

Citizens' Utility Ratepayer Board

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David Springe, Consumer Counsel
1500 S.W. Arrowhead Road
Topeka, Kansas 66604-4027
Phone: (785) 271-3200
Fax: (785) 271-3116
<http://curb.kansas.gov>

SENATE UTILITIES COMMITTEE

Testimony on Behalf of the Citizens' Utility Ratepayer Board
By David Springe, Consumer Counsel
January 31, 2012

Chairman Apple and members of the committee:

Regulatory and Rate History of Kansas City Power & Light Comprehensive Resource Plan

A. Background.

Kansas City Power & Light began working on a long term resource plan in early 2004. The KCC opened a docket on May 18, 2004 to take evidence about the resource plan. (04-KCPE-1025-GIE). On August 5, 2005, the KCC issued an order approving a joint agreement between KCC staff and KCP&L to begin construction on a 5 year resource plan and rate plan. The plan included.

- New coal plant: KCPL share 500 MW Iatan II coal plant
- Environmental retrofits of the Iatan I coal plant
- Environmental improvement at LaCygne coal plant
- 200 MW wind generation
- Upgrades to the transmission and distribution system
- Demand response, energy efficiency and affordability programs
- Total cost = \$1.2 billion. (Kansas 54%) over 5 years

Rate impacts: According to Chris Giles (KCPL VP Regulatory) testifying under cross-examination at the KCC technical hearing on the resource plan, the rate increases associated with the \$1.2 resource plan and adding normal capital expenditure of \$700-\$800 million over the 5 years (\$2 billion total 5 year spend), and fuel cost changes, would be 3-5% annual, or about 20% over the 5 year plan.

The plan anticipated up to 4 rate cases over the 5 year period.

By the end of the 5 year plan, costs had increased substantially. The Iatan II plant, originally slated to cost \$1.174 billion came in closer to \$2.0 billion, and KCPL ended up with only 435 Mw instead of 500. Certain environmental improvements at LaCygne were put off and not constructed under the plan. (Note: KCC recently approved another \$1.2 billion in environmental improvements at LaCygne. LaCygne is owned by Westar 50% and KCPL 50%)

KCPL Rate Increases	
KCC Docket No.	Increase
06-KCPE-828-RTS	\$29,000,000
07-KCPE-905-RTS	\$28,000,000
09-KCPE-246-RTS	\$59,000,000
10-KCPE-415-RTS	\$21,846,202
Total	\$137,846,202

B. KCPL Rate Case Order (10-KCPE-415-RTS, Order dated November 22, 2010)

1. Class Cost of Service

A class cost of service (CCOS) study examines the relationship between a customer's use of utility service and the cost to the utility for providing such service. A tenant of setting rates is that customers who cause costs to be incurred should pay for those costs. The methodology used to prepare a CCOS study must assign costs among various classes of service and determine class revenue requirements.

Paul Normand, who sponsored KCPL's Class Cost of Service Study (KCPL CCOS Study or CCOS Study), stated, "The purpose of a CCOS study is to directly assign costs based on Company records or allocate each relevant and identifiable component of cost on an appropriate basis in order to determine the proper cost to serve the Company's customer classes under study".

"The Commission finds Normand's use of the BIP method in his CCOS Study for allocation of production plant is preferable to Staffs average-and-peak approach. The BIP method provides more structure for modeling costs of production plant and use of generating resources. It also allows for a detailed examination of seasonal costs and corresponding seasonal rate allocations. Staffs CCOS study does not break out costs for individual rate categories or seasonal differences and does not provide information that parties to the 09-246 S&A agreed be included for this proceeding. The Commission declines MUGG's proposal to use a 4-month coincidental peak method to allocate production costs. The Commission adopts Normand's CCOS Study and will use it as a basis for determining a rate design for KCPL" (Order at p. 117)

CURB suggested rate design changes in KCPL's prior rate case (09-KCPE-946-RTS) based on the concern that the residential heating discount seemed too large. However, neither

CURB nor KCPL had the type of study that evaluated subclass cost of service. KCPL agreed to do subclass cost of service, which was presented in Mr. Normand's testimony in the current case.

