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Contain Confidential Information And Have Been Removed.**

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

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**DIRECT TESTIMONY OF**

**TIM M. RUSH**

**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 TARIFFS TO CONTINUE THE  
IMPLEMENTATION OF ITS REGULATORY PLAN**

**DOCKET NO. 07-KCPE-\_\_\_\_-RTS**

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

2 A: My name is Tim M. Rush. My business address is 1201 Walnut, Kansas City, Missouri  
3 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" or "Company") as  
6 Director, Regulatory Affairs.

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

8 A: My general responsibilities include overseeing the preparation of the rate case, class cost  
9 of service and rate design of the Company. I am also responsible for overseeing the

1 regulatory reporting and general activities specific to Missouri and the Missouri Public  
2 Service Commission (“MPSC”).

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

4 A: In addition to public schools, I received a Master's Degree in Business Administration  
5 from Northwest Missouri State University in Maryville, Missouri. I did my  
6 undergraduate study at both the University of Kansas in Lawrence and the University of  
7 Missouri in Columbia. I received a Bachelor of Science Degree in Business  
8 Administration with a concentration in Accounting from the University of Missouri in  
9 Columbia.

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

12 A: Yes. I provided testimony in KCPL’s 2006 rate case, Docket No. 06-KCPE-828-RTS  
13 (“2006 Rate Case). I have also testified on numerous occasions before the MPSC.

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

15 A: The purpose of my testimony is to provide the retail revenue adjustment to reflect the  
16 annualized and normalized revenue level for the Kansas jurisdiction. I will also support  
17 and explain KCPL’s proposed Energy Cost Adjustment (“ECA”) mechanism filed in  
18 compliance with the 2006 Rate Case Stipulation and Agreement. In addition, as part of  
19 the Stipulation and Agreement in our 2006 Rate Case, KCPL agreed to file a class cost of  
20 service study and rate design on or before May 1, 2007, after the initial case is filed. My  
21 direct testimony will discuss KCPL’s rate design prior to the availability of the results of  
22 that class cost of service study, and including the implementation of the ECA mechanism.



1 actual 2006 revenues to determine the revenue adjustment contained in Adj-49 of  
2 Schedule JPW-2, attached to the direct testimony of John P. Weisensee.

3 **II. ENERGY COST ADJUSTMENT (“ECA”)**

4 **Q: Why is KCPL proposing an ECA mechanism in this case?**

5 A: In accordance with the Stipulation and Agreement in the 2006 Rate Case, KCPL is  
6 proposing an ECA mechanism, including a proposed ECA tariff, in this case to take  
7 effect January 1, 2008.

8 **Q: Are you sponsoring the ECA tariff filed in this case?**

9 A: Yes, I am. The ECA tariff is attached to my direct testimony and identified as Schedule  
10 TMR-2.

11 **Q: Does KCPL’s proposed ECA mechanism comply with the requirements set out in**  
12 **the Regulatory Plan and 2006 Rate Case stipulation and agreements for any such**  
13 **proposed mechanism?**

14 A: Yes, it does.

15 **Q: How did KCPL develop the proposed ECA mechanism?**

16 A: KCPL reviewed the structure of a number of current electric utility ECA tariffs, reviewed  
17 the testimony entered in the 2006 Rate Case regarding ECA mechanisms and tariffs  
18 proposed by the KCC Staff, and held several meetings with the signatory parties to the  
19 2006 Rate Case Stipulation and Agreement to discuss the parties’ specific individual  
20 concerns regarding an ECA mechanism.

21 **Q: What parties participated in discussions that led up to this proposal?**

22 A: The Company, KCC Staff, the Citizens’ Utility Ratepayer Board (“CURB”), Wal-Mart  
23 and the Midwest Utility Users Group (“MUUG”), which includes several Kansas School

1 Districts and small commercial/industrial companies, participated in discussions that led  
2 to the development of the proposed ECA mechanism. As part of the Stipulation and  
3 Agreement in the 2006 Rate Case, the Company and other parties agreed to meet and  
4 discuss the ECA in collaboration. Since the December Order in that case, two meetings  
5 were held in which many of the issues and topics addressed in my testimony were  
6 addressed with the parties. While the proposed ECA mechanism is not a joint offering of  
7 the parties and does not represent a consensus of the parties, KCPL incorporated elements  
8 into the ECA mechanism to address concerns raised by the parties both in their testimony  
9 in the 2006 Rate Case and in the above-mentioned meetings. KCPL was precluded from  
10 including some of the parties' ideas, specifically those involving incentive-based  
11 mechanisms, because of restrictions within the Regulatory Plan Stipulation and  
12 Agreement that prevent KCPL from proposing such an option.

