

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

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**DIRECT TESTIMONY OF**

**SUSAN K. NATHAN**

**ON BEHALF OF  
KANSAS CITY POWER & LIGHT COMPANY**

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**IN THE MATTER OF THE APPLICATION OF  
KANSAS CITY POWER & LIGHT COMPANY  
TO MODIFY ITS TARIFF TO BEGIN THE  
IMPLEMENTATION OF ITS REGULATORY PLAN**

**DOCKET NO. 06-KCPE-\_\_\_\_-\_\_\_\_**

1   **Q:**    **Please state your name and business address.**

2   A:    My name is Susan K. Nathan. My business address is 1201 Walnut Street, Kansas City,  
3       Missouri 64106-2124.

4   **Q:**    **By whom and in what capacity are you employed?**

5   A:    I am employed by Kansas City Power & Light Company (“KCPL”) as Manager,  
6       Marketing and Product Management.

7   **Q:**    **What are your responsibilities?**

8   A:    My responsibilities include providing leadership and direction to the Product  
9       Management Team, including the development of overall retail marketing programs and  
10      the coordination and execution of promotional strategies and programs to efficiently and  
11      effectively promote and implement KCPL’s products and services. My duties include  
12      initiating and bringing to market new products and services as well as improvements and  
13      innovations to existing products and services. My duties also include the development,

1 implementation and evaluation of affordability, energy efficiency, and demand response  
2 programs.

3 **Q: Please describe your education, experience and employment history.**

4 A: I graduated from Metropolitan State University in Minneapolis with a Bachelor of Arts  
5 degree in 1985. I graduated from the University of St. Thomas in 1990 with a Master of  
6 Business Administration degree. I was first employed at KCPL in 2003 as the Manager,  
7 Product Management. In this capacity, I perform all retail marketing functions for  
8 KCPL. Prior to my employment at KCPL, I worked at Aquila from 1997 to 2002 in  
9 Retail Operations and Marketing. Prior to moving to Kansas City to work for Aquila, I  
10 worked at Minnegasco (now CenterPoint Energy) in Minneapolis from 1981 through  
11 1996. During that time, all but one year was spent implementing and managing energy  
12 efficiency programs.

13 **Q: Have you previously testified in a proceeding before the Kansas Corporation  
14 Commission (“KCC”) or before any other utility regulatory agency?**

15 A: I testified before the KCC and the Missouri Public Service Commission concerning  
16 KCPL’s Regulatory Plan. I have also testified before the Minnesota Public Utilities  
17 Commission on behalf of Minnegasco on matters concerning Minnegasco’s demand-side  
18 management programs.

19 **Q: What is the purpose of your testimony?**

20 A: The purpose of my testimony is threefold:

- 21 1. To provide a progress report on the development and implementation of the  
22 Affordability, Energy Efficiency, and Demand Response programs. For these  
23 programs, I will discuss the applicable provisions of the Stipulation and Agreement

1 concerning KCPL's Regulatory Plan, which the KCC approved in Docket No. 04-  
2 KCPE-1025-GIE ("Regulatory Plan Stipulation and Agreement") and provide an  
3 update explaining what steps KCPL has taken thus far with respect to these  
4 initiatives;

5 2. I will introduce our interest in critical-peak pricing; and

6 3. I will discuss KCPL's proposal to begin accepting credit and debit card payments  
7 from its customers.

8 **I. AFFORDABILITY, ENERGY EFFICIENCY & DEMAND RESPONSE PROGRAMS**

9 **Q: Were KCPL's proposed Affordability, Energy Efficiency and Demand Response**  
10 **programs addressed in the Regulatory Plan Stipulation and Agreement?**

11 **A:** Yes, the portfolio of proposed programs was attached to the Regulatory Plan Stipulation  
12 and Agreement as Appendix B. The programs were also discussed in the text of the  
13 Agreement.

