, don't
18	ever let these industrial customers leave in the first
19	place. And how do you do that? By setting cost based
20	rates for them.
21	The lost of industrial customers is not
22	simply the smaller industrial customer. In KCP&L's
23	case, it's its largest industrial customers, the
24	backbone of the KCP&L industrial base. As this chart
25	shows, KCP&L has been able to replace its customers in

its small and medium general service rate classes.
 You actually see percent increases there in the number
 of customers.

4 In the past 12 years, however, KCP&L has lost 20 percent of its large general service rate 5 6 class and 36 percent of its large power rate class. 7 Effectively, KCP&L is swapping out high load factor customers with low load factor customers. 8 We're 9 seeing exactly what the Commission said in the Empire case. These customers leave and you will have smaller 10 billing determinants and you're going to have higher 11 12 residential rates because of short-sighted decisions Frankly, we are at a tipping point here. 13 now. 14 Eventually KCP&L will lose all of its high load factor customers who will leave for greener pastures. 15

Now, I don't want to leave you with the impression that simply fixing KCPL's industrial rates is the solution to all of the Kansas City area economic development problems. As Mr. Brubaker points out, KCP&L's rates -- industrial rates are not the only problem, but they are certainly, quote, a contributing factor.

In his testimony, KCP&L Witness Sullivan
talks about the importance of retaining these high
load factors customers as well. Much as the

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1	Commission recognized in its Empire decision, the
2	presence of these high load factor industrial
3	customers do not simply assist with jobs and
4	investment. They also increase the utility's overall
5	efficiency and reduce costs for all customers.
6	So why am I mentioning the uncompetitive
7	nature of KCP&L's rates in this part of the case?
8	There are three parts of the case. There's the
9	revenue requirement, how much of a rate change should
10	the overall utility get. The second part is once you
11	know how much of a revenue change, how do you allocate
12	that amongst the customer classes? Then once you know
13	how much each customer class gets, how do you design
14	the rates to lead to that? We're in the second and
15	third parts of the case. We know what the revenue
16	requirement is. How do we allocate that?
17	So what guidance do you have on
18	allocating revenues in this case? The best tool for
19	guiding your decision on revenue allocation is the
20	class cost-of-service study. This study attempts to
21	take every piece of cost revenue and investment of the
22	Company and allocate it in a logical manner to the
23	various customer classes.
24	Given the amount of investment that a
25	utility has in its generating station, the allocation

of the investment in production plant is by far the 1 2 biggest issue of class cost-of-service study. In this case, you have been presented two 3 class cost-of-service studies to help guide you with 4 5 your determination. As I mentioned, KCP&L and the 6 industrials are in agreement on this; the A and E 7 methodology. Based upon that class cost-of-service 8 study, KCP&L and the industrials agree that the residential rates are about 17 and a half percent 9 below their actual cost-of-service. As a result, 10 large general service rates are about 12.4 percent 11 12 above cost-of-service and large power rates are about 10 percent above cost-of-service. 13 On the other hand, as you can see here, 14 Staff relies upon an archaic methodology called the 15 Base, Intermediate, Peak methodology for allocating 16 17 this generation investment. Based upon this faulty methodology, Staff actually shows the exact opposite 18 scenario; that residential customers instead of a rate 19 20 increase, should get a rate decrease. And believe it or not, despite the 21 uncompetitiveness of rates, Staff's methodology 22 23 actually says large general service and large power should get rate increases. They want to double down. 24 25 The disparity is not limited to KCP&L. We see the

1	same phenomenon on the GMO side.
2	While both GMO and the industrials
3	provide evidence of a residential subsidy, Staff's
4	methodology shows that residential rates are again
5	below costs and that industrial rates should see a
6	rate increase as a result of this case.
7	Clearly, the differences between the
8	Staff BIP and the A and E methodology used by KCP&L
9	and the industrials lead to radically different
10	outcomes. The magnitude of the KCP&L residential
11	subsidy is certainly disconcerting. Effectively 1 out
12	of every 10 dollars that a large power customer spends
13	is used to keep residential rates low. One out of
14	every 8 dollars that a large general service customer
15	spends is used to keep residential rates low.
16	The other disconcerting part isn't just
17	the magnitude. It's how fast this residential subsidy
18	is growing. According to Mr. Brubaker's testimony in
19	the last three cases, the residential subsidy has
20	grown from 2014 when it was 11.2 percent to now 17 and
21	a half percent. In barely three to four years, you've
22	seen the residential subsidy almost increase
23	50 percent.
24	Over the same period of time, the
25	industrial percentage over cost has grown too. The