13 **Q: Did the Company consider other mechanisms in the development of its proposed**  
14 **ECA mechanism?**

15 A: Yes. The Company reviewed a number of mechanisms throughout the United States for  
16 investor-owned utilities, some of which serve in multiple jurisdictions. Attached as  
17 Schedule TMR-1 is a summary of the various utilities reviewed and some of the  
18 highlights of their ECA mechanisms.

19 **Q: Please provide some highlights of the results of the review of other utilities ECA**  
20 **mechanisms?**

21 A: The review of other utilities' existing mechanisms revealed a number of items worth  
22 noting and relevant for consideration in the development of the Company's proposed

1 ECA tariff. Those areas include the following, and are further described in Schedule  
2 TMR-1.

- 3 • The adjustment periods for the various ECAs vary. Annual revisions usually are  
4 supplemented by interim revisions, with triggers based on dollar amounts or  
5 percentages of energy cost in the settlement account;
- 6 • Rolling averages are not normally included as a component of these riders/tariffs;
- 7 • Most ECA mechanisms are based on forward-looking costs, with balancing  
8 accounts, typically over a period of at least a few months;
- 9 • Voltage level differentiation in the ECA is not normally included as a component  
10 of the ECAs;
- 11 • Environmental cost recovery is common, and sometimes included as a separate  
12 rider;
- 13 • Off-system sales are recognized in most cases; and
- 14 • Incentive mechanisms are not common.

15 One general observation is that regulatory practices differ across states and produce  
16 differences in structure as well as frequency of price changes and price revisions. Each  
17 standard may have its own conceptual boundaries but the outcome is fairly similar:  
18 monthly revisions, or annual revisions with provision for more frequent revision if  
19 needed, yielding a fairly stable ECA pattern over the course of the year.

20 **Q: How will the proposed ECA mechanism affect the requested increase in this case?**

21 A: KCPL calculated its total revenue requirement, including fuel expense, purchased power  
22 expense and off-system sales margins, and then subtracted from the revenue requirement

1 amounts which will be recovered under the ECA tariff, with the remainder of the revenue  
2 requirement to be collected in base retail energy rates.

3 **Q: Please describe generally the ECA mechanism you are proposing?**

4 A: The proposed ECA mechanism is designed to reflect monthly changes in fuel and  
5 purchased power costs and to credit to retail customers the annual margins from off-  
6 system sales. The proposed ECA also includes an annual true-up provision to correct for  
7 any differences between projected and actual costs and margins, to assure complete cost  
8 recovery and assure that customers receive the full benefit of KCPL's off-system sales  
9 margins.

10 The Company is proposing that, prior to the beginning of each calendar year,  
11 KCPL will determine its expected monthly energy cost to serve its retail, requirements  
12 sales for resale and long-term bulk power customers. At the same time, the Company  
13 will determine the annual off-system sales margin at the 25<sup>th</sup> percentile for serving short-  
14 term bulk power sales expected in the upcoming year. The purpose for selecting the  
15 25<sup>th</sup> percentile as the basis for determining the off-system sales margin is addressed later  
16 in my testimony and also in the direct testimonies of KCPL witnesses Chris B. Giles and  
17 Michael M. Schnitzer. The ECA factor for each month of the coming calendar year, in  
18 \$/kWh, will then be calculated by taking the estimated monthly energy cost per kWh, less  
19 a credit for the estimated annual off-system sales margins at the 25<sup>th</sup> percentile divided by  
20 the estimated annual kWh sales to retail, requirements sales for resale and long-term bulk  
21 power customers. A true-up provision is included to adjust for the actual revenues  
22 recovered through the ECA in comparison to the actual energy costs and actual off-  
23 system sales margins after each annual ECA period.

1           The ECA amount on each customer bill will be calculated such that the ECA  
2 factor for each calendar month within the billing period is applied to the estimated usage  
3 for the appropriate calendar month (i.e., prorated). The ECA charge for each month will  
4 be for usage on and after the 1<sup>st</sup> of the month to correspond to the fuel and purchased  
5 power costs projected for the month.

6 **Q. How will the ECA be computed?**

7 A. The computation is detailed in Schedule TMR-2 which shows the proposed ECA tariff.  
8 Because KCPL provides retail electricity to Missouri and Kansas and also provides sales  
9 for resale to a number of communities, KCPL proposes to determine the ECA based on a  
10 total KCPL basis to appropriately determine allocations between jurisdictions. Each of  
11 the following components used in the calculation of the monthly ECA factors would be  
12 on a total KCPL basis. The resulting ECA factors are on a \$/kWh basis.

