

Exhibit No.

Issue: Rate Design-Discounted  
Rates for Space Heating

Witness: Joseph A. Herz

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Trigen-Kansas City

Case No. ER-2006-0314

Date Testimony Prepared: October 4, 2006

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

FILED

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Missouri Public  
Service Commission

SURREBUTTAL TESTIMONY

OF

JOSEPH A. HERZ

ON BEHALF OF  
TRIGEN-KANSAS CITY ENERGY CORP.

Trigen Exhibit No. 702  
Case No(s). ER-2006-0314  
Date 10-16-06 Rptr KF

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**JOSEPH A. HERZ**

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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF JOSEPH A. HERZ  
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CASE NO. ER-2006-0314**

1    Availability of Space Heating Rate Discounts

2    Q.     Please state your name.

3    A.     My name is Joseph A. Herz

4  
5    Q.     Are you the same Joseph A. Herz who has previously filed direct testimony in this  
6           proceeding?

7    A.     Yes I am. I have previously filed direct testimony opposing the Company's proposal to  
8           expand the qualification provision of the existing general service all-electric rate schedules  
9           to make the all-electric winter energy rate discounts available to existing and future  
10          customers who are not all-electric customers. In connection with its proposed expansion of  
11          the qualification provision, the Company is proposing to increase the general service all-  
12          electric winter energy rate 5% more than the increase to the winter energy rate in the  
13          standard general service tariff. For example, if the winter energy rate in the standard  
14          general service tariff is increased 10%, then under the Company's proposal the discounted  
15          all-electric winter energy rate would be increased 15% (i.e., 10% + 5%) in connection with  
16          KCP&L's proposed expanded availability of the all-electric discount rate to C&I general  
17          service customers that are not all-electric.

18  
19          In addition, my direct testimony also addresses whether the existing general service all-  
20          electric discounted rates and the separately metered space heating discounted rate

1 provisions of KCP&L's standard general service tariffs should be (1) eliminated; or, (2)  
2 restricted to existing customers until there is a comprehensive class cost of service study  
3 and/or cost-effectiveness study which analyzes and supports such tariffs and provisions as  
4 well as KCP&L's Affordability, Energy Efficiency and Demand Response programs. In  
5 summary, these issues relate to the availability of general service space heating rate  
6 discounts.

7  
8 Q. Have any parties filed rebuttal to your direct testimony?

9 A. Yes, the Company and the MPSC Staff have filed rebuttal testimony relating to the  
10 availability of general service space heating rate discounts.

11  
12 **KCP&L's Proposed Expansion of All-Electric Rate Discounts to C&I Customers That Are**  
13 **Not All-Electric**

14 Q. Your direct testimony position is that the Commission should reject the Company's  
15 proposal to expand the availability of the general service all-electric discount rates to C&I  
16 customers that are not all-electric on the basis that, among other reasons, KCP&L failed to  
17 produce any cost of service, incremental or marginal cost analyses, or any other underlying  
18 studies to support the Company's proposal; nor, has KCP&L conducted any analyses or  
19 appear to possess information as to the impact its proposal will have on customers, billing  
20 determinants or revenues. What is the rebuttal response of the Company and Staff with  
21 respect to your direct testimony position on this matter?

1     A.     The Company's rebuttal response is as follows:<sup>1</sup>

2                     "As stated in my direct testimony, we are proposing to increase the  
3                     all-electric winter energy rate by 5%, while expanding the  
4                     qualification provision to establish electric heating as the primary  
5                     heating source, rather than the requirement that the customer  
6                     qualification is all-electric. This change is directed at making the  
7                     tariff more tailored toward customer needs. For example, the tariff  
8                     today requires a customer to be all-electric in order to qualify.  
9                     This means that all of the customer's energy consuming equipment  
10                    including water heating and space heating must be all electric.  
11                    This precludes customers that wish to install solar equipment or  
12                    other supplemental heating energy sources from qualifying. It also  
13                    precludes customers from having natural gas cooking, water  
14                    heating or other minor energy sources. Expansion of the tariff will  
15                    give customers more choice and a better means for equipment  
16                    utilization."