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1	industrial rates in 2014 were just shy of 5 percent
2	above costs. Now they're 10 percent above costs.
3	So why do the BIP and A and E approaches
4	lead to such radically different outcomes? You'll see
5	much made of this in Mr. Brubaker and Mr. Sullivan and
б	Mr. Lutz's testimony. In order to understand the
7	answer to this question, you must understand how the
8	BIP methodology is designed and how the costs are then
9	allocated.
10	As the witnesses describe it, the
11	fundamental basis of the BIP is that KCP&L's
12	generating units can be assigned different purposes;
13	either base load, intermediate or peaking. Once it is
14	classified into one of those three buckets, those
15	buckets are then allocated between the various
16	customer classes. And importantly, the biggest
17	bucket, the base load investment, is allocated
18	entirely on the basis of class energy usage.
19	As Mr. Brubaker points out, however, by
20	allocating base load investment entirely on the basis
21	of energy, the BIP method fails to give any
22	consideration as to when the usage occurs or how
23	efficiently the customer is using the electricity,
24	known as the customer's load factor.
25	As I mentioned, unlike the produ the

1	other production allocators, the BIP methodology is
2	very subjective. The analyst looks at the various
3	units and assigns it to buckets. Very subjective.
4	The BIP swings entirely then on how the an the
5	analyst assigns these units to the various buckets.
6	This subjectivity can cause a great deal of variance
7	in the methodology and we're seeing it here.
8	Because of this subjectivity, we have
9	seen great swings just since the last case. In the
10	last case, the Staff allocated 53 percent of
11	production investment on the basis of energy.
12	53 percent. Now, less than two years later, because
13	of the subjectivity, Staff now allocates 80 percent of
14	all this investment on the basis of energy. You
15	shouldn't see those kind of radical swings in your
16	class cost-of-service study. But we see it in the BIP
17	because of all the latitude it gives the analyst.
18	KCP&L's testimony provides a great
19	discussion as to how this problem came about. As
20	KCP&L points out, Staff attempts to first assign the
21	various generating units first to the base load unit
22	bucket. Once that bucket is filled up, then it
23	assigns unit to the intermediate peak the
24	intermediate bucket, and finally to the peaking
25	bucket.

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1	As KCP&L Witness Lutz points out,
2	however, the most economical; generation in KCP&L's
3	fleet is its wind energy and renewable investment.
4	It's the most economical. It's the stuff that's
5	running all the time. Why doesn't it get assigned
6	first? Staff doesn't do that. Instead, Staff
7	strangely leaves those units out when assigning the
8	various units. As a result, the more expensive
9	investment is pushed into the base load bucket and so
10	forth.
11	As Mr. Lutz concludes, quote, Staff's
12	decision to not include Company-owned renewable
13	generator plant in allocator development allows the
14	plants with higher costs to be moved lower in the
15	stratus, skewing the allocator. That's KCP&L telling
16	you. The Staff methodology is being used wrong.
17	Mr. Sullivan of KCP&L provides even more
18	discussion. Because Staff has failed to include
19	renewable investment in the base load bucket, more
20	expensive investment is treated as base load
21	investment even though it does not resemble what we
22	would think of as base load.
23	For instance, Mr. Sullivan points out
24	that La Cygne 1 is treated as a base load unit. Now,
25	base load unit is generally something that operates

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1	all the time. La Cygne 1 is treated as a base load
2	unit, but it only has a capacity factor in Staff's
3	methodology of 35 percent. This isn't base load.
4	We're still La Cygne 2 is treated as base load even
5	though it has a capacity factor of only 26 percent.
6	Because Staff has failed to assign the
7	renewable energy, all this intermediate generation is
8	being pushed into the base load bucket and allocated
9	on the basis of energy. That's why we're seeing the
10	swing since the last case.
11	The problem isn't limited solely to the
12	classification of units as base load that do not
13	resemble such units. It has also been seen in
14	intermediate units. For instance, Hawthorn 6 through
15	9, which has a capacity factor of only 2 percent, is
16	being treated as an intermediate unit. That's a
17	peaking unit if I've ever seen it. But because of
18	Staff's methodology, it's being pushed lower in the
19	strata, as Mr. Lutz said, and being treated as an
20	intermediate unit and being dispatched more on the
21	basis of energy to the high load factor customers.
22	The subjectivity of the BIP methodology
23	has caused tremendous swings since the last case and
24	covered up the residential subsidy that clearly exists
25	in KCP&L's rates. So earlier I provided you the end