13 **Monthly Projected Energy Cost Portion:**

14 The projected monthly cost of fuel, purchased power, emission compliance , and related  
15 transmission costs necessary to provide generation for KCPL retail, requirements sales  
16 for resale and long-term bulk power sales customers, divided by the projected monthly  
17 KCPL retail, requirements sales for resale and long-term bulk power sales customers.

18 **LESS:**

19 **Projected Off-System Sales Margin Credit Portion:**

20 The annual projected KCPL off-system sales margin at the 25<sup>th</sup> percentile, divided by the  
21 annual projected KCPL retail, requirements sales for resale and long-term bulk power  
22 kWh sales.

1       **LESS:**

2       **Annual True-up Amount:**

3       After the first year of application of the ECA tariff, an annual true-up amount will be  
4       calculated each subsequent year in total Kansas jurisdictional dollars – by comparing  
5       actual revenue collected under the ECA vs. actual Kansas jurisdictional costs and credits,  
6       and taking into account any correction factor applied as the result of a true-up for  
7       previous years. The true-up adjustment will be filed on or before the 1<sup>st</sup> of March of each  
8       year and will take effect beginning with April kWh usage. The true-up amount will be  
9       spread over the projected kWh sales for Kansas retail, requirements sales for resale and  
10      long-term bulk power sales the following 12-month period (April 1 through March 31).

11     **Q: Will KCPL monitor how the projected revenue from the ECA is tracking against**  
12     **projected costs and off-system sales margins throughout the year?**

13     A: Yes. KCPL will submit a report on or before the 25<sup>th</sup> of April, July and October.  
14     In each report, KCPL will compare the original projections on a total combined revenue  
15     basis (Energy Cost – Off-System Sales Margin Credit) and the then-current year-end  
16     projections. If these two projections become significantly out of balance during the year,  
17     the remaining monthly ECA factors may be adjusted to address the anticipated year-end  
18     gap.

19     **Q. What considerations were addressed in developing the ECA mechanism?**

20     A. KCPL addressed nine specific issues in the development of the ECA. I will discuss each  
21     one:

22             1.) **Minimize unfavorable cash flow impacts:** As presented by the Company  
23             throughout the 2006 Rate Case and in the Regulatory Plan docket, Docket 04-

1 KCPE-1025-GIE, cash flow is a significant issue for KCPL over the next few  
2 years as we implement our Comprehensive Energy Plan. To ensure adequate cash  
3 flows, the Company proposes to use forecasted fuel and purchased power costs  
4 and the 25<sup>th</sup> percentile of projected off-system sales margins for determining the  
5 level of off-system sales margins to be included in the ECA mechanism each year.  
6 This is then true-up each year to reflect actual levels of expense and margins.

7 2.) **Minimize frequency of changes to ECA factor:** At the beginning of each  
8 calendar year, KCPL proposes to set the ECA factor (on a \$/kWh basis) for each  
9 month of the upcoming year. Changes to monthly ECA factors within the year,  
10 other than for application of the annual true-up correction factor, would only be  
11 initiated if the original annual projections on a total combined basis  
12 (fuel/purchased power costs – off-system sales margins) and the then-current  
13 year-end projections become significantly out of balance. This methodology  
14 minimizes the frequency of changes to the ECA factor and provides customers the  
15 opportunity to plan for expected changes in the ECA factor.

16 3.) **Maintain reasonable level of fuel cost variability for price signaling:** At the  
17 beginning of each calendar year, KCPL proposes to project fuel/purchased power  
18 costs for each month of the upcoming year. This methodology retains monthly  
19 fuel cost variability for price signaling to consumers and, because the ECA factors  
20 would be set for the entire year, customers would be able to plan and adjust based  
21 upon expected monthly ECA factors.

22 4.) **Provide for 100% of Kansas jurisdictional asset-based off-system sales**  
23 **margins to be credited back to Kansas retail customers using forward-**



1 be low as there is little generation available for sale outside the retail market.  
2 ECA charges in the winter months would likely be low due to KCPL primarily  
3 using coal generation to serve retail load in combination with higher off-system  
4 sales margins. The magnitude of these swings in the ECA might be too wide for  
5 customers. KCPL proposes smoothing the variability by levelizing the annual  
6 off-system sales margin credit over the year while allowing the projected energy  
7 cost to fluctuate monthly.