14 **Q: What were those programs?**

15 **A:** There were two proposed Affordability programs, ten proposed Energy Efficiency  
16 programs, two proposed Demand Response programs, and one proposed additional  
17 funding area. Specifically, the proposed programs are as follows:

18 Affordability

- 19 • Affordable New Homes (New Construction)
- 20 • Low Income Weatherization

21 Energy Efficiency

- 22 • Residential:
  - 23 • Online Energy Information and Analysis

- 1       •     Home Performance with Energy Star (Training)
- 2       •     Change a Light, Change the World
- 3       •     Cool Homes Program (High Efficiency Cooling Rebates)
- 4       •     Energy Star Homes (New Construction)
- 5     •     Commercial/Industrial
- 6       •     Online Energy Information and Analysis
- 7       •     C&I Energy Audits
- 8       •     C&I Custom Rebates – Retrofit
- 9       •     C&I Custom Rebates – New Construction
- 10      •     Building Operator Certification (Training)

11   Demand Response

- 12   •     Air Conditioning Cycling (Residential and Small Commercial)
- 13   •     The Alliance, an Energy Partnership (Commercial & Industrial Curtailment)

14   Funding Area

15       The funding area is for Demand-Side Management research, as outlined in the Stipulation  
16       and Agreement.

17   **Q:   How were the Affordability, Energy Efficiency and Demand Response programs**  
18       **initially developed?**

19   A:   Initially, we researched programs being implemented by other utilities by looking up  
20       websites such as for the American Council for an Energy Efficient Economy or a utility  
21       website, sometimes followed up by a call to that utility. We spoke with experts in the  
22       field, including Rocky Mountain Institute and Applied Energy Group, to inquire about  
23       their opinions on programs. Wherever possible, we tried to obtain information on the

1 evaluation of the programs. In addition to our research, we received input from other  
2 organizations that participated in the development of our Regulatory Plan Stipulation and  
3 Agreement, such as the KCC Staff and the Citizens' Utility Ratepayer Board ("CURB").  
4 Upon completing the initial research, we hired Applied Energy Group to work with us in  
5 developing a portfolio of programs and completing an initial screening. This information  
6 was further discussed and refined and submitted as a proposed portfolio in the Regulatory  
7 Plan Stipulation and Agreement.

8 **Q: What did the Regulatory Plan Stipulation and Agreement provide concerning**  
9 **KCPL's Affordability, Energy Efficiency and Demand Response programs?**

10 A: The Regulatory Plan Stipulation and Agreement provided a listing of the proposed  
11 programs and an estimated cost, kW and kWh savings associated with each Affordability,  
12 Energy Efficiency and Demand Response program for the five (5) year period. The cost  
13 of \$23.8 million (Kansas) was detailed on Appendix B of the Agreement. The budgeted  
14 expenditures for the five (5) year period for Kansas are \$500,000 for Affordability  
15 programs, \$9.7 million for Energy Efficiency programs, and \$13.5 million for Demand  
16 Response programs.

17 **Q: What work has been done on refining the programs and/or the benefit/cost analysis**  
18 **since the approval of the Regulatory Plan Stipulation and Agreement?**

19 A: Work has been accomplished in two key areas since the approval of the Regulatory Plan  
20 Stipulation and Agreement:

- 21 1. Perform pre-implementation evaluation of energy efficiency programs; and
- 22 2. Review design, implementation plans, and evaluation plans for all programs.

1 **Q: Specifically, what work was completed?**

2 For the first key area,

- 3 • KCPL developed definitions and subsequently the numerical inputs for the  
4 benefit/cost screening tool, added the Total Resource Cost (“TRC”) test to the  
5 benefit/cost model, and re-ran all the programs through this screening tool.
- 6 • KCPL obtained hourly load impacts for all energy efficiency programs, merged them  
7 into three groupings (affordability only, residential energy efficiency only, and  
8 commercial/industrial energy efficiency only) and re-ran the MIDAS™ ( a software  
9 modeling tool, as discussed in the direct testimony of KCPL witness Burton  
10 Crawford) model with 20 years of programming and 20 years of benefits. KCPL ran  
11 three (3) scenarios of this MIDAS™ run – one with no environmental externalities,  
12 one with low environmental externalities and one with high environmental  
13 externalities.
- 14 • KCPL intends to complete one more MIDAS™ run, similar to the run mentioned  
15 directly above but with only five years of programming to simulate the benefits of the  
16 five-year pilot.

17 For the second key area, KCPL reviewed program design and implementation plans for a  
18 number of programs. Of those reviewed, some tariffs have been filed and approved; one  
19 has been filed and withdrawn; and yet others will be filed in the near future.