results of the overall class cost-of-service study. 1 That was how many dollars should be shifted between 2 the various classes. 3 Here I'm going to show you what is the 4 5 result of just the BIP; how does it assign the production investment. On this side, I show you under 6 7 KCP&L an-- under KCP&L's A and E method and Staff's 8 BIP. You can see now why Staff's methodology covers 9 up the existence of a residential subsidy. While KCP&L's methodology assigned 42.29 percent of 10 generation plant to the residential class, Staff's 11 12 methodology only assigned 35 percent to the residential class. 13 14 Now, this might not seem like much, but we're talking about the allocation of 10 billion 15 dollars in production plant investment. You shift 16 17 1 percent, it's going to cause tremendous swings in rates. And that's what Staff's methodology does. 18 Magically the existence of a residential subsidy 19

20 disappears.

In addition to its subjectivity and heavy dependence on class energy usage for allocating generation plant investment, KCP&L's evidence also shows that Staff's BIP methodology is archaic. His-and you need to understand this. This is going back

1	before some of you were here.
2	Historically, utilities met their energy
3	needs entirely based upon their own generating units.
4	Energy usage was going up, they had to go out and
5	build another unit. And depending on how they
6	forecasted things, it might be a base load, an
7	intermediate or a peaking unit. But it was all met
8	through internal resources.
9	In 2014 so it was easy under that
10	scenario. You knew how the units were being
11	dispatched and the economic order. You could look at
12	it and say wow, Wolf Creek is a base load unit. Wow,
13	Iatan is base load unit. Wow, La Cygne is operating
14	as an intermediate unit. It was easy because it was
15	all being met by this fine box of units available.
16	In 2014, this all radically changed. In
17	2014, the Southwest Power Pool developed the
18	integrated marketplace. Now KCP&L is not limited to
19	meeting its energy needs solely through its own units.
20	It can go to the marketplace, just like the Wal-Mart
21	of electricity. You go to the marketplace, you buy
22	your electricity.
23	So KCP&L under that, now sells all its
24	electricity into the marketplace, buys all its
25	electricity out of the marketplace. No longer do we

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1	see the distinctions between base load, intermediate
2	and peak. It's all a fungible product now.
3	And KCP&L talks about this. As KCP&L
4	Witness Lutz points out, quote, I continue to believe
5	based on the operation of units resulting from the
б	implementation of the SPP integrated marketplace, that
7	the Company cannot accurately segment its generating
8	plants into the Base, Intermediate and Peaking strata.
9	That's KCP&L saying it can't be done anymore.
10	But Staff does it. The BIP is also
11	flawed in that it improperly fails to consider the
12	need to meet capacity. It only considers class energy
13	usage. As I mentioned, Staff's BIP assigns production
14	investment 80 percent of it entirely on energy.
15	What's the implicit assumption there? If we're
16	assigning 80 percent based on energy, is peak demand
17	being met by only the other 20 percent? That doesn't
18	make any sense.
19	As KCP&L and Mr. Brubaker agree, all
20	plants contribute to meeting peak demands. And the
21	failure to allocate fixed costs associated with base
22	load plants on a measure of peak demand produces a
23	highest result that over-allocates costs to high load
24	factor customers.
25	You need to consider capacity. Just like

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the utility considers it when it decides to build, you
 need to consider capacity and meeting peak demand, not
 simply energy.

So we've talked about all these flaws. 4 5 Given this, it should not surprise you that the BIP 6 methodology has been universally rejected. As 7 Mr. Brubaker points out, the BIP methodology is, 8 quote, infrequently seen in regulatory proceedings, 9 end quote. KCP&L's Witness Sullivan, with almost as many years, agrees. I have never used and have never 10 seen the BIP methodology used to allocate production 11 12 costs, end quote.