2. Rate Design

"Rush (KCPL Witness Tim Rush) proposed an alternative, interim rate design to use until a docket can be conducted evaluating rate structure. Rush asserted Normand's CCOS Study recognized that Residential General Use rates in winter are too high and Residential Heating rates in winter are too low, and that remaining rate components are relatively close to cost, as illustrated in Schedule TMR2010-4. Under KCPL's alternative proposal, residential winter rates move closer to cost while revenue-neutral adjustments are made to the remaining rate components, leaving them unchanged. Rush asserted this alternative addressed the overriding concern of other parties about the differential between General Use and Heating within the Residential subclasses and presented a cost-based, gradual move that is less extreme than proposals offered by other parties. (Order p. 122-123)

"After reviewing the evidence in the record, the Commission concludes KCPL's current rate structure must be redesigned to move customer classes closer to the principal of cost causation. Each rate class should pay rates based on its costs so that the rate design equalizes the rates of return for all the different classes. To this end, the Commission concludes that a rate case will be opened specifically focused on rate design for KCPL. Such a proceeding will allow closer examination of KCPL's rate structure to ensure fair cost apportionment among the classes and to incorporate concepts from several emerging issues. (Order P. 123-124)

"Having concluded that a rate case will be opened to develop a rate design for KCPL, the Commission must still decide what rate design to adopt for this docket. In making its decision, the Commission has reviewed all proposals submitted by the parties and has weighed and balanced their strengths and weaknesses. The Commission has also considered the impact the various proposals will have on ratepayers. With this in mind, the Commission makes the following rulings. The Commission adopts KCPL's alternative rate design proposal presented in Rush Rebuttal Schedule TMR2010-5 but adjusted for the Commission's decision on revenue requirement. The Commission finds changes to the winter energy charges for residential subclasses contained in this proposal will reduce discounts and move the winter rates closer to cost." (Order at P. 125)

CURB also proposed a rate design that reduced, but did not eliminate the winter heating discount, and also created an increasing block rate for summer customers. The KCC rejected CURB's rate design and adopted KCPL's proposal. KCPL proposal had similar reductions on the heating discount but did not have increasing block rates in the summer.

3. KCPL Residential rates 2007-2011

Residential Rates		2007 Rates	2008 Rates	2009 Rates	2010 Rates	2011 Rates
CUSTOMER CHARGE						
One Meter		5.78	7.25	7.93	9.07	9.83
ENERGY CHARGE						
Summer Rate						
0-1000		0.0736	0.0791	0.07779	0.08899	0.09469
1000+		0.0736	0.0791	0.07779	0.08899	0.09469
Winter Rates						
<u>General Use (RESA)</u>	-					
0-1000		0.0651	0.0699	0.07026	0.08037	0.07312
1000+		0.0651	0.0696	0.06996	0.08003	0.07312
<u>General & S/H - 1 Mtr (RESC)</u>	-					
0-1000		0.0430	0.0473	0.04556	0.05211	0.06591
1000+		0.0339	0.0369	0.03416	0.03908	0.05757
Discount from Winter General use rate						
0-1000		34%	32%	35%	35%	10%
1000+		48%	47%	51%	51%	21%

<u>General Residential (RESA)</u>			
	<u>kWh</u>	<u>Bills</u>	<u>Aver. Use</u>
December	150,557,053	149,671	1006
January	153,228,086	149,710	1023
<u>Residential Heating (RESC)</u>			
	<u>kWh</u>	<u>Bills</u>	<u>Aver. Use</u>
December	74,165,455	42,471	1746
January	86,761,037	42,694	2032

4. Mr. Kovar's bill compared to general service customers.

Rate impacts based on usage numbers provided in Mr. Kovar's complaint to the KCC.

