

In The Matter of the Application of Kansas City Power)
& Light Company to Modify Its Tariffs to Continue the) Docket No. 07-KCPE-905-RTS
Implementation of Its Regulatory Plan.)

STATE CORPORATION COMMISSION

AUG 03 2007

 Docket
Room

DIRECT TESTIMONY

PREPARED BY

AL MAXWELL

UTILITIES DIVISION

STATE CORPORATION COMMISSION STAFF

AUGUST 3, 2007

1 **Q. Would you please state your name?**

2 A. My name is Al Maxwell. My business address is 1500 S.W. Arrowhead
3 Road, Topeka, Kansas 66604-4027.

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

6 A. I am employed by the Kansas Corporation Commission as a Managing
7 Utilities Rate Analyst.

8
9 **Q. Please describe your educational background and professional
10 experience.**

11 A. I received a Bachelor of Arts degree in Communications from Washburn
12 University and achieved a Master of Public Administration from Kansas
13 University. I have held several positions involving rate design over my 27-
14 year tenure with the Commission.

15
16 **Q. What are your current responsibilities with the Commission?**

17 A. I am responsible for the design of rates, and rate schedules, and the analysis
18 of cost of service studies, contracts, and rules and regulations pertaining to
19 electric utilities. Over my tenure with the Kansas Corporation Commission
20 I have provided analysis and recommendations for the Commission's
21 consideration in nearly four hundred (400) dockets.

22
23 **Q. Have you previously submitted testimony before this Commission?**

24 A. Yes. I have testified and/or made recommendations to the
25 Commission on cost of service and rate design issues in several dockets.
26 Some of the Dockets I've participated in are: Western Resources, Inc.,
27 Docket No. 02-WSRE-301-RTS; Empire District Electric Company,

1 Docket No. 02-EPDE-488-RTS; Midwest Energy, Inc., Docket No. 03-
2 MDWE-001-RTS, and Kansas City Power and Light Company, Docket
3 No. 06-KCPE-828-RTS.

4
5 **Q. What is the purpose of your testimony in this proceeding?**

6 A. The purpose of my testimony is to review and present Staff's
7 recommendations in the matter of the Application of Kansas City Power &
8 Light Company (KCPL) to modify its tariffs to continue the
9 implementation of its regulatory plan. My testimony will review and,
10 where appropriate, provide Staff recommendations regarding the rate
11 design and cost of service recommendations found in the Direct
12 Testimony's of KCPL witnesses Timothy M. Rush and Bradley D. Lutz.

13
14 **Q. Have you had an opportunity to review the Application?**

15 A. Yes, I have.

16
17 **Q. What level of revenue increase has Applicant proposed?**

18 A. Applicant is proposing a revenue increase of \$47,060,843 or 10.82%.

19
20 **Q. How does Applicant's proposed level of increase compare to Staff's
21 proposed revenue increase?**

22 A. Staff is proposing a revenue increase of \$4,577,276 or 1.059%.

23
24 **Q. What are your recommendations to the Commission?**

25 A. My recommendations are as follows:

- 26 1. Accept Staff's proposed levels of class revenue increase (subject to
27 conditions that limit the rate impact), which are presented both in my

1 Direct Testimony and in the class cost of service prepared by Staff
2 witness Sonya Cushinberry.

3 2. Accept Staff's recommendation that Applicant submit documentation
4 proving that final rates, by tariff class and by subclass applied to the test
5 year billing statistics (after all Commission approved adjustments),
6 generate the revenue requirement approved by the Commission.

7

8 **Q. Please provide the Commission with a summary discussion of KCPL's**
9 **rate design proposal as discussed under the Direct Testimonies of Mr.**
10 **Timothy M. Rush and Mr. Bradley D. Lutz.**

11 A. Applicant witness Timothy M. Rush has filed rate tariffs designed to
12 increase rates \$47,060,843 and is proposing an ECA mechanism to address
13 changing fuel, purchased power, and related costs. The tariffs, as filed, are
14 based on applying the overall percentage increase to all tariffs (10.82%)
15 and then subtracting out the fuel and purchased power costs (of \$0.0103
16 /kWh from summer retail rate schedules and \$0.0066 /kWh from winter
17 retail rates schedules) and crediting the off-system sales margin associated
18 with the ECA.