8 6.) **Provide appropriate cost recovery of environmental compliance costs:** KCPL  
9 includes an emissions factor in its proposed ECA tariff, which is similar to the  
10 Emissions Factor ( $E_p$ ) for projected emission allowance costs used in Westar's  
11 Retail ECA tariff. While  $SO_2$  emission allowance sales/purchases are addressed  
12 within the scope of KCPL's  $SO_2$  Emissions Allowance Management Policy,  $NO_x$   
13 emission laws are scheduled to go into effect in 2009 and mercury appears to be  
14 on the horizon. Carbon controls also remain on the list of compliance costs but  
15 the form of such costs is still in question. An appropriate emissions factor should  
16 be included to address these impending costs.

17 7.) **Provide appropriate jurisdictional allocation:** KCPL's proposed ECA tariff  
18 separates, on an energy basis, off-system sales margins, the revenues and costs of  
19 serving short-term bulk power sales to be allocated. This method is consistent  
20 with Westar's and Empire District's energy adjustment mechanisms in Kansas.

21 8.) **Provide for symmetrical true-up application:** KCPL proposes an annual  
22 symmetrical true-up (over- or under-recovery) to occur in the first few months of  
23 each calendar year and be applied prospectively over a 12-month period. Such

1 annual process would avoid the need for in-depth monthly reviews by Staff and  
2 other parties, but would allow for an annual review. Regular reporting is  
3 proposed in the tariff to keep track of the status of actual revenues against  
4 projections.

5 9.) **Provide opportunity for out of period adjustment:** It is essential to have the  
6 opportunity to adjust the ECA charge more frequently than annually if revenues  
7 from the ECA appear to be inconsistent with actual costs or if projected off-  
8 system sales margins are significantly different than originally projected.

### 9 III. **ELECTRIC RATE DESIGN**

10 **Q: Are you sponsoring the electric tariffs filed in this case?**

11 A: Yes, I am.

12 **Q: Please describe generally the electric tariffs and the proposed changes set out in**  
13 **these tariffs?**

14 A: The Company is recommending an overall increase in rates of \$47.1 million (10.82%).  
15 As just described, the Company is proposing an ECA mechanism to address changing  
16 fuel, purchased power, and related costs. The tariffs being filed as part of this case reflect  
17 both of these elements. In the 2006 Rate Case, the Company made several changes in  
18 rate design and shifted some revenues between classes to reflect the results of the class  
19 cost of service study. Also, as part of the 2006 Rate Case, the Company agreed to  
20 incorporate a proposed ECA mechanism into this 2007 Rate Case and to file another class  
21 cost of service study and new rate design by May 1, 2007. Therefore, the tariffs filed at  
22 this time are based on applying the overall percentage increase to all tariffs (10.82%) and  
23 then subtracting out the fuel and purchased power costs and crediting the off-system sales

1 margins associated with the ECA. On or before May 1, 2007, the Company will file a  
2 full class cost of service study, along with proposed rate design, to reflect the results of  
3 the study and address any additional rate design issues.

4 **Q. Please explain how the fuel and purchased power costs and the off-system sales**  
5 **margins were determined?**

6 A. Attached as Schedule TMR-3 (Confidential) is a computation of the projected ECA  
7 amounts built into the proposed rate increase. Overall, this amounts to a Kansas retail  
8 jurisdictional amount of \*\* [REDACTED] \*\*. This amount was backed out of the retail  
9 tariffs after the overall rate increase percentage was applied.

10 **Q. How was the ECA amount (\*\* [REDACTED] \*\*) deducted from the tariffs?**

11 A. The Company's tariffs are seasonal rates, based on summer/winter rates. The summer  
12 period covers four equivalent months beginning May 15<sup>th</sup> and ending September 15<sup>th</sup>.  
13 The winter period is eight equivalent months beginning September 16<sup>th</sup> and ending  
14 May 14<sup>th</sup>. Our current prices to retail customers have higher summer rates than winter  
15 rates, partially because fuel and purchased power costs are higher in the summer than in  
16 the winter. Summer costs per unit of energy tend to be higher because the Company  
17 experiences increased gas and oil generation and increased purchased power costs in  
18 addition to its base load nuclear and coal generation. Gas and oil generation and summer  
19 purchased power costs tend to have a much higher cost per unit of energy than does  
20 nuclear and coal generation. In the winter months, the Company is able to generate  
21 electricity primarily with lower cost per unit of energy sources, nuclear and coal. The  
22 summer/winter cost split for fuel and purchased power costs for serving retail customers  
23 in 2005 and 2006 was 46.9% summer and 53.1% winter. This means that, while the