Other than Missouri, the only state in which I am aware that BIP was ever used was for KCP&L in Kansas. And given that KCP&L, Staff and the industrials in Kansas have all rejected it in the current case, the BIP in Kansas is on life support.

Given that the BIP over-allocates plant 18 investment to the industrial class and recognizing 19 20 that no other state uses this archaic methodology, it places Kansas City area industrial customers at peril. 21 As Witness Sullivan for KCP&L points out, KCP&L will 22 23 be at a competitive disadvantage in attracting and retaining industrial loads. And we've seen it. Their 24 industrial customers are all leaving in droves. 25

1	So what is KCP&L's conclusion regarding
2	Staff's methodology? Mr. Sullivan points out that,
3	quote, Staff's methodology produces a result that
4	makes no sense at all. He continues to note that,
5	quote, it is totally unreasonable to use an allocation
6	methodology that is so volatile, end quote.
7	Now, the proponents of the BIP have one
8	ship that they will continue to hammer on. And you
9	heard Mr. Smith talk about it today. In the last
10	case, the Commission adopted the BIP. Now, I take
11	blame for that. The last case, as you'll recall, was
12	simply about the merits of the BIP versus the A and E.
13	I didn't litigate that case right. You didn't hear me
14	before you talking about the uncompetitiveness of
15	KCP&L's rates. You didn't get any evidence there
16	about which other states used it. You didn't get any
17	evidence about how quickly industrial customers were
18	leaving KCP&L's system. Now you're getting the rest
19	of the story.
20	So I would tell you, don't rely upon what
21	you did in the last case because you did it in a
22	vacuum because I didn't give you all the necessary
23	information. You're getting it in this case.
24	The other thing you didn't have in the
25	last case, you didn't have KCP&L standing before you

banging the table saying, We have a problem with our
 industrial rates. You're getting all that in this
 case.

Given the numerous problems with the BIP 4 5 methodology, let's look at the other alternative; the 6 A and E methodology. First, unlike the BIP, the A and 7 E has been widely accepted. In Missouri and Kansas, 8 the A and E methodology has been relied upon by all the electric utilities. Ameren uses it routinely. 9 KCP&L now uses it in Missouri and Kansas. Westar uses 10 it in Kansas. Empire uses it. All the utilities will 11 12 tell you that BIP doesn't work, we're using the A and E. So rely upon the utilities that actually build 13 14 their system and know what to look at when building the system. 15

The methodology has not only been relied 16 upon by electric utilities. It's relied upon by 17 18 virtually every state utility commission in the Midwest. Here's a citation to the Iowa Commission 19 20 adopting the BIP. The Louisiana decision states that it is, quote, appropriate to allocate the rate 21 increase under the Average and Excess method proposed 22 23 by Gulf States Power. The Oklahoma Commission agreed that the A and E methodology is most appropriate. 24 The Texas Commission also agreed the continued use of the 25

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1	A and E allocator is the most reasonable methodology
2	for allocating production among classes. The Colorado
3	Commission has a, quote, long-standing precedent of
4	acceptance of the A end E by this Commission.
5	Clearly then, given that all the
6	utilities and all the other states use the A and E,
7	why would you use the BIP and put your industrial
8	customers at further risk? I pointed out earlier that
9	the BIP relies primarily on energy. Mr. Brubaker will
10	tell you the A and E one of the beauties of it is
11	it not only looks at energy, it looks at capacity.
12	Mr. Brubaker and Mr. Sullivan can explain that in
13	great detail.
14	Given all this, what is our position?
15	First off, reject the BIP. Let's get that put aside
16	forever and ever. And let's make industrial customers
17	more competitive. Specifically, we ask you on the
18	KCP&L side to eliminate 25 to 50 percent of the
19	residential subsidy. For those of you that were
20	around for the Empire case, you agreed with me. You
21	eliminated 25 percent of the residential subsidy in
22	that case. Let's do it again.
23	What does that mean here? Elimination of
24	25 percent of the residential subsidy would cause a
25	shift of 4.4 percent to residential customers. Now,

