

# Kansas City Board of Public Utilities

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September 30, 2010

BRUBAKER & ASSOCIATES, INC.



*Powerful Connections for Energy Solutions* 1

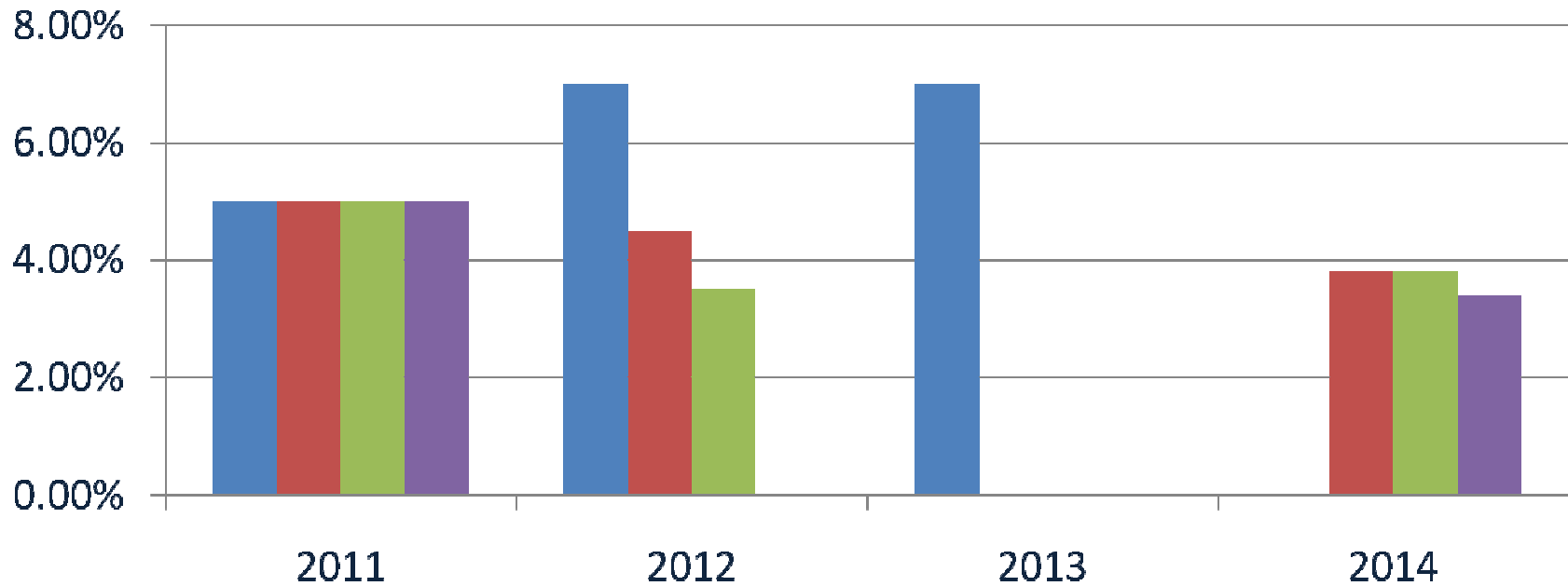
# Introduction

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- Industrial Group
- BAI
- Long History of BPU Interaction

# Electric Rate Position



■ BPU Staff ■ BPU Staff (No CT5) ■ BPU Staff (No CT5 & No AMI) ■ Industrial Group

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# Industrial Group Proposal

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- Limit Rate Approval in this Case to 2011 ( 5.0% to 3.8%)
- Board Should Retain Complete Authority Over Rates – Protect Public
- Staff Should be Required to Prove to Board that a Rate Increase is Needed
- Beyond 2011 – No Proof

# Uncertain Post 2011 Cost Projections

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- Sales Recovery
- Labor Costs
- Bond Interest Rate
- Bond Issue Amount
- CIP Expenditures
- Non-Labor O&M Expenditures
- Pension
- CT5/AMI
- Load Growth

# Financial Metrics - Electric

## Debt Service Coverage Ratios

	2011	2012	2013	2014
BPU Staff	1.68	1.67	2.00	1.62
Industrial Group - Total	1.69	1.51	1.55	1.50
Industrial Group – Excluding Environmental	1.69	1.60	1.60	1.60

# Financial Metrics - Electric

## Days of Working Capital

	2010	2011	2012	2013	2014
BPU Staff	30	43	51	61	61
Industrial Group	30	47	60	60	60