19

20 **Q. Please generally describe the makeup of the types of customer classes**
21 **under KCPL's tariffs?**

22 A. Residential. The residential class is currently made up of the following
23 types of customers: general use; water-heating and space-heating rates; plus
24 separate water-heating and space-heating rates. KCPL also offers a time of
25 day rate for residential customers.

26

1 **General Service and Large Power.** The General Service and Large Power
2 classes are currently made up of the following types of customers: Small
3 General Service (SGS); Medium General Service (MGS); Large General
4 Service (LGS); and Large Power (LP). The classes consist of several rate
5 codes that are differentiated by voltage level and all-electric versus general
6 usage categories for all commercial and industrial customers.

7
8 **Lighting.** Lighting Services in Kansas currently consist of several rate
9 codes that include Off-Peak Lighting (OPL), Traffic Signals (TS) and
10 Street Lighting (SL).

11
12 **Q. What is KCPL’s position regarding rate adjustments for the various**
13 **customer classes?**

14 A. When asked, “What rate adjustments are being proposed for each class?”
15 Applicant witness Bradley D. Lutz responds as follows, “The Company
16 does not propose to change the current relationship of customer class
17 returns to the average jurisdictional return. The Company is recommending
18 an equal percentage increase be applied to all customer classes with no
19 change to rate design.” (Direct Testimony of Mr. Lutz, page 13, lines 15
20 thru line18).

21
22 Furthermore, when asked “Why are you not suggesting further changes
23 based on the outcome of the CCOS?” Applicant witness Lutz in his Direct
24 Testimony (at page 13, line 19 thru page 14, line 5) states: “It is the
25 Company’s position that any additional shift in the revenue requirement
26 among classes for the purpose of achieving equal returns of all classes is
27 more appropriately addressed in a future rate design case. Because of the

1 significant investments the company is making, including investments in
2 customer programs designed to assist customers in managing their energy
3 bills, it is premature to align average class rates of return in this case.” It is
4 Mr. Lutz’s position that the appropriate time to move toward equal rate of
5 return for all customer classes is after completion of the Regulatory Plan
6 and the in-service date of the Iatan 2 coal plant.

7
8 **Q. Does Staff agree with KCPL’s proposal to wait until after the**
9 **completion of its Regulatory Plan and the in-service date of the Iatan 2**
10 **coal plant before beginning the process of aligning average or equal**
11 **class rates of return (ROR)?**

12 A. No, Staff does not agree with KCPL’s proposal to wait until after the
13 completion of its Regulatory Plan and the in-service date of the Iatan 2 coal
14 plant before beginning the process of aligning average class ROR. Staff
15 recommends those of Applicant’s customer classes whose RORs are below
16 the Company average ROR bear the revenue increase Staff has proposed in
17 this docket. Staff is making this recommendation based upon the following
18 two (2) conditions: (1) that the revenue increase not result in any of those
19 classes significantly exceeding the system wide ROR, and (2) that the
20 revenue increase result in no more than a fifteen percent increase to any
21 one customer class. Staff chose to utilize such conditions in order to limit
22 the potential rate impact to such customers.

23
24 Staff would recommend that those customer classes whose ROR is
25 significantly above the company average ROR, receive no revenue increase
26 or decrease at this time. In other words, similar to Applicant witness Lutz,
27 I’m recommending that under this docket no additional shift in the revenue

1 requirement for those classes be made for the purpose of achieving equal
2 returns. Staff would further recommend that, if in KCPL's final rate filing
3 under the Regulatory Plan such customer class rates of return have not
4 moved significantly closer to the company average ROR, then the
5 Company, at that time, consider taking steps to decrease their revenue
6 requirement in achieving class RORs similar to the Company average
7 ROR. Such should be accomplished in a manner that would avoid a severe
8 rate impact to customers overall.