	Mr. Kovar's Bill				General Service Customer				Mr Kovar's Bill
	2010 Rates	2011 Rates	Dollar Increase	Percent Increase Rates	2010 Rates	2011 Rates	Dollar Increase	Percent Increase Rates	2011 at 11% ATB
KWH's	1450	1508			1450	1508			1508
CC	\$9.07	\$9.83	\$0.76	8.38%	\$9.07	\$9.83	\$0.76	8.38%	\$10.07
0-1000	\$52.11	\$65.91	\$13.80	26.48%	\$80.37	\$73.12	-\$7.25	-9.02%	\$57.84
1000+	\$17.59	\$29.25	\$11.66	66.30%	\$36.01	\$37.14	\$1.13	3.14%	\$22.04
Fuel	\$8.99	\$35.68	\$26.69	296.88%	\$8.99	\$35.68	\$26.69	296.88%	<u>\$35.68</u>
	\$87.76	\$140.66	\$52.91	60.29%	\$134.44	\$155.77	\$21.33	15.87%	\$125.63
Discount	34.73%	9.70%							
Base rate Increase			\$25.46	36.53%					\$10.18
Fuel cost									
Nov-10	\$0.006200								
Nov-11	\$0.023660	2011 av	\$0.01562						

5. Rate impacts over the full resource plan time frame

Residential Heat (November)						
	2007 Rates	2008 Rates	2009 Rates	2010 Rates	2011 Rates	2011 at 2010 fuel Rates
KWH's	1508	1508	1508	1508	1508	1508
CC	\$5.78	\$7.25	\$7.93	\$9.07	\$9.83	\$9.83
0-1000	\$43.00	\$47.30	\$45.56	\$52.11	\$65.91	\$65.91
1000+	\$17.22	\$18.75	\$17.35	\$19.85	\$29.25	\$29.25
Fuel	\$0.00	\$0.00	\$17.04	\$9.35	\$35.68	\$9.35
	\$66.00	\$73.30	\$87.88	\$90.38	\$140.66	\$114.34
General Service Customer Bills (November)						
	2007 Rates	2008 Rates	2009 Rates	2010 Rates	2011 Rates	2011 at 2010 fuel Rates
KWH's	1508	1508	1508	1508	1508	1508
CC	\$5.78	\$7.25	\$7.93	\$9.07	\$9.83	\$9.83
0-1000	\$65.10	\$69.90	\$70.26	\$80.37	\$73.12	\$73.12
1000+	\$33.07	\$35.36	\$35.54	\$40.66	\$37.14	\$37.14
Fuel	\$0.00	\$0.00	\$17.04	\$9.35	\$35.68	\$9.35
	\$103.95	\$112.51	\$130.77	\$139.44	\$155.77	\$129.44
Bill Discount	36.51%	34.85%	32.80%	35.18%	9.70%	11.67%
Disc 0-1000	33.95%	32.33%	35.16%	35.16%	9.86%	9.86%
Disc 1000+	47.93%	46.98%	51.17%	51.17%	21.27%	21.27%
All Residential (July)						
	2007 Rates	2008 Rates	2009 Rates	2010 Rates	2011 Rates	
KWH's	1500	1500	1500	1500	1500	
CC	\$5.78	\$7.25	\$7.93	\$9.07	\$9.83	
0-1000	\$73.60	\$79.10	\$77.79	\$88.99	\$94.69	
1000+	\$36.80	\$39.55	\$38.90	\$44.50	\$47.35	
Fuel	\$0.00	\$0.00	\$20.15	\$21.51	\$27.80	
	\$116.18	\$125.90	\$144.76	\$164.07	\$179.66	
Percent increase 2007-2011				54.64%		

C. CURB's General Policy on Rate Design

The Board favors a rate design that moves rates closer to costs. To encourage energy conservation and to reward and protect small users, CURB favors a summer rate design that attempts to maintain a lower cost base block of energy with additional blocks of energy priced higher with higher usage (an increasing block rate). CURB is concerned that customers that use little energy, or that work diligently at conservation are facing substantial rate increases when they are not driving increasing demand on the system. While every rate design can be criticized for one reason or another, CURB believes its proposed rate design prices energy in a manner consistent with how increasing costs are being caused.