Target 60 Days

# Financial Metrics - Electric

## New Debt (\$Million)

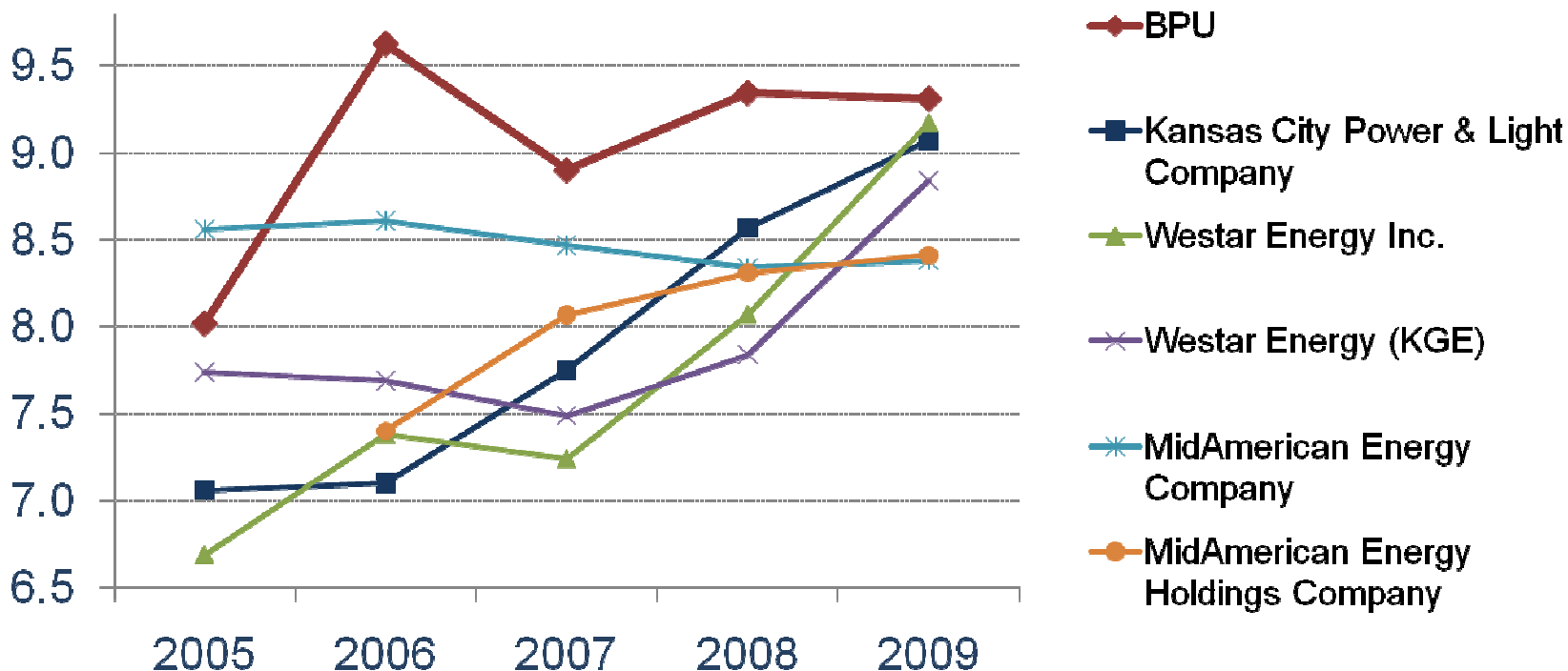
	2010	2011	2012	2013	2014
BPU Staff	-	\$ 14	\$ 66	-	\$ 72
Industrial Group	-	\$ 14	\$ 40	-	\$ 21

## Total (million)

BPU Staff	\$ 152
Industrial Group	\$ 75

# Residential Costs

Cents per kWh



Sources:

FERC Form 1 data downloaded from SNL Financial, Inc.