9
10 **Q. What are the results of the Class Cost of Service (CCOS) prepared by**
11 **KCPL witness Bradley D. Lutz?**

12 A. Mr. Lutz's CCOS shows that neither the residential class at the 4.94%
13 existing (ROR) or the other lighting class at the 0.78% existing ROR are
14 providing a sufficient return when compared to the overall existing ROR of
15 6.78% for Kansas retail customers. All other customer classes based on Mr.
16 Lutz's CCOS study, as is shown in Table AM-1 below, are yielding RORs
17 which are higher than the total system (or Company) existing ROR. Also,
18 Table AM-1 shows the existing class relative ROR calculated by Applicant
19 witness Lutz. Mr. Lutz's Direct Testimony does not reflect either the
20 proposed ROR or the proposed relative ROR for the various customer
21 classes of KCPL.

Table AM-1

Class	KCPL ROR		KCPL Relative ROR	
	Existing (%)	Proposed (%)	Existing	Proposed
Residential	4.94	-	0.73	-
Small GS	8.62	-	1.27	-
Medium GS	10.25	-	1.51	-
Large GS	9.15	-	1.35	-
Large power	8.50	-	1.25	-
O.P. Lights	12.59	-	1.86	-
Other Lights	0.78	-	0.12	-
Total System	6.78	-	1.00	-

Q. Mr. Maxwell, would you please provide an explanation of the term relative rate of return?

A. A common objective of utilities is to move class RORs closer to the system average ROR. I agree with Applicant’s objective of moving class RORs closer to the system average ROR as each class, ideally, should contribute at a level equal to the system average ROR. The class ROR is equal to the system average ROR when the class relative ROR (class ROR divided by the total company ROR) is equal to 1.0.

Q. How does the existing and proposed ROR, and the existing and proposed relative ROR from Staff’s CCOS study, compare to that of Applicant?

A. Staff witness Sonya Cushinberry is sponsoring the Staff CCOS in this docket. Her CCOS study show’s that the existing ROR for the total company is 7.93%. For the residential, the large power, and other lighting classes the existing RORs are 6.21%, 7.24%, and 4.49%, respectively, all of which are below the total system existing ROR. The existing RORs for all other classes are higher than the total system ROR. For the residential,

1 large power, and other lighting classes the existing relative RORs improve
 2 under Staff's proposed relative ROR, because they move closer to the total
 3 system ROR of 1.0. Staff witness Cushinberry's CCOS study results are
 4 shown below in Table AM-1a.

5
 6 **Table AM-1a**
 7

Class	STAFF ROR		STAFF Relative ROR	
	<u>Existing</u> (%)	<u>Proposed</u> (%)	<u>Existing</u>	<u>Proposed</u>
Residential	6.21	6.48	0.78	0.79
Small GS	14.29	14.29	1.80	1.75
Medium GS	11.54	11.54	1.46	1.41
Large GS	8.78	8.78	1.11	1.07
Large power	7.24	8.18	0.91	1.00
O.P. Lights	12.66	12.66	1.60	1.55
Other Lights	<u>4.49</u>	<u>8.18</u>	<u>0.57</u>	<u>1.00</u>
Total System	7.93	8.18	1.00	1.00

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 20
 21 **Q. Please continue with Staff's review of the Rate Design section of Mr.**
 22 **Rush's Direct Testimony.**

23 A. Applicant's rate design proposal again is premised on a total proposed
 24 revenue increase of \$47,060,843 or (10.82%). Applicant, under its rate
 25 design proposal, recommends applying the 10.82% overall revenue
 26 increase to all retail tariff rates, and then subtracting out the fuel and
 27 purchase power costs and crediting the off-system sales margin associated
 28 with the ECA. Applicant's class revenue increase proposal is shown in
 29 Table AM-2 below.
 30
 31
 32