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1	that may seem a lot, but you're talking in the context
2	of a 2.39 percent rate reduction. So if you shift 4.4
3	on top of that, residential customers would be getting
4	out of this case with only a 2 percent increase.
5	You're this is a golden opportunity.
б	You have the opportunity to use the rate reduction
7	given to us by Congress to fix this problem. You
8	won't want to do it if you're looking at a case
9	when KCP&L's getting an 8 percent increase, are you
10	going to want to thrust more on residential customers
11	then? This is the golden opportunity to do it.
12	We see the same thing on the GMO case.
13	We ask you to eliminate 25 to 50 percent of the
14	residential subsidy in that case, but the problem is
15	even better there. We're talking a 3.22 percent rate
16	reduction. You can eliminate 50 percent of the
17	residential subsidy 50 percent and still give
18	residential customers a .1 percent rate decrease. You
19	can get rid of over half of it.
20	The other issue I'll go through real
21	quickly is the LGS/LP rate design. What Mr. Brubaker
22	will tell you in regards to this is it's important how
23	you collect costs in rates. If you have a fixed cost,
24	you want to make sure you collect it in the same
25	manner that it is incurred. You collect fixed costs

on a per KW basis. Similarly, you collect variable 1 costs in a variable basis, on a usage basis, on a per 2 KWh basis. 3 4 What we see is a problem where we have 5 fixed costs being collected through energy charges. 6 KCP&L -- the LP energy charge is 2.5 to 2.7 cents. The KCP&L -- and the evidence shows that their 7 8 variable cost is only 2.1 to 2.2 cents. This 9 differential, which you're collecting through energy charges, it was a lot of demand cost. This is bad for 10 high load factor customers within the class. 11 12 So we ask you to take steps to fix the rate design. Mr. Brubaker spells this out more at 13 page 32 of his Direct Testimony. It's in my position 14 statement. You've done the same thing in several 15 16 other cases and I'd ask you to do it here. 17 Real quick, Mr. Smith went through seven things that he thinks should mitigate against any 18 decision to use the A and E. Most of this amounts to 19 20 whining about what Congress and the General Assembly has done. Mr. Smith says you should use the BIP 21 because industrial customers should -- can opt out. 22 23 That's something the General Assembly did. 24 But even if industrial customers can opt 25 out, we are not getting the benefit entirely of

1	residential customers doing MEEIA. Industrial
2	customers have been doing energy efficiency for
3	30 years. And residential customers were the ones to
4	benefit from that.
5	Mr. Smith then complains about SB 564.
6	Again, something the General Assembly did. And while
7	it does provide for some discounts, you need to
8	understand what that does. Those discounts are
9	designed to attract customers to KCP&L's service area.
10	But it's a short-term fix. Those discounts alone are
11	not going to attract many customers. Until those
12	customers know that not only do we get the short-term
13	fix, but that this Commission is dedicated to cost
14	base rates, they're not going to come for just a
15	five-year enticement. They need to see cost base
16	rates in the long term.
17	Mr. Smith talks about GMO problems with
18	data. I've been doing this for 26 years and I can
19	tell you the one universal truth. I've done rate
20	cases in eight or nine states. The one universal
21	truth is to those receiving a subsidy, it's never a
22	good time to get rid of the subsidy. It's always the
23	rate increase is too much. It's always customers are
24	complaining. It's always there's a problem with data.
25	In the last GMO case, it's we're doing

1	the consolidation; we can't do it now. In this case,						
2	it's we just finished the consolidation; we can't do						
3	it now. There is a plethora of of arguments to be						
4	made as to why you shouldn't get rid of the rate						
5	subsidy. This is the right case to do it. You have a						
б	rate decrease. Use it to take care of the industrial						
7	customers and rates make rates more cost based.						
8	Thank you.						
9	JUDGE PRIDGIN: Thank you. Any Bench						
10	questions?						
11	COMMISSIONER HALL: No questions.						
12	JUDGE PRIDGIN: All right.						
13	Mr. Woodsmall, thank you.						
14	Opening on behalf of MIEC.						
15	MS. ILES: Good morning. May it please						
16	the Commission. My name's Carole Iles. I'm with the						
17	law firm Bryan Cave Leighton Paisner, and I'm here on						
18	behalf of the MIEC, the Missouri Industrial Energy						
19	Consumers, which is a non-profit corporation that						
20	represents the interests of industrial consumers in						
21	Missouri utility matters.						
22	As you know, we filed a joint statement						
23	of position with MECG, so I'm not going to repeat						
24	everything that Mr. Woodsmall said. I'm going to						
25	maybe hit some high points and be hopefully very brief						

