

Exhibit No.:

Issues: Rate Design

Witness: James A. Busch

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2006-0314

Date Testimony Prepared: August 22, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**JAMES A. BUSCH**

**KANSAS CITY POWER & LIGHT**

**CASE NO. ER-2006-0314**

**Jefferson City, Missouri**

**August 2006**

**DAWN L. HAKE**  
My Commission Expires  
March 16, 2009  
Cole County  
Commission #05407643

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A. My name is James A. Busch and my business address is P. O. Box 360,  
Jefferson City, Missouri 65102.

A. I am a Regulatory Economist III in the Economic Analysis Section of the Energy Department, Utility Operations Division of the Missouri Public Service Commission (Staff).

A. I hold a Bachelor of Science and Master of Science degrees in Economics from Southern Illinois University at Edwardsville. I have been employed as a Regulatory Economist III with the Staff of the Public Service Commission (Staff) since April 2005. Previously, I worked as a Public Utility Economist with the Office of the Public Counsel (Public Counsel) from 1999 to 2005. Prior to my employment with Public Counsel, I worked as a Regulatory Economist I with the Procurement Analysis Department of the Missouri Public Service Commission from 1997 to 1999. Also, I am a member of the Adjunct Faculty of Columbia College, Jefferson City Campus. I teach both graduate and undergraduate classes in economics.

Direct Testimony of  
James A. Busch

1 Q. Have you previously filed testimony before the Commission?

2 A. Yes. The cases in which I have filed testimony before the Commission are  
3 listed on Schedule JAB-1.

4 Q. What is the purpose of your direct testimony in this case?

5 A. The purpose of my direct testimony is to present Staff's rate design  
6 recommendations for Kansas City Power & Light (KCPL) in this proceeding.

7 Q. Did Staff perform a Class Cost of Service Study (CCOS) in this proceeding?

8 A. Yes. Please see the direct testimony of Staff witness Janice Pyatte for a  
9 description of Staff's method and the results of Staff's CCOS.

10 Q. Are there any other Staff witnesses filing testimony at this time?

11 A. Yes. Staff witness William McDuffey will be addressing tariff issues in his  
12 direct testimony.

13 Q. What are the results of Staff's CCOS study?

14 A. Staff's CCOS study shows that, on a revenue neutral basis, the residential  
15 class is below its cost of service by approximately 7.82%. All other classes, according to  
16 Staff's study, are collecting more revenue than its cost of service. A summary of the results  
17 of Staff's CCOS and rate design recommendation is attached as Schedule JAB-2.

18 Q. What is Staff's rate design recommendation in this case?

19 A. Staff recommends that, on a revenue-neutral basis, the revenue responsibility  
20 of each class that shows revenues greater than the class' cost of service, should have the  
21 class' revenue responsibility adjusted downward. That downward adjustment should be  
22 implemented by decreasing the rates for the class equally by the percentage shown necessary  
23 in the Staff's CCOS study for the Large Power Service (LPS) class revenues to equal the LPS

1 class cost of service. Staff's study shows that the LPS class should receive the smallest  
2 percentage decrease among the classes where a decrease is warranted. According to Staff's  
3 study, this means that the Small General Service, Medium General Service, Large General  
4 Service, and Large Power Service would all receive a revenue neutral reduction of 2.76% in  
5 class revenues.

6 Because Staff's study shows that the residential class is collecting less than its cost of  
7 service, the residential class should have its revenues increased by 4.95% on a revenue  
8 neutral basis. This percentage equals the sum of the changes in revenues for the non-  
9 residential classes that is needed to keep total company revenue neutral for KCPL, i.e., the  
10 increase in residential revenues is equal to the sum of all of the decrease in revenues for the  
11 non-residential classes.

12 Q. Why isn't Staff recommending moving rates to each class' cost of service, as  
13 shown by the results of its CCOS?