1
2
3 **Table AM-2**

<u>Class</u>	<u>KPL Revenue Increase</u>	
	<u>(%)</u>	<u>(\$)</u>
Residential	10.83%	22,358,901
Small GS	10.85%	3,415,624
Medium GS	10.80%	5,574,429
Large GS	10.77%	11,155,550
Large Power	10.82%	3,638,983
Lighting	10.82%	773,380
Unbilled/Adj	-	<u>143,976</u>
Total System	10.82%	47,060,843

13
14
15 **Q. Does Staff take issue with KCPL’s rate design proposal to spread an**
16 **equal percentage level of revenue increase to all customer classes**
17 **identified in its CCOS?**

18 A. Yes, as mentioned earlier in my Direct Testimony, Staff is opposed to
19 KCPL’s proposal to apply the 10.82% overall revenue increase to all retail
20 tariff rates. Staff’s recommended revenue increase proposal spreads Staff’s
21 proposed revenue increase specifically to Residential, Large Power, and
22 Other Lighting customer classes. These customer classes have existing
23 RORs below the proposed system wide (or average) ROR. However,
24 Staff’s rate design proposal is premised on a total proposed revenue
25 increase of \$4,577,276 or 1.059%. Similar to KCPL’s proposal, Staff
26 would propose to spread the increase to every component part of the rates
27 for classes in which Staff is proposing a revenue increase. Staff’s
28 recommended revenue increase proposal is shown below in Table AM-2a.

1
2
3 **Table AM-2a**

<u>Class</u>	<u>Staff Revenue</u>	<u>Increase</u>
	<u>(%)</u>	<u>(\$)</u>
Residential	1.20%	2,467,463
Small GS	0.00%	0
Medium GS	0.00%	0
Large GS	0.00%	0
Large Power	4.21%	1,409,801
O.P. Lights	0.00%	0
Other Lights	<u>12.36%</u>	<u>700,012</u>
Total System	1.059%	4,577,276

13
14
15 **Q. Mr. Maxwell why do you believe Staff's revenue increase proposal**
16 **should be approve by the Commission?**

17 It is Staff's opinion that Staff's revenue increase proposal balances the
18 interest of KCPL's customer classes overall, because Staff's proposal does
19 not further exasperate existing ROR disparities between customer classes.
20 Therefore, it is Staff recommendation that the Commission approve Staff's
21 revenue increase proposal as shown in Table AM-2a above.

22
23 **Q. Mr. Maxwell, do you have a recommendation with regard to**
24 **Applicant's submission of proof of revenue generated by the rate**
25 **design ultimately approved by the Commission?**

26 A. Yes, I recommend Applicant submit documentation proving that final rates,
27 by tariff class and by subclass, applied to the test year billing statistics
28 (after all Commission approved adjustments), generate the revenue
29 requirement approved by the Commission.

30 **Q. Does this conclude your testimony?**

31 A. Yes, it does.

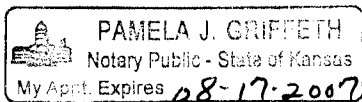
STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Al Maxwell, being duly sworn upon his oath deposes and says that he is the Managing Utility Rate Analyst for the State Corporation Commission of the State of Kansas; that he has read and is familiar with the foregoing Direct Testimony, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Al Maxwell
Al Maxwell
Managing Utility Rate Analyst
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 1st day of August, 2007.



Pamela J. Griffith
Notary Public

My Appointment Expires:

August 17, 2007

CERTIFICATE OF SERVICE

07-KCPE-905-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Direct Testimony was placed in the United States mail, postage prepaid, or hand-delivered this 3rd day of August, 2007, to the following:

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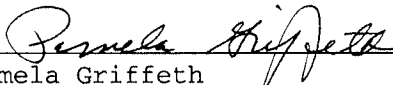
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