17  
18                    Staff's rebuttal position is that it does not oppose KCP&L's proposal to broaden the  
19                    availability of the general service all-electric discount rates if the level of rate discount is  
20                    reduced, but Staff believes the Company's proposed tariff language changes are too

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<sup>1</sup> See Rebuttal Testimony of Company's witness Tim M. Rush, page 4, line 20 through page 5, line 7.

1 vague.<sup>2</sup> The Company's proposed tariff language changes to the availability section of the  
2 all-electric general service tariffs is provided in my Direct Testimony at page 10, lines 16  
3 through 26.

4  
5 Q. How do you respond?

6 A. With respect to KCP&L's proposals, the fact still remains that the Company has not  
7 presented any cost support, analyses or underlying basis from which the Commission or  
8 any party to this proceeding can evaluate, test, scrutinize or critique the proposal to expand  
9 the availability of the general service all-electric discounted rates to C&I customers that are  
10 not all-electric. Tightening up the "vagueness" of the Company's proposed availability  
11 language, as suggested by Staff, is of little help and offers no tangible benefit when the  
12 Company is apparently unable to identify or quantify the impact of its own proposal to  
13 expand the availability of the all-electric discount rates in the first place.

14  
15 Even the Company filed this rebuttal testimony on the importance of having cost support  
16 for such changes:<sup>3</sup>

17 "Q: In your opinion, is it appropriate to suggest specific rate  
18 designs without first examining the various classes in a  
19 CCOS study?

20 A: No, the underpinning of any material rate design  
21 recommendation would be a CCOS study.

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<sup>2</sup> See Rebuttal Testimony of MPSC Staff witness Janice Pyatte, page 18, lines 12 through 15.

<sup>3</sup> See Rebuttal Testimony of Company witness Lois J. Liechti, page 4, lines 3 through 13 (underlining added for emphasis).

1                   **Q:     And why is that?**

2                   A:     A CCOS study yields important information beyond each  
3                             classes' individual contribution to return. It also provides  
4                             an indication of costs attributable to customer, energy and  
5                             demand components. These are the cornerstones of rate  
6                             design.

7                   **Q:     Did the testimony presented by Trigen regarding rate**  
8                             **design issues rely on the CCOS study prepared by any**  
9                             **party in this case?**

10                  A:     No, it did not."

11  
12                  I gather, from the last question and answer in the above referenced Company rebuttal  
13                  testimony, that the Company believes that I should have used a CCOS study to support my  
14                  position on a proposal made by KCP&L, for which KCP&L failed to support with a CCOS  
15                  study or any other analytical data. Interestingly, the Company seems intent to hold Trigen,  
16                  as an intervenor in this case, to a substantially higher standard or burden of proof than it  
17                  believes should apply to KCP&L, the applicant in this proceeding. Needless to say, I  
18                  emphatically disagree.

19  
20                  **Eliminating, or Restricting to Qualifying C&I Customers Currently Being Served Under, the**  
                    **All-Electric Rate Discounts and Separately Metered Space Heating Rate Discounts**

1 Q. What is the rebuttal response of the Staff with respect to your Direct Testimony position  
2 that the availability of the general service all-electric discount rates and the separately  
3 metered space heating discount rates should be eliminated, or in the alternative restricted to  
4 qualifying C&I customers currently being served under such discounted rates until there is  
5 a class cost of service study that supports such discount rates?

6 A. The Rebuttal Testimony of MPSC Staff witness Janice Pyatte, at page 17, lines 13 through  
7 17 states:

8 "Staff opposes the elimination of KCP&L's general service all-  
9 electric rates in this case as proposed by Trigen because no cost  
10 analysis or study of impacts on customers has been done. Staff is  
11 willing to study the issue in the context of a comprehensive CCOS  
12 and rate design investigation and/or a cost-effectiveness study of  
13 the Affordability, Energy Efficiency and Demand Response  
14 programs." (underlining added for emphasis).