1	here in reiterating and echoing some of the points and						
2	bringing up a few things that we think are important.						
3	We are presenting testimony. We have						
4	pre-filed testimony in this case and our witness on						
5	the issue of class cost-of-service and non-residential						
6	rate design is Maurice Brubaker. Mr. Brubaker's here						
7	this morning to testify. He has appeared before the						
8	Commission in many cases. He's an experienced and						
9	respected expert on utility rate issues.						
10	Mr. Brubaker's educational background						
11	includes a Bachelor's Degree in electrical engineering						
12	from the University of Missouri. He also has an MBA						
13	and a Master's Degree in engineering from Washington						
14	University. And the testimony we're presenting						
15	describes in detail in Exhibit A Mr. Brubaker's work						
16	experience. He has studied, analyzed and provided						
17	testimony on issues related to electric, gas and water						
18	utilities since 1970. So if you're doing math real						
19	quick, that's 48 years of experience in this area						
20	in the area of public utility regulation.						
21	He has appeared before the FERC, the						
22	Federal Energy Regulatory Commission, in matters as						
23	well as the regulatory commissions of 33 different						
24	states and the US territory of Guam, I might add.						
25	So with respect to cost-of-service,						

1	Mr. Brubaker's testimony, as you've already heard this
2	morning, we at MIEC and Mr. Brubaker support the
3	conclusions of M KCPL Witness Thomas Sullivan.
4	Mr. Brubaker concluded that KCPL's class
5	cost-of-service is reasonable and he relies on that
6	study in his testimony.

7 Both Mr. Brubaker and Mr. Sullivan 8 explain in their testimony that fixed production costs 9 should be allocated among classes using the A and E or 10 Average and Excess approach, which properly balances energy-related costs and demand-related costs. 11 Also, 12 A and E - - I want to emphasize again, I think you've already heard it from Mr. Woodsmall, but this is a 13 14 mainstream method that is widely accepted and used 15 throughout the industry, which is always something that I think this Commission takes into account when 16 17 weighing the testimony of experts.

The A and E analysis that is presented in 18 this case reveals that the cost-of-service is not 19 20 being fairly allocated between classes under current rates. Fairness, justice. We've heard about that 21 this morning. This is kind of the first time I've 22 23 ever been accused of being on the side of injustice in a case and I'm a little put -- it kind of got my 24 attention there. 25

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1	We don't think we're on the side of							
2	injustice. We are not on the side of injustice or							
3	unfairness. Fairness in this case is not treating							
4	everybody exactly the same. It's treating them based							
5	on what they should be getting based on the							
б	cost-of-service. Each pa each class should be							
7	paying its own way. That's justice, that's fairness							
8	and that's what we're well, actually that's not							
9	exactly what we're advocating. What we're advocating							
10	is moving towards justice, not moving away from it.							
11	Mr. Brubaker's testimony can be							
12	summarized by saying that adjustments are required,							
13	based on where we are now, to move each class to its							
14	cost-of-service. The rates for all classes of							
15	customers are currently so far from the							
16	cost-of-service, that equity demands a significant							
17	movement toward the cost-of-service and the rates that							
18	will be set in this case.							
19	I agree with Mr. Woodsmall's statement							
20	that this case gives you the golden opportunity to							
21	move toward class cost-of-service. And more							
22	specifically, as we've seen all kinds of numbers up							
23	here this morning already, the rates currently imposed							
24	on industrial classes by KCPL and GMO result in							
25	industrial customers paying substantially more than							

1	the cost of their service while residential class is							
2	paying less than the cost of their service.							
3	This is an important issue obviously to							
4	MIEC, my client, since MIEC represents the interests							
5	of industrial customers, but it is also important to							
б	the Company and to all ratepayers. Because in							
7	addition to cost-of-service considerations, as both							
8	Mr. Sullivan and Mr. Brubaker explained, there are							
9	compelling reasons for ensuring that rates charged to							
10	industrial customers are competitive.							
11	And just to hit the two high points,							
12	industrial customers have higher load factors that							
13	and, therefore, they by having them in the system,							
14	they increase the overall efficiency of the electrical							
15	system. And they usually, and in this case obviously,							
16	do provide a large amount of direct jobs as well as							
17	indirect jobs in the economy.							
18	But the current industrial rates charged							
19	by KCPL are not competitive, as the evidence in this							
20	case shows. We've already been over this this							
21	morning, so I just restate that KCPL has the dubious							
22	distinction of having the sixth highest industrial							
23	rates out of 41 Midwestern utility service terr out							
24	of 41 Midwestern utilities in this area that he							
25	compared, that he included in his testimony.							