- 20 • Tariffs have been filed and approved for the following programs and these programs  
21 have been implemented:
- 22 ○ Low Income Weatherization
  - 23 ○ A/C Cycling – now called Energy Optimizer

- 1 • A tariff was filed and withdrawn for the following program:
  - 2 ○ Change a Light, Change the World
- 3 • Tariffs have been filed and we are awaiting approval for the following program:
  - 4 ○ Residential Online Energy Information and Analysis – now called Home
  - 5 Energy Analyzer
- 6 • Tariffs will soon be filed for the following programs:
  - 7 ○ C&I Online Energy Information – now called Business Energy Analyzer
  - 8 ○ C&I Audit
  - 9 ○ C&I Custom Rebate – Retrofit
  - 10 ○ C&I Custom Rebate – New Construction – these three programs (Audit,
  - 11 Custom Rebate-Retrofit, and Custom Rebate-New Construction) have
  - 12 been combined and are now called C&I Rebate program.
  - 13 ○ The Alliance, an Energy Partnership (C&I Curtailment) – now called
  - 14 MPower.

15 A high-level evaluation plan was provided in the Regulatory Plan Stipulation and  
16 Agreement, Appendix B. KCPL felt it was important to select a vendor to be our  
17 evaluation partner as early as possible in the program design process. The evaluation  
18 partner could then assure that the program design reflected the desired outcomes and that  
19 data collection was properly implemented to facilitate verification and measurement  
20 activities. KCPL issued a Request-for-Qualifications/Request-for-Information (“RFQ”)  
21 for an evaluation partner. Nine responses were received and four were placed on the  
22 short list. Two of those on the short list consolidated into one team, leaving three  
23 vendors on the short list. A conference call was held to discuss expanding their RFQ

1 responses and turning them into Request-for-Proposal (“RFP”) responses. These were  
2 received on December 19, 2005. On-site presentations were made in January 2006.  
3 Once the evaluation partner is on board, a full evaluation plan will be developed for each  
4 program being implemented, costs for both impact and process evaluations will be  
5 determined, and the revised plan will be submitted to the KCC.

6 **Q: Has the list of proposed programs changed since the KCC approved the Regulatory  
7 Plan Stipulation and Agreement, and if so, how?**

8 A: The list of programs has not changed since the KCC approved the Regulatory Plan  
9 Stipulation and Agreement. KCPL has adjusted some program designs and the program  
10 rollout schedule.

11 **Q: Why has KCPL not begun implementation on all the programs?**

12 A: Several programs have been placed on hold until KCPL has a clearer understanding of  
13 the direction desired by the KCC with respect to direct impact energy efficiency  
14 programs. Due to administrative and marketing costs, it may not be cost effective to  
15 implement the entire portfolio of programs without Kansas on board. Therefore, should  
16 the KCC choose not to support these programs, KCPL would need to review the portfolio  
17 with interested parties in Missouri and determine which of the remaining programs would  
18 be cost effective to implement in Missouri only.

19 **Q: Would this result in a different portfolio of programs being offered in Missouri than  
20 is offered in Kansas?**

21 A: Yes, it would.

1 **Q: How would this impact Kansas customers?**

2 A: KCPL's Kansas customers would not have access to the same programs as KCPL's  
3 Missouri customers. In addition, trade allies such as builders and HVAC dealers would  
4 be placed in a position of saying "no" to Kansas customers who want the same benefits  
5 that Missouri customers have.

6 **Q: What are the current expected costs of the programs?**

7 A: At this time, we are maintaining the estimated costs provided in the Regulatory Plan  
8 Stipulation and Agreement as our expected costs. Those costs were estimated based on  
9 staffing and implementation costs in a maintenance mode, rather than a start-up mode.  
10 Therefore, actual costs may be a little higher during the start-up year. Also, as we gain  
11 experience in implementing the programs, we will have a better basis on which to  
12 estimate future costs.

13 **Q. What drives these costs?**

14 A: The major cost areas of the programs are as follows. (The predominant cost area of a  
15 program will depend on the program itself.)