15

16 Q. How do you respond to Ms. Pyatte's Testimony?

17 A. By way of background, it appears that the current general service electric heat rate  
18 discounts or differentials from the standard general service tariff rates are not based on the  
19 Company's last class COS in 1996, but rather simply "maintained the price differentials  
20 between customers with electric heating that were in place prior to the rate design case" in  
21 1996.<sup>4</sup> In fact, it is not even clear if the electric heat rate differentials in place prior to 1996  
22 were even cost-based. Accordingly, my Direct Testimony recommended that, if the

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<sup>4</sup> See Rebuttal Testimony of Company witness Tim M. Rush, page 4, lines 8 through 10.



1 Commission does not eliminate the general service all-electric discount rates and the  
2 separately metered space heating discount rates at this time, the availability of such  
3 discounted rates should be restricted to those qualifying C&I customers currently served  
4 under such all-electric tariffs and the separately metered space heating provisions until the  
5 comprehensive cost of service and/or cost-effectiveness studies referenced in Staff's  
6 rebuttal testimony have been completed, reviewed and presented for Commission  
7 consideration.

8  
9 Q. What is the rebuttal response of the Company with respect to your Direct Testimony  
10 position that the availability of the general service all-electric discount rates and the  
11 separately metered space heating discount rates should be eliminated, or in the alternative  
12 restricted to qualifying C&I customers currently being served under such discounted rates  
13 until there is a class cost of service study that supports such discount rates?

14 A. The Rebuttal Testimony of Company witness Tim M. Rush opposes the elimination of the  
15 general service all-electric discount rates and the separately metered space heating discount  
16 rates for the following reasons:

- 17 1. The current KCP&L rate design is based on a class COS and rate  
18 design case in 1996, and has been in place for many years (see page 3  
19 lines 13 – 17; page 4, lines 5 – 8 and 17 – 19; page 5, lines 9 - 10);
- 20 2. Trigen's Direct Testimony "fails to accurately present KCP&L's load  
21 characteristics. KCP&L has low cost generation capacity that is  
22 available during winter months, but is required to meet maximum  
23 summer demand. KCP&L's revenue from winter heat customers who

1           utilize this winter capacity can be used to contribute the capital costs  
2           of this generation. This results in a benefit to all customer classes.”  
3           (see page 3, lines 3 – 7); and

- 4           3. The Company’s discounted all-electric and separately metered space  
5           heating general service rates are not discriminatory because “[a]ny  
6           C&I customer can choose to make investments in energy efficiency or  
7           equipment modifications that would allow them to be placed on a  
8           different rate tariff.” (see page 2, lines 21 – 22)

9  
10       Q.     How do you respond to these “reasons” give by Mr. Rush?

11       A.     With respect to the first two items, and as a matter of clarification, my Direct Testimony  
12           and recommendations do not propose or suggest that the rate design of the standard general  
13           service tariffs should be modified or changed. In fact, I believe that KCP&L’s standard  
14           general service tariff rate design is appropriate, gives recognition to KCP&L’s lower cost  
15           in the winter months, and that the rate design from the 1996 case effectively eliminated the  
16           need for continuing space heating related rate discounts. According to the Company’s  
17           rebuttal testimony, the standard general service tariff rate design was the result of a  
18           “lengthy” and “exhaustive” class COS and rate design case in 1996. As previously noted,  
19           however, the basis for the general service electric heat discounted rates in 1996 was  
20           apparently that “[t]he rates maintained the price differentials between customers with  
21           electric heating that were in place prior to the rate design case.” (see Rebuttal Testimony of  
22           Tim M. Rush, page 4, lines 8 through 10).