An elderly lady that has lived in the same small apartment for the last 15 years and fundamentally hasn't changed her energy usage is not driving up system demand. A family living in a new 5000 square foot house with multiple cables boxes, big screen television, air conditioners, clothes driers, refrigerators, lights, computers, cell phones and other plug in-devices are pushing up demand on the system and with the potential result that a utility may have to purchase more resources. The question is, should both of these customers be equally responsible for paying for those new resources? And if so, what happens if the elderly lady lives on a fixed income. At some point, electricity will simply be unaffordable.

CURB also is interested in reducing the winter discounts of some all electric classes. CURB is concerned that offering steep discounts encourages increased usage at a time when building new base load resources is extremely high. With enough increased usage, at some point new base load power plants have to be built, as in the case of KCPL, causing substantial rate increases to all classes of customers.

D. General Issues with Notice to Customers

1. Notice is almost always based on the utility application as filed. Revenue increases and customer impacts are taken directly from the application. CURB often works to get additional information on rate impacts into the notice if information is available and relevant. Ultimately, the KCC and the utility control the notice.

- KCPL filed for \$55 million increase in rates, and proposed spreading the increase evenly across all rates for an 11.47% increase for all customer rates. While KCPL witness Normand filed the class cost of service study showing that the residential winter customer discount was too large, KCPL did not choose to propose rates based on the study. No rate impacts were available for the possibility that the KCC would accept that study, and so no information to could be placed in the notice.

2. Utilities are generally incented to state the potential customer impacts in as favorable a manner as possible. For example, the utilities frame notice as bill impacts, even though the customer bill includes revenues (fuel clauses) that are not at issue in the rate case.

While the utility may be seeking a 20% increase in the residential rate, if you add the revenue into the equation that is not at issue in the case, the overall bill impacts will be something less than 20%. The notice will tell customers the increase will only raise bills 12%, even though the rate is increasing 20%. Utilities also often use fairly low usage to calculate customer impacts.

- Recent Westar notices said Westar is seeking a rate increase of 5.85% (\$90.8 million) but the actual increase in the residential rate Westar is proposing is closer to 10%. Percentage increases in other classes will also deviate from the 5.85%.

3. Notice is provided in bill stuffers and in newspapers of general circulation. While this is legally sufficient, there is a question of whether this is effective. CURB has been fairly successful in getting newspapers to also run articles about the case prior to the public hearings. This provides some additional notice, if a customer reads the paper on that day. We have been less successful at getting radio or television stations to carry stories prior to the hearing (and often times after the hearing).

- Through four general rate cases for KCPL, resulting in substantial rate increases, the audience at any public hearing rarely exceeded 30-40 customers out of KCPL's approximately 200,000 residential customers. With the exception of some Westar public hearings in Wichita, that is the norm. There have been many cases where no customers showed up for the public hearings.

4. The notice and the public hearing are held before CURB and other intervenor parties have filed testimony. At the time of the actual public hearing, representatives from CURB can only speak in general terms about the issues of concern, but cannot inform anyone of a specific position CURB may be taking in the case. This is a recent KCC policy. Public hearings use to be scheduled after parties had filed testimony.

- While CURB would prefer to have the public hearing after it has filed testimony, there would likely still be issues with notice given the lead time it takes to get notice through the entire billing cycle of the utility for bill stuffers. It is likely not practical to start the notice process only after testimony is filed.

5. It is impossible to really give notice to every customer and customer class of all possible outcomes that could result in a case.