2009 BPU CAFR Statistical Section, Electric Utility Systems Sales.

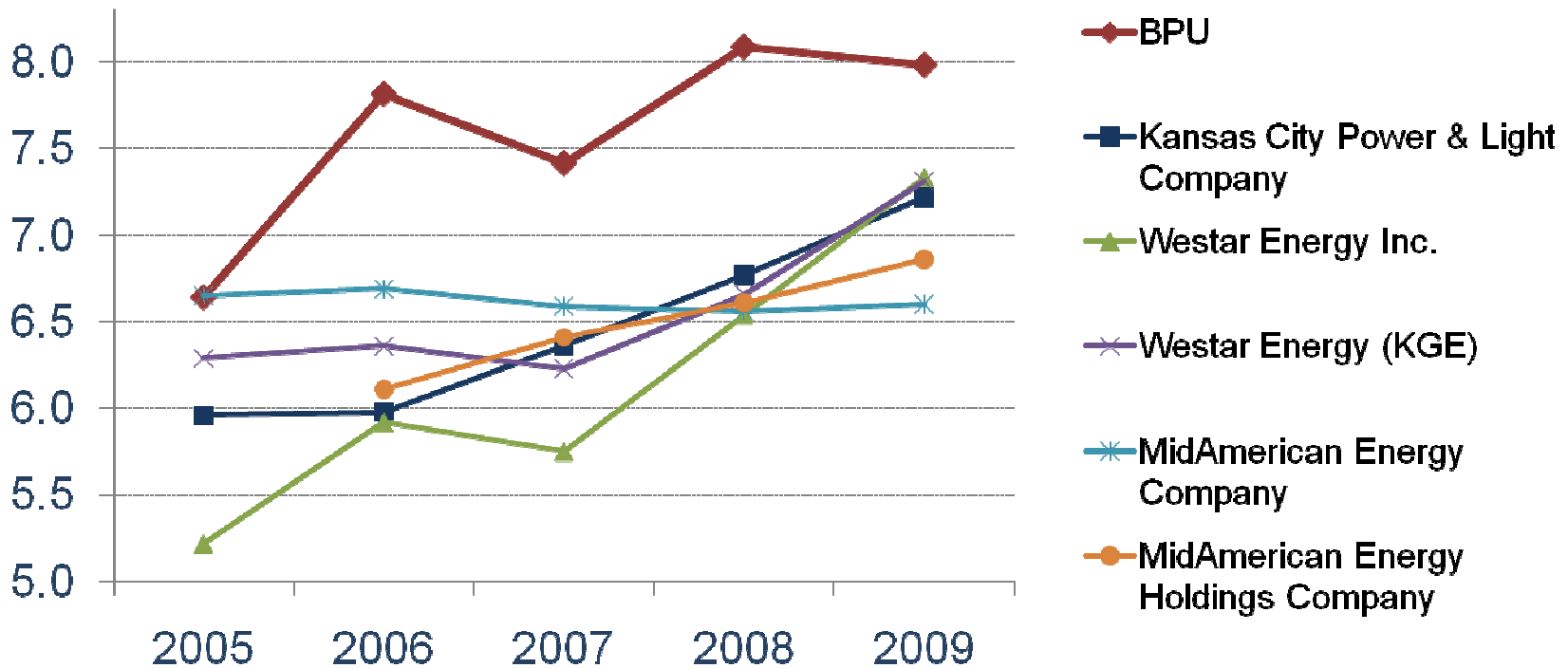
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# Commercial Costs

Cents per kWh



Sources:

FERC Form 1 data downloaded from SNL Financial, Inc.