1 As noted in my Direct Testimony, KCP&L's standard general service rate design already  
2 has substantially lower rates in the winter than in the summer (see for example pages 17  
3 through 22 of my Direct Testimony), as illustrated in the following charts:

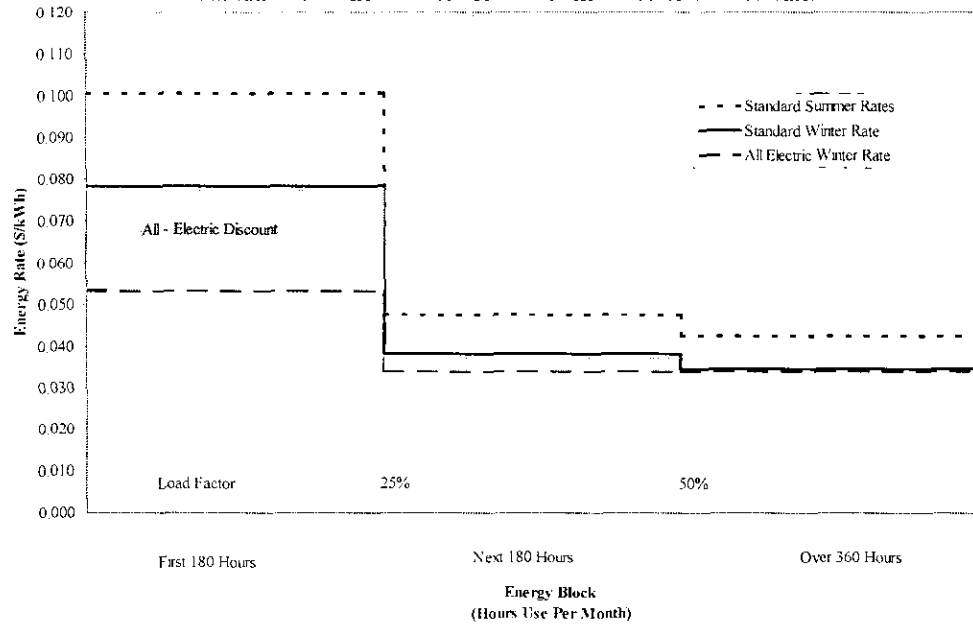
4 [Remainder of page blank]

5

1

Chart 1

**Comparison of Seasonal Energy Rates  
Small General Service  
Standard Summer/Winter Rates vs All Electric Winter Rate**

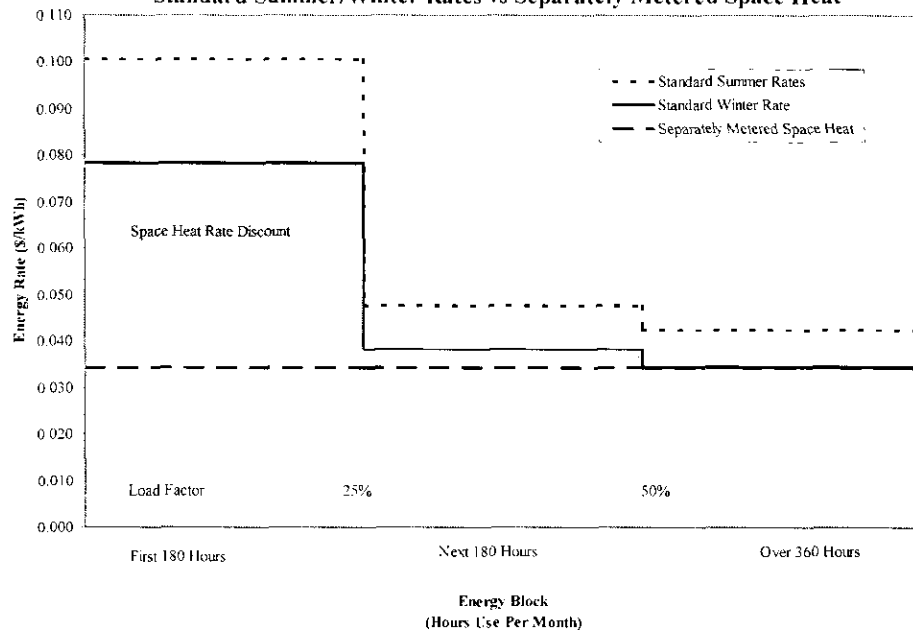


2

3

Chart 2

**Comparison of Seasonal Energy Rates  
Small General Service  
Standard Summer/Winter Rates vs Separately Metered Space Heat**