- 16 • Implementation costs – Costs incurred in implementing the program, which may  
17 include costs for vendors and training. These costs are primarily external costs.
- 18 • Administrative costs – Costs associated with internal KCPL labor for program  
19 planning and oversight.
- 20 • Marketing costs – Costs associated with promoting the programs and developing  
21 collateral materials.
- 22 • Customer incentive costs – Costs paid to the customer. Customers in this sense  
23 can be the end-use customer or a trade ally, such as a builder.

1           •       Evaluation costs – Costs we expect to incur when we evaluate the programs.

2           The total costs, and the proposed allocation by State, are also detailed in the Regulatory  
3           Plan Stipulation and Agreement, Appendix B.

4   **Q:    Are those costs consistent with the initial cost projects set forth in the Regulatory**  
5   **Plan Stipulation and Agreement?**

6   A:    Yes, they are.

7   **Q:    How do you intend to track the costs associated with these proposed programs?**

8   A:    We have created specific program codes for each of the proposed Affordability, Energy  
9           Efficiency and Demand Response programs, and all expenses associated with a program  
10          will use its specific program code. Other codes will be used to designate the nature of the  
11          expenses. All expenses coded to these proposed programs will be captured in regulatory  
12          asset accounts.

13   **Q:    What benefits are expected to be realized through the implementation of these**  
14   **programs?**

15   A:    The benefits of the programs include:

- 16           •       Increased customer knowledge of how to use energy wisely;
- 17           •       Energy savings and demand savings; and
- 18           •       Other societal benefits such as reduced environmental emissions, increased local  
19                  jobs, and increased disposable income by participants that could contribute to the  
20                  local economy.

21   **Q:    What costs has KCPL already incurred in these efforts?**

22   A:    For September and October 2005, KCPL has spent \$19,092 for Kansas. All but  
23          approximately \$2,000 is for KCPL labor.

1 **Q: How does KCPL propose to recover these costs?**

2 A: KCPL proposes to accumulate the Affordability, Energy Efficiency and Demand  
3 Response program costs in regulatory asset accounts as the costs are incurred. Beginning  
4 with the instant rate filing, KCPL proposes to begin amortizing the accumulated costs  
5 over a ten (10) year period. KCPL would continue to place the Affordability, Energy  
6 Efficiency and Demand Response program costs in the regulatory asset accounts, and  
7 costs for each vintage subsequent to this rate filing would be amortized over a ten (10)  
8 year period. KCPL proposes that the amounts accumulated in these regulatory asset  
9 accounts be allowed to earn a return not greater than KCPL's AFUDC rate. The class  
10 allocation of the costs would be determined when the amortizations are approved.

11 **Q: When will the evaluations be completed?**

12 A: For programs that have an evaluation plan, we will complete the evaluation of the initial  
13 two years of each program within six months of the end of each program's second year.  
14 We may, especially for large budget programs, perform evaluations earlier to ensure we  
15 are being as efficient and as effective as possible.

16 **Q: How will the results of the evaluations be used?**

17 A: KPCL will share the results of the evaluations with the KCC and use the results of the  
18 evaluations to select and design future programs. These actions would include improving  
19 the existing program, canceling the existing program, or developing new programs.

20 **Q: Is KCPL on track to meet the goals for these programs, as set forth in the**  
21 **Regulatory Plan Stipulation and Agreement?**

22 A: Yes, KCPL is on track to meet the goals for these programs as each program is approved  
23 and implemented.

1 **II. CRITICAL-PEAK PRICING PROGRAM**

2 **Q: What does KCPL propose for the Critical-Peak Pricing program?**

3 A: KCPL is interested in reviewing its time of use (“TOU”) and real-time pricing (“RTP”)  
4 programs and potentially revising them as well as expanding them to include a Critical-  
5 Peak Pricing program. There are many Critical-Peak Pricing program design options.  
6 KCPL is proposing to establish a working group consisting of parties in this proceeding  
7 to help review options for a Critical-Peak Pricing program.

8 **III. CREDIT AND DEBIT CARD PAYMENT PROGRAM**

9 **Q: Why does KCPL want to offer credit and debit cards as an additional payment**  
10 **option for retail customers?**

11 A: KCPL would like to offer credit and debit cards as a payment option for two reasons:

12 (1) This is one of the payment options most frequently requested by KCPL customers.

13 Most other types of service providers currently provide a credit card payment option  
14 and therefore more consumers are using this as their primary method of paying  
15 recurring bills.

