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# Kansas City Board of Public Utilities

## Cost of Service and Rate Design

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Kansas City  
Board of Public Utilities

## Goals of the BPU Rate Process

- Adjust rates to equitably recover revenue from customers based on their share of the cost of service over the Rate Plan Period
- Offer innovative rate options to meet the needs and requests of customers
- Improve operating reserves to meet financial policies by 2014 (Electric - 60 days of O&M, 1.6 times debt coverage, Water – 45 days of O&M, 1.4 times debt coverage)
- Improve cash flow to remove negative outlook on current credit rating to retain the ability to issue debt affordably
- Support needed capital improvements and replace aging infrastructure

## Activities Since Last Hearing

- BPU Staff responded to data requests and had discussions with customer's representatives
- Large Power Customers addressed the BPU Board
- Large Power Interveners filed testimony
- BPU Staff reviewed, considered and developed rebuttal testimony to Interveners
- BPU Staff met with the customers and their representatives

## **BPU Staff's Efforts to Reach Agreement**

- BPU Staff reviewed assumptions and input data related to revenue requirements and cost of service
- In an effort to reach an agreement with Interveners, BPU Staff proposed changes to the revenue requirements
- BPU proposed to change its ERC proposal to move certain fixed purchased power capacity cost recovery back to base rates
- BPU proposed to modify the ESC to allocate costs to classes in the same way as plant costs

## Potential Considerations for a Revised Rate Plan

- **Electric – 6% in 2011**
  - Delayed CT5 Construction – 1 year
  - Reduced number of filled positions – 35 positions
  - Reduced non-labor O&M inflation factor – 4% to 3%
  - Adjusted bond issue timing – July 2010 to January 2011

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- **Electric – 6% in 2011**
  - Delayed CT5 Construction – 1 year
  - Reduced number of filled positions – 35 positions
  - Reduced non-labor O&M inflation factor – 4% to 3%
  - Adjusted bond issue timing – July 2010 to January 2011
- **Electric – 5% in 2011**
  - Adjusted Capital Improvement Plan – Delayed:
    - Nearman to Wolcott 161kV Transmission Line – 2 yrs
    - Implementation of BPU/UG Radio System - 2012
    - Construction of Fisher Substation – shifted to 2014

## Potential Considerations for a Revised Rate Plan

- **Water – 7% in 2011, 2012 and 2013**
  - Reduced number of filled positions – 7 positions
  - Reduced non-labor O&M inflation factor – 4% to 3%
  - Adjusted bond issue timing – July 2010 to January 2011

## **Potential Impacts of Revised Rate Plan**

- No cash reserves for unexpected costs such as ice storms
- Inadequate facilities to serve economic growth and development from a more rapid economic recovery
- Limited flexibility to manage higher employee costs
- Inadequate capital for infrastructure replacement
- Bond rating downgrade if the results of the increases do not meet projected financial metrics

## Projected Financial Metrics

	Year End			
	2011	2012	2013	2014
Total Debt Service Coverage without PILOT				
Electric	1.74	1.52	1.80	1.60
Water	1.08	1.08	1.24	1.40
Combined	1.54	1.40	1.65	1.55
Days Cash O&M Reserved (Combined Utility)	41	53	60	57

## Projected Electric Financial Metrics – No Increase in 2012 or 2013

	Year End			
	2011	2012	2013	2014
<b>Total Debt Service Coverage without PILOT</b>				
Electric	1.74	1.28	1.29	1.10
Days Cash O&M Reserved	42	36	10	-26

# Comparative Electric Financial Metrics from Peer Rated Companies with A+ Rating

## KCBPU to A+ Retail Systems

	Debt Service Coverage w/o PILOT	Days Cash On Hand	CapEx Depreciation	Equity % of Capitalization
<b>BPU**</b>	<b>0.74</b>	<b>31</b>	<b>0.76</b>	<b>47</b>
<b>Median</b>	<b>1.62</b>	<b>107</b>	<b>1.8</b>	<b>62</b>

**\*\*2009 BPU Audited Financials**

## Issues Addressed in BPU Staff Rebuttal Evidence

- The requirement for a Rate Plan
- The standard for excluding expenses from revenue requirements
- Appropriate Capital Investment Plan
- The appropriateness of the Cost of Service Study
- Problems with the Interveners proposed cost study based on cost causation and errors in the data
- Rate Design as modified by BPU is sound

## Financial Community Requires a Rate Plan

- Management's ability to **design a thorough strategic plan** that is appropriate for its particular needs and its **ability to successfully implement that plan** carry great weight in the rating process.
- The measure of rate flexibility is not based solely on the affordability measures, but includes an emphasis on legal ability and **political willingness to enact rate increases.**
- As important to the level of equity as a percentage of capitalization are **the system's operating leverage ratios, and the plan to grow system equity.**

## Issues with No Changes Proposed

- Cost Allocation Methodology
- Appropriateness of Rate Plan for 2011-2013
- No arbitrary exclusion of capital or expenses
- Development of rate class allocation factors
- Maintain 70% ratchet as part of the rate design for all demand metered customers

## Risk Issues for the BPU and Customers

- Approval of the Rate Plan provides customers with a basis for planning future power costs reducing their risk going forward
- The BPU is exposed to increasing cost risks because rates are capped without another rate proceeding
- The customers' risk of BPU over recovery under the Rate Plan is mitigated by the proposal to reduce future approved rate increases if financial metrics are met.

## Class Rate Increases- Electric

- **Above System Average Increase**

- Residential Rate 100
- Large Power Service Rate 400

- **Below System Average Increase**

- Small Gen Service Rate 200
- Medium Gen Service Rate 250
- Large Gen Service Rate 300
- USD 500 Schools Rate 500
- Lighting Rate 700

## Summary

- The proposed Rate Plan provides a balanced approach to rates over the next three years.
- The Rate Plan as discussed provides customers with base rate certainty and eliminates any risk to customers that the utility will generate too much revenue compared to the forecast.
- We recommend that the Board approve a Rate Plan that meets our stated goals
- We recommend the implementation of the ERC and the ESC as outlined