4

1 Although the small general service category was used in the above charts, a similar  
2 illustration and result occurs if one were to use the medium general service category or the  
3 large general service category.<sup>5</sup>  
4

5 Q. What do these charts illustrate?

6 A. The above charts illustrate that the KCP&L's current rate design has a significant  
7 differential between the standard general service tariff summer energy rates and the winter  
8 energy rates. In other words, the availability of low cost generation in the winter months  
9 referred to by Mr. Rush is recognized in the standard general service tariff rate design,  
10 which the Company claims to be the result of a "lengthy" and "exhaustive" class COS and  
11 rate design case in 1996. On the other hand, the all-electric rate discounts, and the  
12 separately metered space heating rate discounts from the standard general service winter  
13 energy rates apparently were not derived in a similar manner and instead appear to be  
14 based on maintaining price differentials that were in place prior to the 1996 case. None of  
15 the class COS studies presented by the Company, Staff and other parties in this proceeding  
16 address, nor do they provide cost support for maintaining the general service all-electric  
17 rate discounts or the separately metered space heating rate discounts to the standard general  
18 service tariff rate design. Accordingly, the space heating related discounted rates seem to  
19 be a matter of continuing past practices, and are long overdue to be tested and shown to be  
20 justified under the Company's current rate design, or supported by any relevant cost studies  
21 or analyses. The Company's direct testimonies, responses to data requests and rebuttal

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<sup>5</sup> See Schedules JAH-5 and Schedule JAH-6 for similar charts comparing the summer/winter rates of KCP&L's standard versus all-electric tariffs, and standard versus separately metered space heating discounted energy rates, respectively, for the medium and large general service categories.

1 testimonies have failed to show or demonstrate that the space heating related discounted  
2 rates are beneficial, or are needed for competitive reasons.

3  
4 Q. Please continue.

5 A. The Company's rebuttal testimony, as referenced in item 3 above, claims the discounted  
6 all-electric and separately metered space heating general service rates are not  
7 discriminatory because C&I customers can choose to install space heating equipment. As  
8 indicated in my Direct Testimony, continuation of the general service all-electric rate  
9 discounts and the separately metered space heating rate discounts discriminates between  
10 C&I customers, not on the basis of when and how such customers use electricity, or on a  
11 basis that's cost supported or related to cost of service; but rather discriminates on the basis  
12 of what C&I customers use the electricity for. Also, continuation of the availability of the  
13 rate discounts will result in C&I customers that utilize the same electric service from the  
14 Company under similar circumstances paying significantly different winter energy rates  
15 (i.e., 20% to 50%) solely on the basis of the end-use of electricity. Continuation of the  
16 availability of the rate discounts discriminates to the benefit of C&I customers that add  
17 winter load to KCP&L's system because, as noted in the Company's response to Trigen's  
18 Question No. 21, KCP&L states:

19 "Load increases identical to the characteristics of electric space  
20 heating increases would provide the similar benefits."

21  
22 Yet, while the Company acknowledges similar load increases will provide similar benefits,  
23 continuation of the discounted rates will discriminate in favor of the C&I customer

1 installing space heating equipment with winter energy rates that are discounted 20% to  
2 50%. It should be noted that the reduced revenue from those C&I customers benefiting  
3 from the discounted rate is being recovered through higher rates charged to the standard  
4 tariff general service customers.

5  
6 Q. Do you have anything further to add?