16 (2) Making this additional payment method available could help customers avoid service  
17 cut-off for non-payment or help re-establish service sooner if they do not have other  
18 funds available. This would also help KCPL in the collections area.

19 **Q. Will KCPL’s customers who choose this payment option be assessed an additional**  
20 **cost for doing so?**

21 A: No. In keeping with a philosophy of providing payment options for no fee whenever  
22 possible, KCPL will internalize the transaction costs associated with accepting credit and

1 debit card payments. Consumers are not accustomed to paying any convenience fees for  
2 using a credit card.

3 **Q: What types of costs will KCPL bear in providing this payment option?**

4 A: There are two types:

5 (1) Set-up costs, which are one-time expenses associated with establishing the service;

6 and

7 (2) Transaction fees, which are priced on a per payment basis.

8 **Q: How much will set-up cost?**

9 A: We estimate set-up costs will be about \$200,000. This will cover changes to modify our  
10 automated telephone response system and to create interfaces within our customer  
11 information system to accept recurring and Web-based payments.

12 **Q: What will transactions cost on average?**

13 A: Transaction fees charged to KCPL will vary between different credit card providers.  
14 Visa currently has a special rate for utilities. MasterCard has not yet offered a special  
15 rate.

16 **Q: What will Visa transactions cost KCPL?**

17 A: Visa transactions, assuming an average payment amount of \$150, would cost about \$0.68  
18 on average.

19 **Q: What will MasterCard transactions cost?**

20 A: Assuming an average payment amount of \$150, MasterCard payments would cost about  
21 \$1.92 on average.

1 **Q: Why is there such a difference between the costs for Visa and MasterCard**  
2 **transactions?**

3 A: Visa is offering a special rate to utilities in order to increase the acceptance of Visa cards  
4 for payment of utility bills. MasterCard has not yet introduced any type of similar  
5 incentive program.

6 **Q: Does Visa have any special stipulations for participation in their incentive rate?**

7 A: Yes. Other than classification as a utility (which KCPL satisfies), Visa also requires that  
8 customers not be assessed any convenience charge for paying with their Visa credit or  
9 debit card. If the utility charges a convenience fee, then Visa would assess its standard  
10 rate, which would amount to about \$2.40 for a \$150 payment.

11 **Q: Will this payment option be available to all customer classes?**

12 A: No. It will only be offered to residential customers. The major part of the fee is being  
13 offered at a fixed fee, rather than a percentage, by Visa. This fixed fee is based on a  
14 typical residential utility customer. Therefore, it is necessary to keep the average  
15 payment amount close to the average residential bill payment amount. If large businesses  
16 were permitted to pay by credit card at the fixed fee, it would eventually raise the cost for  
17 all transactions.

18 **Q: How do these transaction costs compare to other payment methods that KCPL**  
19 **currently accepts?**

20 A: The per transaction fees (\$0.68 for Visa and \$1.92 for MasterCard) are higher than the  
21 payment processing costs for other payment methods, except for Pay Station payments.

1 **Q: What are the fees and costs for Pay Station payments?**

2 A: This differs by state, according to the agreement KCPL has in place with American  
3 Payment Systems (a unit of CheckFree Corp.). In Kansas, the customer pays no fee, but  
4 KCPL pays \$0.69 per transaction. In Missouri, the total cost per payment is \$1.19, of  
5 which \$1.00 is paid by the customer and \$0.19 is paid by KCPL.

6 **Q: What sort of adoption or use of the card payment option does KCPL expect?**

7 A: We estimate about 10% of our residential customers will choose to pay by credit or debit  
8 card if offered as described above. The adoption number could be affected, of course, in  
9 either direction according to program restrictions, customer awareness, etc.

10 **Q. What does KCPL estimate the ongoing expenses will be from transaction costs?**

11 A: Under the assumption of a 10% adoption rate and provision of both Visa and MasterCard  
12 options at current costs, total transaction expenses would be approximately \$500,000 per  
13 year. This adjustment is listed as Adj-56 on the Summary of Adjustments, which is  
14 attached to the direct testimony of KCPL witness Don A. Frerking as Schedule DAF-2.  
15 This assumed adoption rate and cost are for residential customers in both states.

16 **Q: Does that conclude your testimony?**

17 A: Yes, it does.