14 A. In Staff's opinion, complete movement to cost of service in addition to the rate  
15 increase requested would cause rate shock to the residential class. A 7.82% revenue neutral  
16 shift to the residential class that is shown in Staff's study would add to a possible 11% rate  
17 increase if KCPL is granted its full request. Staff contends that this 18.82% rate increase  
18 while non-residential classes would only get an increase of less than 10% would be harmful  
19 to the residential customers. Staff's recommendation in this proceeding moves all the classes  
20 towards their cost of service in a manner that will provide modest increases to the residential  
21 class.

Direct Testimony of  
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1           Q.     If Staff is concerned about the impacts on the residential class, why not  
2 propose an equal percentage increase to all rates therefore keeping the increase the same for  
3 all customer classes?

4           A.     Staff believes that some movement towards cost of service should occur at this  
5 time. In the near future, KCPL will be adding some large capital investments (e.g., Iatan II  
6 and emissions equipment on LaCygne plants) to its total cost of service. Once that occurs, it  
7 is possible that this will show a need for bigger inter-class shifts. If some move toward cost  
8 of service does not happen now, the need for changes in the future to address class cost of  
9 service will be even more significant. Thus, it is Staff's opinion that it is better to begin the  
10 shifts today when the impact will be smaller than if the current need is compounded with  
11 future needs for revenue shifts, where the impacts are likely to be greater.

12          Q.     If the Commission orders an overall revenue increase for KCPL, what is  
13 Staff's recommendation for collection of those additional revenues in rates?

14          A.     Staff recommends that, after the revenue neutral shifts are made, any  
15 additional changes in revenues should be allocated to each class on an equal percentage basis.  
16 For example, if the Commission orders an overall revenue increase of 5%, all classes will  
17 have their rates factored up by 5%.

18          Q.     Does this conclude your direct testimony?

19          A.     Yes.

**Cases of Filed Testimony**  
**James A. Busch**

<u>Company</u>	<u>Case No.</u>
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2001-1
Laclede Gas Company	GR-2002-356
Empire District Electric Company	ER-2002-424
Southern Union Company	GM-2003-0238
Aquila, Inc.	EF-2003-0465
Missouri American Water Company	WR-2003-0500
Union Electric Company d/b/a AmerenUE	GR-2003-0571
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072
Missouri Gas Energy	GR-2004-0209
Empire District Electric Company	ER-2004-0570
Aquila, Inc.	EO-2002-0384
Aquila, Inc.	ER-2005-0436
Empire District Electric Company	ER-2006-0315

STAFF'S CCOS RESULTS AND RATE DESIGN PROPOSAL  
Kansas City Power & Light  
ER-2006-0314

	MO Retail	Residential	Small GS	Medium GS	Large GS	Large Power	Lighting
Rate Revenue	\$484,517,360	\$173,686,959	\$37,015,318	\$63,152,827	\$110,561,796	\$100,100,460	\$0
Staff CCOS Deficiency (\$)		\$13,584,668	(\$1,491,762)	(\$6,058,524)	(\$3,056,705)	(\$2,977,678)	\$0
Staff CCOS Deficiency (%)		7.82%	-4.03%	-9.59%	-2.76%	-2.97%	0.00%
Proposed % Reduction			-2.76%	-2.76%	-2.76%	-2.76%	
Revenue Reductions	(\$8,593,536)		(\$1,023,363)	(\$1,745,988)	(\$3,056,705)	(\$2,767,480)	\$0
Revenue Increases		\$8,593,536					
<b>Revenue-Neutral \$ Change</b>	<b>\$0</b>	<b>\$8,593,536</b>	<b>(\$1,023,363)</b>	<b>(\$1,745,988)</b>	<b>(\$3,056,705)</b>	<b>(\$2,767,480)</b>	<b>\$0</b>
<b>Revenue-Neutral % Change</b>	<b>0.00%</b>	<b>4.95%</b>	<b>-2.76%</b>	<b>-2.76%</b>	<b>-2.76%</b>	<b>-2.76%</b>	<b>0.00%</b>
Post-Shift Rate Revenues		\$182,280,495	\$35,991,955	\$61,406,839	\$107,505,091	\$97,332,980	\$0