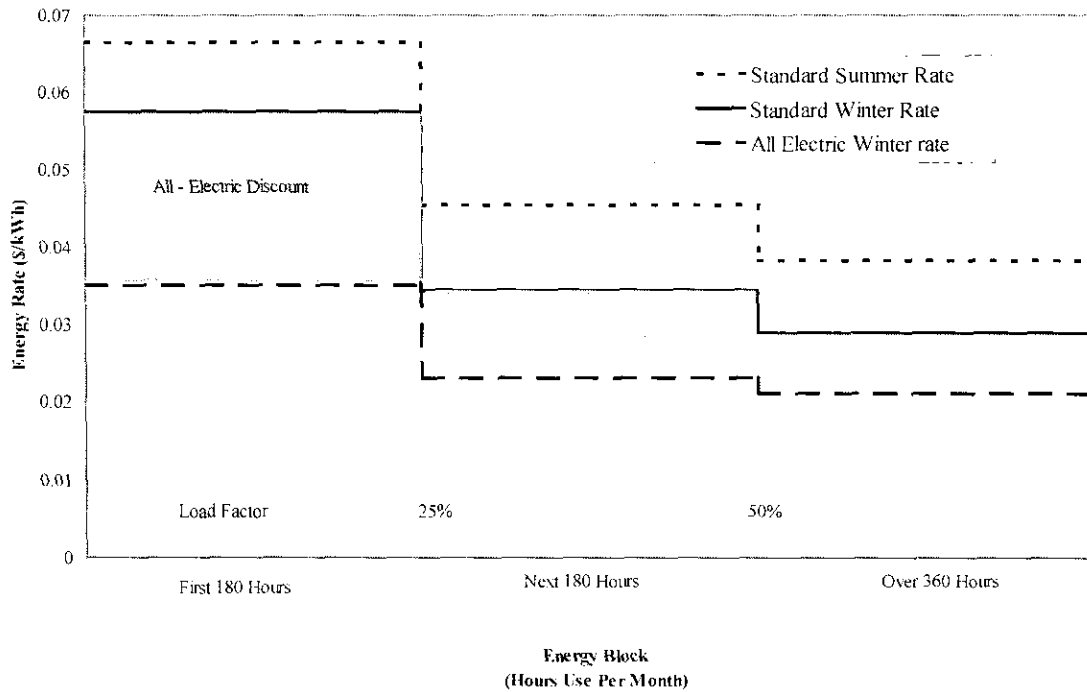
7 A. Yes. As discussed in my Direct Testimony, KCP&L already has programs in place that are  
8 directed toward specific commercial and industrial space heating programs. These  
9 programs include technical assistance from the Company as well as rebates for the  
10 installation of space heating equipment. Accordingly, it is my primary recommendation  
11 that the Commission eliminate the availability of all general service space heating related  
12 rate discounts. In the event the Commission does not eliminate such rate discounts, the  
13 availability of all space heating related rate discounts should at least be restricted to those  
14 existing C&I customers that currently qualify for and receive such discounts -- pending the  
15 completion of a comprehensive CCOS and rate design investigation and/or a cost-  
16 effectiveness study focusing on the discounted rates and the Affordability, Energy  
17 Efficiency and Demand Response programs.

18  
19 Q. Does this conclude your surrebuttal testimony?