1	The increases that have been experienced							
2	by the rate increases that have been experienced by							
3	the KCPL industrial customers also have far out-paced							
4	those of other Midwestern utilities.							
5	So there is a problem here. There is a							
б	problem and KCPL has lost industrial customers in							
7	recent years. The number has declined by about							
8	200 customers since 2006. So this, again, underscores							
9	the need to make equitable adjustments equitable,							
10	fairness, that's what we're talking about here to							
11	KCPL's industrial rates based on a reasonable,							
12	mainstream method of measuring class cost-of-service							
13	and that is the position we're advocating.							
14	In contrast to the widely accepted							
15	mainstream A and E methodology, the class							
16	cost-of-service methodology used by Staff is outside							
17	the mainstream. And I did have several points I was							
18	going to make on that, but I think they've already							
19	been hammered on quite thoroughly by Mr. Woodsmall so							
20	I will just skip to the end here and tell you that for							
21	the reasons that we believe A and E is reasonable, the							
22	detailed B-I-P method, or BIP I'm not sure which							
23	we're how we're referring to it used by Staff is							
24	not reasonable or mainstream.							
25	We're asking you that you take Staff							

1	or take the MIEC and the Company approach here, the A						
2	and E method. We're asking that you reject Staff's						
3	class cost-of-service report and accept the Company's						
4	proposed A and E allocation of costs.						
5	And then based on this study, we ask that						
6	you when you're setting rates, as Mr. Woodsmall						
7	explained, recognize the disparities among the						
8	customer classes and make adjustments that we're						
9	not saying move all the way here, but go at least						
10	25 to 50 percent toward having rates reflect the true						
11	cost-of-service.						
12	The final issue is so that's where we						
13	stand on class cost-of-service. The other issue that						
14	Mr. Brubaker's testimony covers is non-residential						
15	rate design. And it's a very specific proposal, which						
16	I see we still have the slide up from the last						
17	opening. And that's the that's what Mr. Brubaker						
18	talks about in his testimony. It's the LGS/LPS						
19	tariff.						
20	We recommend that the tariffs applicable						
21	to the Company's largest customers, which are the LGS						
22	and LPS tariffs, be adjusted. And again, it's to						
23	bring them in line with cost-of-service. These						
24	tariffs consist of a series of charges differentiated						
25	by voltage level it's fairly complicated, but I'm						

1	just going to give you the real high view here.							
2	At each voltage level, the rate consists							
3	of a number of charges, including energy charges and							
4	the those energy charges are then structured into							
5	three blocks based on hours used. So what we are							
б	asking at that in this case because there's going							
7	to be a decrease in revenue, Mr. Brubaker recommends							
8	that the energy charge associated with that third							
9	block that's included in these tariffs, which is also							
10	called the high load factor block, be adjusted							
11	commensurate with the revenue decrease. Thank you for							
12	your consideration.							
13	JUDGE PRIDGIN: Thank you. Any Bench							
14	questions? All right. Thank you, Ms. Iles.							
15	Opening on behalf of Missouri Division of							
16	Energy							
17	MR. POSTON: Good morning. May it please							
18	the Commission. My name's Marc Poston. I represent							
19	the Missouri Division of Energy.							
20	What you've heard so far this morning has							
21	been limited to cost allocations. DE has not							
22	sponsored a witness on this issue and to date has not							
23	taken a position on this issue. But what we've heard							
24	this morning from OPC, MECG and MIEC gives us great							
25	concern with how current rates are impacting							