1 summer period only covers only one third of the year, it has about 47% of the fuel costs.  
2 These percentages represent fuel and purchased power costs before credit for off-system  
3 sales margins. These percentages were applied to the overall fuel and purchased power  
4 costs determined in this filing, before any credit for off-system sales margins, to derive a  
5 summer and winter energy cost. The summer/winter costs were divided by the respective  
6 summer/winter usages (in kWh), to come up with energy rates prior to crediting the off-  
7 system sales margins. The next step was to calculate the annual credit to subtract from  
8 these energy rates to reflect the off-system sales margins. This was accomplished by  
9 simply taking the off-system sales margin divided by the annual sales (in kWh). This  
10 amount was subtracted from the summer and winter energy rate to derive the overall  
11 projected ECA amount to be subtracted from the base rate. The ECA rate subtracted  
12 from the summer retail rate schedules was \$0.0103 /kWh while \$0.0066 /kWh was  
13 subtracted from the winter retail rate schedules.

14 **Q. Are there any other changes the Company is recommending?**

15 A: Yes, we are proposing several modifications in the Rules and Regulations of the  
16 Company.

17 **IV. RULES AND REGULATIONS**

18 **Q: Does KCPL's filing address changes to the Company's Kansas Rules and**  
19 **Regulations?**

20 A: Yes. In the 2006 Rate Case, the Company filed a number of proposed changes to its  
21 electric Rules and Regulations. KCC Staff witness Sonya Cushinberry testified regarding  
22 the need to wait until the next proceeding to address several of the changes proposed by  
23 KCPL. Based on her recommendations, the Company agreed not to pursue these changes

1 to its Rules and Regulations at that time and agreed to file them in this proceeding.  
2 Therefore, much of what is presented here was addressed in the 2006 Rate Case. As I  
3 said in the last case, KCPL identified three guiding principles to better serve Kansas  
4 customer: (i) clarity; (ii) consistency; and (iii) simplification.

5 **Q: Would you discuss, in greater detail, what is meant by adding clarity to the Kansas**  
6 **Rules?**

7 A: We are seeking to clarify our Kansas Rules by providing clearer definitions. For  
8 instance, in our current Rules and Regulations we use the word “Adult,” however, that  
9 word is not defined. To address this and similar issues, we are proposing to add ten (10)  
10 new definitions to the Kansas Rules: Adult, Billing Error, Field Error, Fraud, Individual  
11 Liability, Meter Error, Responsible Party, Tampering, Time of Application and  
12 Unauthorized Use.

13 We also recommend clarifying the treatment of “Other Extensions” in Kansas  
14 Rule 8.02. As currently written, a customer could infer that the rule for Other Extensions  
15 may be applied for line extensions for temporary service. To eliminate this possible  
16 misunderstanding, we are proposing revising the language by adding the word  
17 “permanent” to the opening sentence.

18 **Q: How would you generally describe what you refer to as providing for consistency in**  
19 **the Kansas Rules?**

20 A: We propose to make the language consistent concerning the application of a minimum  
21 \$150 charge for reconnection where there is evidence of tampering and or diversion, to  
22 increase the charges for reconnection of service at the meter from \$10 to \$25, and for

1 reconnection of service at the pole or service pedestal from \$15 to \$50. This is found in  
2 Kansas Rule 5.08, and is in line with the overall cost of service.

3 **Q: You mentioned simplification; what sorts of changes do you propose to simplify**  
4 **matters for Customers and Customer Care personnel?**

5 A: Within the context of single-phase, single family residential extensions, we are proposing  
6 a change in the monthly recovery rate applied to amounts customers owe in excess of  
7 costs provided by KCPL for residential customer extensions. We recommend modifying  
8 this provision to provide more flexibility in arranging payments.

9 Another area of simplification for our customers and employees is dealing with customer  
10 needs for provision of service beyond what is normally provided a similarly situated  
11 customer. In an effort to add simplicity to our operations and relationships with  
12 customers between Kansas and Missouri, and to provide a basis for our employees in  
13 their dealings with customers in these matters, we are recommending an "Excess  
14 Facilities Charge." The Excess Facilities Charge is a charge to customers for facilities  
15 and services above and beyond the normal amount required for providing service. This is  
16 found in Kansas Rule 8.02.

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

18 A: Yes, it does.