2009 BPU CAFR Statistical Section, Electric Utility Systems Sales.

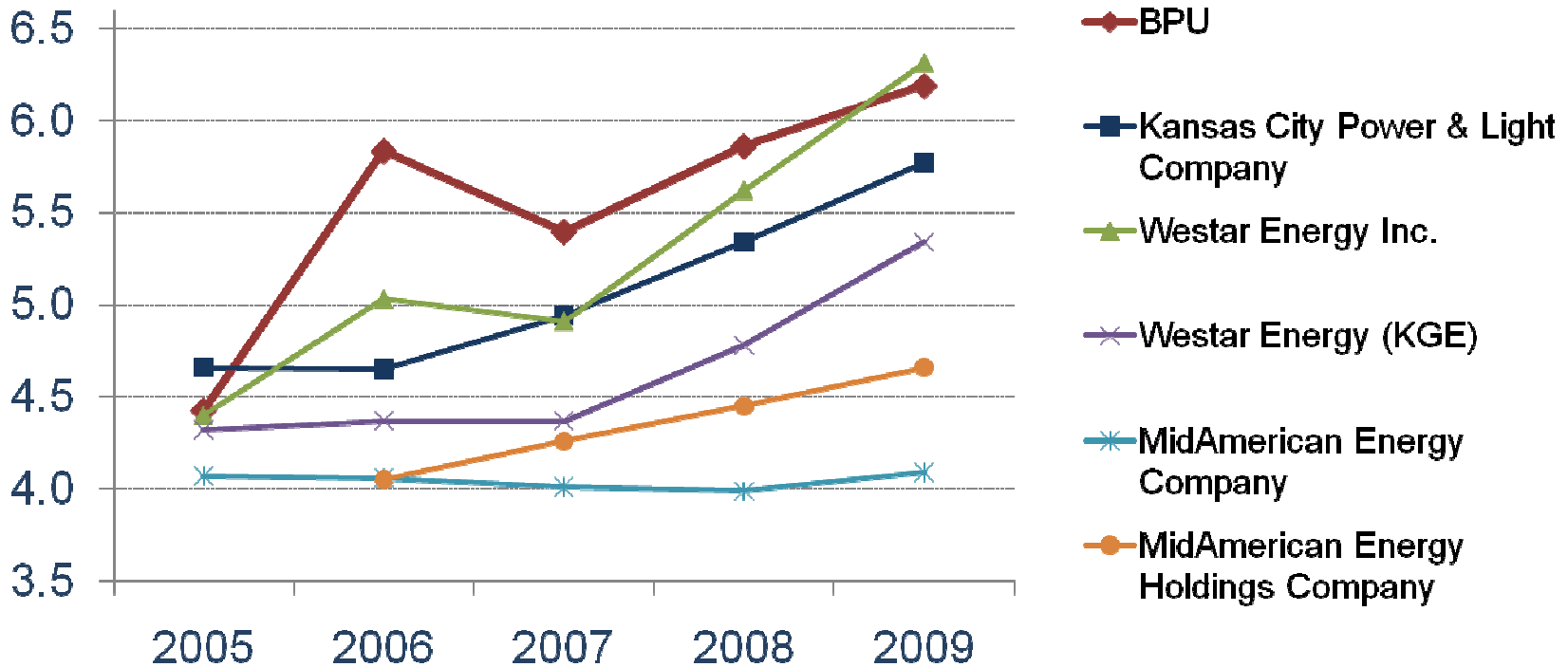
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# Industrial Costs

Cents per kWh



Sources:

FERC Form 1 data downloaded from SNL Financial, Inc.

2009 BPU CAFR Statistical Section, Electric Utility Systems Sales.

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# Need for Competitive Rates

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- Credit Analysts
  - S&P
  - Moody's
  - Fitch



# How Can BPU Staff Rate Increase be Moderated?

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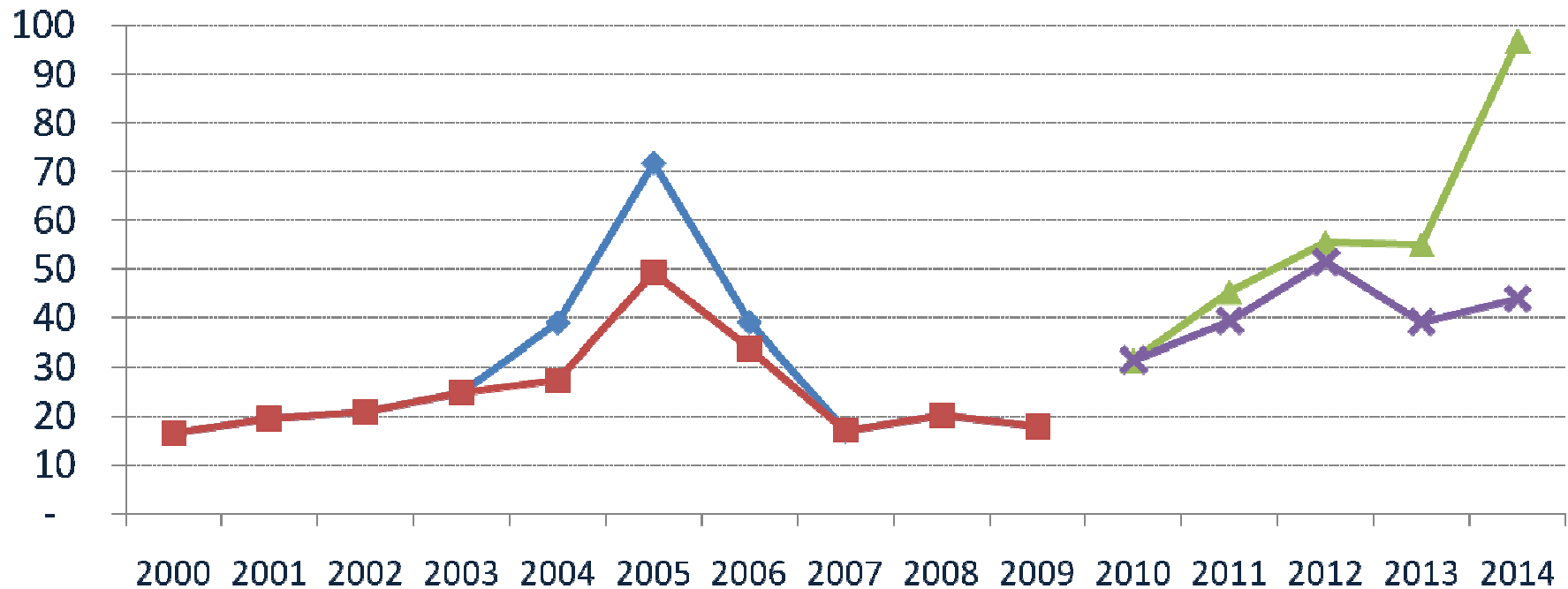
- Limit CIP to Known Cost and Set Responsible Budget
- Limit Rate Increase
- Support Credit Rating