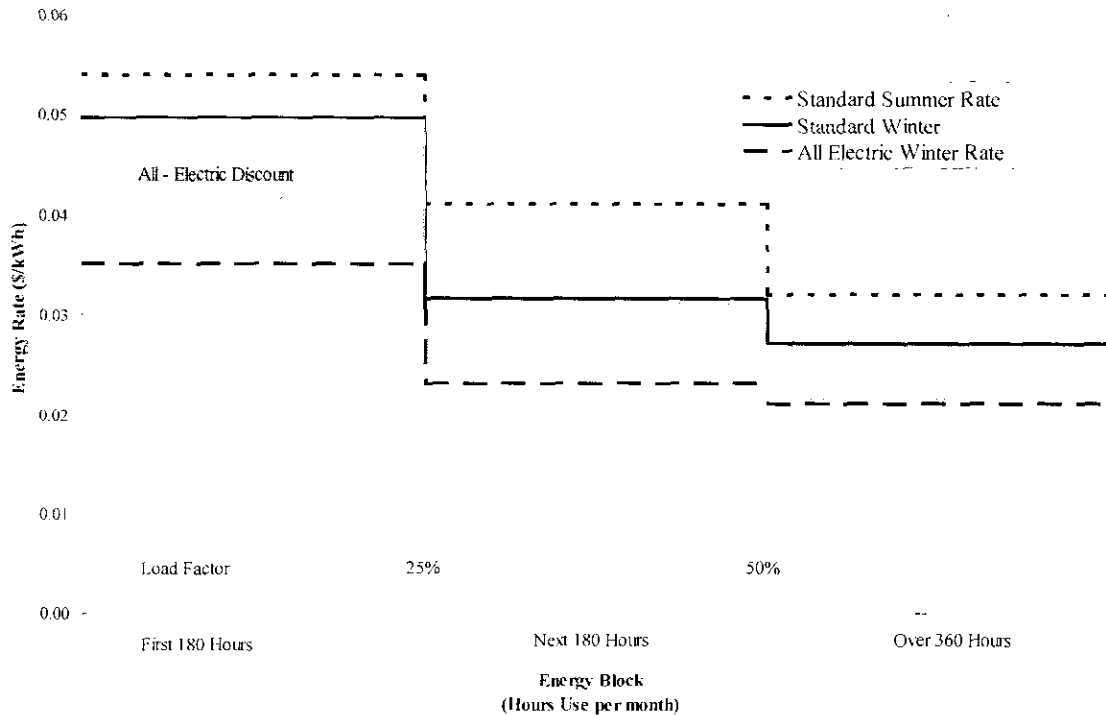
20 A. Yes, it does.

21

**Comparison of Seasonal Energy Rates  
Medium General Service - Secondary  
Standard Summer/Winter Rates vs All Electric Rate**

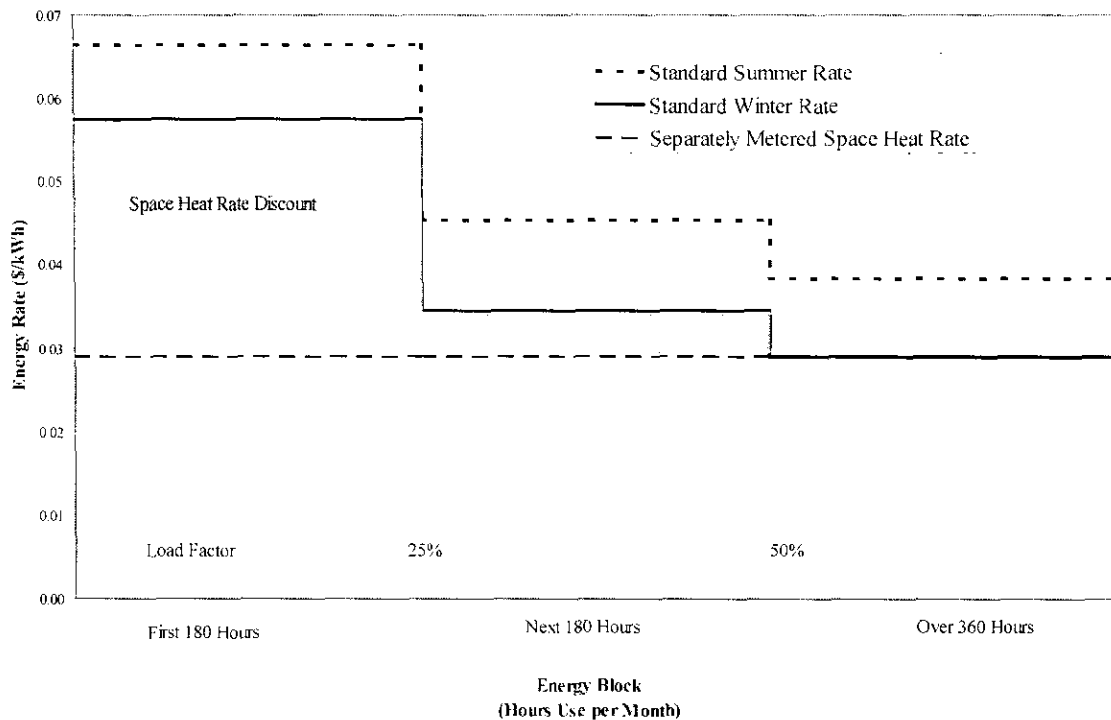


**Comparison of Seasonal Energy Rates  
Large General Service - Secondary  
Standard Summer/Winter Rates vs Large All Electric**