1 residential customers and with how they're impacting 2 Missouri's business customers. The departure of businesses from the 3 state and attracting businesses to the state is a 4 5 significant concern to the Department of Economic 6 Development. So we ask that you carefully weigh the 7 evidence you hear today, and to the extent possible, issue an order that addresses all concerns and 8 9 supports the public interests. DE has one witness on the unresolved 10 residential rate design issue, which is being lumped 11 12 together with cost-of-service. Mr. Martin Hyneman is our senior energy policy analyst and has pre-filed 13 three rounds of testimony on this issue. 14 15 Mr. Hyneman's familiar to the Commission, having testified on rate design and other issues numerous 16 17 times. He has an excellent understanding of rate design and the important policy considerations 18 implicated by designing rates. 19 20 When evaluating rate design, Mr. Hyneman recommends four primary considerations: Efficiency, 21 22 affordability, gradualism and cost causation. 23 Regarding efficiency, a fixed monthly charge such as KCPL's and GMO's customer charges do not promote 24 efficiency because they cannot be avoided by using 25

less energy. The customer knows they're going to pay 1 2 that monthly charge regardless of whether they increase their efficiency and reduce their usage. 3 But including more cost recovery in the 4 energy charge rather than the customer charge creates 5 more opportunities for the customer to see real value 6 7 from their efforts toward energy efficiency. For this 8 reason, DE supports low customer charges for KCPL and 9 GMO's residential customers. The Commission has considerable discretion in setting a low customer 10 charge and you can assure those charges are kept as 11 12 low as reasonable. 13 Another important concept addressed by Mr. Hyneman is gradualism, which involves making rate 14 15 design changes in a fashion that provides a gradual change for customers rather than a significant change 16 17 that could create large bill impacts. This is especially important for low-income households served 18 by the companies. Low-income tends to be low use, so 19 20 higher customer charges hit low-income hardest. And in regard to bill impacts, we would 21 also encourage you to consider bill impacts and bill 22 23 impact analyses when deciding how to design rates. It's easy to say we're going to adjust this rate or 24

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tweak that rate without truly knowing how that change

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will impact customers at varying usage levels. 1 2 And the last thing I'd like to mention in regard to rate design policy is customer education. 3 We cannot emphasize enough the importance of making 4 5 sure customers are properly educated on why certain 6 rate design changes have been made and ordered, and 7 educating customers on how those changes will impact 8 that customer and their energy bills. 9 An education component should also provide the customers with an understanding of what 10 11 changes they can make to address any bill changes 12 caused by a rate design change. So we urge you to order the companies to make customer education a top 13 14 priority going forward. Thank you. 15 JUDGE PRIDGIN: Mr. Poston, thank you. Any Bench questions? All right. Thank you. 16 17 Opening for Renew Missouri. MR. OPITZ: Thank you, Judge. I'll waive 18 my opening this morning. 19 20 JUDGE PRIDGIN: Thank you. 21 This looks to be a pretty natural time to take a mid-morning break. And I show the clock here 22 23 in the hearing room showing 9:55 --24 MR. FISCHER: Judge, could I ask -- I'm 25 sorry to interrupt.

1 JUDGE PRIDGIN: Quite all right. 2 MR. FISCHER: Could I ask the indulgence of the Commission? We've heard some compelling 3 arguments on all sides today. I'm perceiving a little 4 bit of middle ground. I'd like to try to pursue that 5 6 in an extended break to see if there's a way that we 7 could get all the parties together. 8 JUDGE PRIDGIN: How much time were you --9 MR. FISCHER: Forty-five minutes. Would that do too much? We might be able to come back 10 11 quicker because --12 JUDGE PRIDGIN: So until roughly 10:45? 13 MR. FISCHER: That would be great. JUDGE PRIDGIN: Any objection? Any 14 15 concern? 16 All right. Then we will take an extended 17 break. We will come back on the record at 10:45. Thank you. We're off the record. 18 19 (A recess was taken.) 20 (The hearing was adjourned.) 21 22 23 24 25

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2	CERTIFICATE OF REPORTER
3	
4	I, Tracy Thorpe Taylor, CCR No. 939, within the
5	State of Missouri, do hereby certify that the
6	testimony appearing in the foregoing matter was duly
7	sworn by me; that the testimony of said witnesses was
8	taken by me to the best of my ability and thereafter
9	reduced to typewriting under my direction; that I am
10	neither counsel for, related to, nor employed by any
11	of the parties to the action in which this matter was
12	taken, and further, that I am not a relative or
13	employee of any attorney or counsel employed by the
14	parties thereto, nor financially or otherwise
15	interested in the outcome of the action.
16	Jan, 2. 7. Jaylor
17	Sundy and Surgial
18	Tracy Thorpe Taylor, CCR 🗸
19	
20	
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24	
25	

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