# How Can BPU Staff Rate Increase be Moderated?

## BPU Capital Additions (Historical & Projected)

Millions



◆ BPU Historical

■ BPU Historical Without Nearman CT4

▲ BPU Projected

✱ BPU Projected Without CT5 & AMI

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## Moderate CIP Does Not Mean Infrastructure Modernization Will Not Be Accomplished

- Industrial Group Proposed CIP Budget will Accomplish BPU Staff Infrastructure Goals with a 2 – 3 year time extension



# Need for CT5

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- Need to Meet Demand Growth (12% Reserve)
- BPU Staff Need by 2015
  - 11% Demand Growth – 2010
  - Flat Sales Growth
  - System LF Drops 60% to 55%
- Same Growth Demand and Energy
  - CT5 needed in 2015
  - BPU Understates Current Rates
- Is CT5 Needed to Replace Quindaro Coal?
- Do Not Increase Rates Now

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# AMI Investment

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- BPU Proposal \$13 Million
- KCPL, WaterOne, Olathe, Westar Budgeted and/or Government Grant Assistance
- Does the Equipment Work, Will Customers Respond?
- Does BPU have Rate Systems in Place to Realize Savings?

# BPU Class Cost of Service Study

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- BPU COS Model Flawed Not Reliable
    - No Attempt to Measure BPU Actual Load Data
    - Designed to Shift Cost to High Load Factor (Industrial Customers)
      - Plant Allocation
        - A&E Factor Flawed
        - Boiler Plant Classification
      - OSS Classification
      - Dorothy Myrick - Manager Utility Rate Analysts – KCC
    - Borderline Customers
- BRUBAKER & ASSOCIATES, INC.



# ERC Issues

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- BPU Staff Proposal to Include Incremental Purchased Power (PP) Capacity Cost
- Not Reasonable
  - ✓ Misallocation Cost
  - ✓ Not Needed
  - ✓ Potential for Abuse of Public Interest
- Reject BPU Staff Proposal to Recover PPA Capacity Cost in ERC
- Alternatively, Incremental PP Capacity Recovered by Incremental Off-System Sales Margin