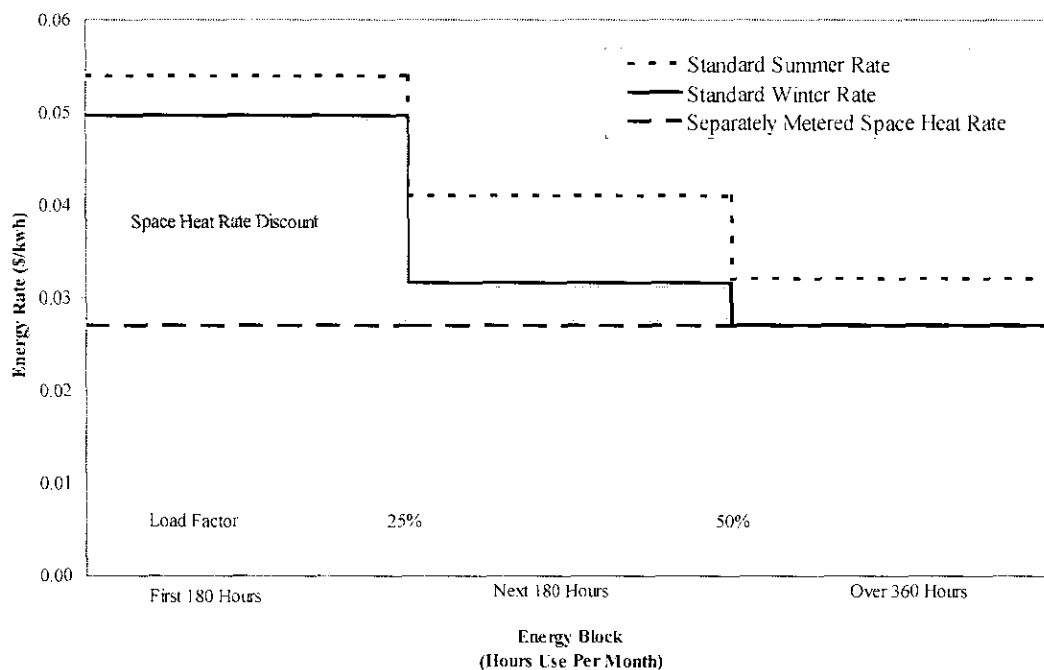




**Comparison of Seasonal Energy Rates  
Medium General Service - Secondary  
Standard Summer/Winter Rates vs Separately Metered Space Heat Rate**



**Comparison of Seasonal Energy Rates  
Large General Service - Secondary  
Standard Summer/Winter Rates vs Separately Metered Space Heat Rate**



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

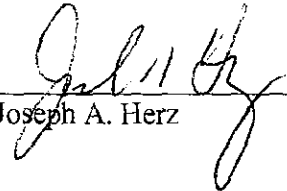
In the Matter of the Application of Kansas )  
City Power & Light Company for Approval )  
to Make Certain Changes in its Charges for )  
Electric Service to Begin the Implementation )  
of its Regulatory Plan )

Case No. ER-2006-0314

**AFFIDAVIT OF JOSEPH A. HERZ**

STATE OF OHIO                    )  
  ) ss  
COUNTY OF HANCOCK        )

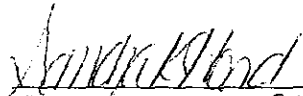
Joseph A. Herz, being of lawful age, on his oath states: that he has participated in the preparation of the attached Surrebuttal Testimony in question and answer form and Schedules to be presented in the above case; that the answers in said Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers and schedules; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Joseph A. Herz

Subscribed and sworn to before me this 14th day of October, 2006.



SANDRA K. CHESTER  
Notary Public, State of Ohio  
My Commission Expires  
August 2, 2007

  
\_\_\_\_\_  
Notary  
Sandra K. Chester