# ESC Issues

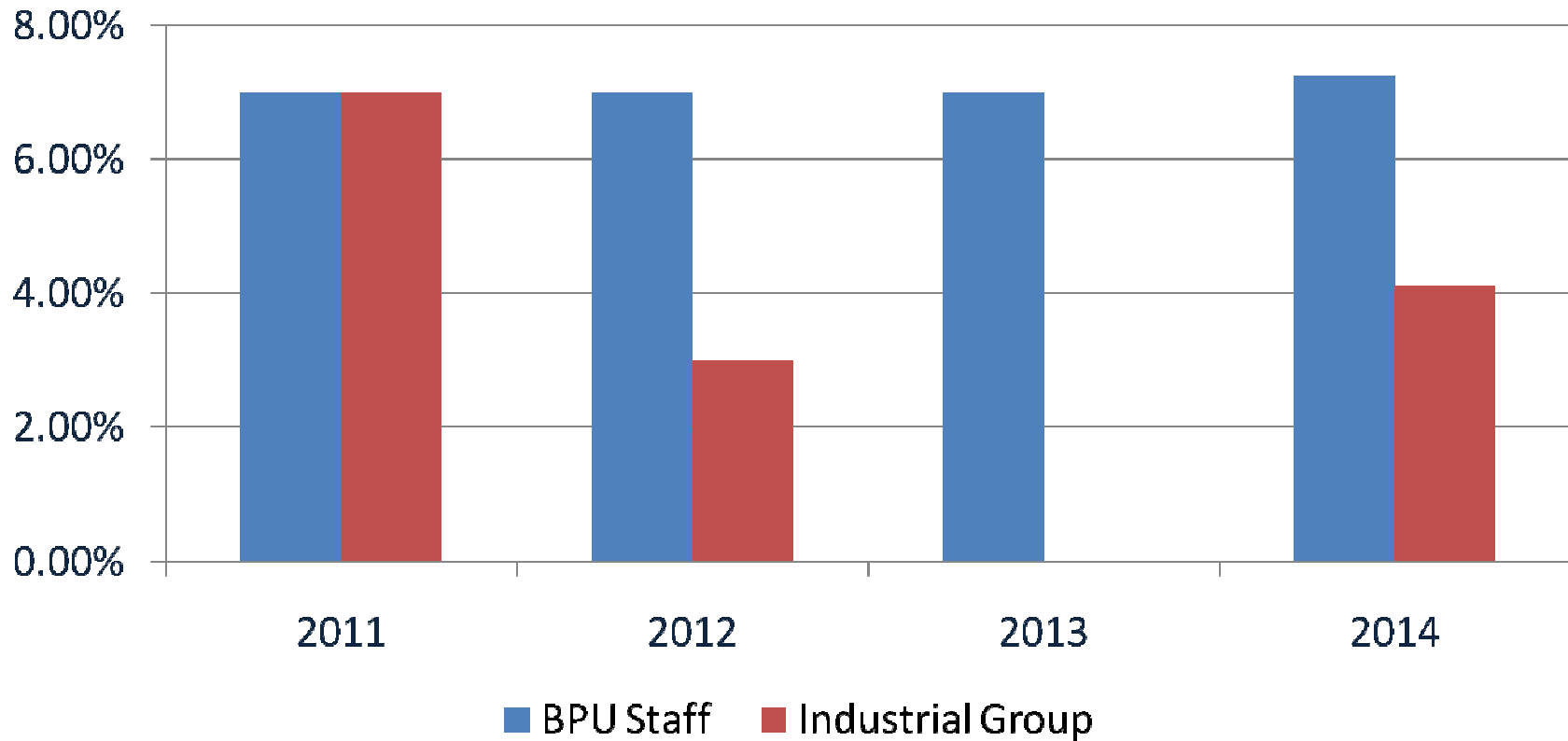
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- Staff Proposes to Recover up to 25% of Costs using Rate Revenue Funding
- Potential for Pricing Abuse
- Limit ESC Charge to 120% of Environmental Bond Debt Service



# Water Rate Position



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# Financial Metrics - Water

## Debt Service Coverage Ratios

	2010	2011	2012	2013	2014
BPU Staff	0.93	1.09	1.09	1.25	1.40
Industrial Group	0.81	1.37	1.37	1.33	1.40

## Days of Working Capital

	2010	2011	2012	2013	2014
BPU Staff	33	48	46	47	47
Industrial Group	23	45	45	45	45

## New Debt (\$000)

	2010	2011	2012	2013	2014
BPU Staff	\$ -	19,500	21,500	\$ -	3,700
Industrial Group	19,500	\$ -	2,000	\$ -	4,250

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# Industrial Group Moderation of Increase

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- Normal 2009 Sales
- Budget CIP
- Achieve CIP Objective but Over Longer Time Period



# Water Cost of Service

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- Base Extra Capacity
- Main Cost Allocation
  - Missouri-American Water
  - Indianapolis Water
  - Indiana-American Water
  - American Water Works Association
- B&V Cost of Service Allocates Small Main Cost to Large Customers



# Summary – Industrial Group Recommendation

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- 1) Electric Rate Increase (5.0% to 3.8%) in 2011
- 2) Do Not Approve Increase for 2012 – 2013 until Facts More Clear and Measurable
- 3) Water Rate Increase 7% in 2011
- 4) No Water Rate Increase after 2011 at this time
- 5) Direct Staff to Reduce CIP Program to an Affordable Budgeted Level
- 6) Direct Staff to Carefully Plan CIP to Keep Rates as Low as Possible
- 7) Expand Effort to Secure Government Grant Money (AMI - other)

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# Summary - continued

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## ➤ ERC

- No PPA Capacity Costs

## ➤ ESC

- Cash Funding Amortization Cannot be More than 20% of Total ESC Charge

## ➤ Detail Environmental Accounting to Ensure Environmental Costs Are Not Built into Both Base Rates and ESC

