

Board of Public Utilities
Prepared Testimony of
Lori Austin
September, 2010

Q: Please state your name and your business address.

A: My name is Lori Austin, 540 Minnesota Avenue, Kansas City, KS 66101.

Q: What is your position at the BPU?

A: I am the Manager of Accounting and Finance/Chief Financial Officer.

Q: Have you previously provided testimony in this matter?

A: Yes, I provided testimony in the initial public hearing for the Kansas City Board of Public Utilities (BPU) on May 3 and 4, 2010 and also filed written testimony for the initial public hearing and rebuttal testimony to the intervener's testimony .

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to provide the final recommendation for revenue requirements and rate design for both the electric and water cost of service.

Q: You have recommended revisions to the revenue requirements in your rebuttal testimony. Can you recap the changes to the revenue requirements?

A: The cost of service study for the electric and water utility were performed to provide a recommendation that would fund the electric and water utility's revenue requirements. After further review and discussion with the interveners the following are the changes to revenue requirements:

- Reduce the non-labor escalation from 4% to 3%.
- Slow the rebuild of attrition and reduce the number of positions filled to 635 from the proposed 681.
- Delay the issuance of the proposed July 2010 bonds to January 2011.
- Agreed with the Customer Group to add back into base rates \$2.6 million of known capacity charges that were originally removed from base rates and were anticipated to be collected in the Energy Rate Component (ERC) rider.
- Delay the electric utility's Combustion Turbine No. 5 (CT5) project for one year from the original start date of 2011.

Q: Were there any adjustments made to the Capital Improvement Plan (CIP) in the Cost of Service study?

A: Yes, in the Electric CIP we have made the following adjustments:

- Reduced the Electric Unit Equipment by \$4 million.

One of the projects in this category is the upgrade of the radio system that supports BPU, KCK Police and Fire. We had scheduled to begin that project in 2011 and phase it in through 2014, as an upgrade to the existing analog system. We have reevaluated the project and are looking at phasing in a new P-25 digital system that will stretch the project beyond the study period and into 2015. A revised project plan could mean phasing in a dual-band 700/800Mhz digital system that will integrate with the surrounding communities (Johnson County, Leavenworth County, Kansas City Missouri, Independence). Those communities have already converted their older analog systems to P-25 to satisfy new emergency management interoperability standards being driven by Homeland Security/Public Safety. However, in the event that the project needs to be accelerated to avoid an adverse impact in communications between BPU and KCK Police and Fire during normal or emergency procedures, funds can be shifted into the radio system project from Electric Substation projects in the later study period years.

- Delayed construction of the Wolcott to Nearman Transmission Line

Within Electric Transmission we have delayed the construction of a new Wolcott to Nearman transmission line for two years. The project was originally scheduled to begin in 2011. We are now scheduling it to start in 2013 and be completed in 2014. The significance of this project was to support three existing 161kV substations in our western service area and provide future generation transmission service from Nearman. It will help mitigate possible transmission constraints on the existing KCPL line, support growth in the Piper and Wolcott communities, extend BPU transmission westward if the KCPL line is not available, establish new intertie points near the edge of our county, and improve power flow within our system.

- The timing of certain Electric Substation projects was reallocated within the study period.

Q: Are the recommended changes to the rate design still being proposed?

A: Yes.

Q: Can you please recap the changes to the rate design?

A: The following are changes recommended to rate design:

- Adjust the ERC Purchase Power definition to remove currently known purchase power capacity charges assessed under long-term contracts. Currently \$2.6 million. Any additional capacity charges that are unknown at this time will be included in the ERC calculation until the next rate hearing when a new level of long-term purchase power capacity is calculated.
- Restore the peak period to its current timeframe, 10 a.m. to 8 p.m. until further analysis and evaluation.
- Revise the wording of the ESC to include:
 - Allocation between customer classes based on the production demand allocator
 - Dollar limits (\$10 million) per project.
 - Percentage (25%) of cash financed environmental project to be amortized over a lesser period of time than the bond financing.
 - Publication notice of 120 days and board approval for future applications.

Based on the forecast of revenues using the July 1, 2010 rate adjustments and the revised revenue requirements, the revised recommended base rate percentage adjustments for the electric utility for 2011, 2012 and 2013 are 5% to be effective January 1, 2011, 7% to be effective January 1, 2012 and 7% to be effective January 1, 2013. The revised recommended base rate percentage adjustments for the water utility for 2011, 2012 and 2013 are 7% to be effective January 1, 2011, 7% to be effective January 1, 2012 and 7% to be effective January 1, 2013.

Overall for the utility, the combined rate increase for the electric and water utility will be 5.48% in 2011, 7% in 2012 and 7% in 2013.

Q: What are the rate class percentage results after the revisions to the revenue requirements, rate design within the cost of service study for both the electric and water utilities?

A: The table in Exhibit LA-1 identifies the Electric Revised Recommended Rate Adjustments by Class, the Original Proposed Rate Adjustments by Class and a schedule that shows the difference between the Original and Proposed Rate Classes. The Exhibit

LA-2 identifies the Water Revised Recommended Rate Adjustments by Class, the Original Proposed Rate Adjustments by class and a schedule that identifies the difference between the Original and Proposed Rate Adjustments.

Q: Has BPU staff directed Black and Veatch to revise the revenue requirements and cost of service?

A: Yes, BPU staff has directed Black and Veatch to revise the revenue requirements based on the assumptions identified above and to adjust the cost of service and rate design to update the rate class percentages after the implementation of the July 1, 2010 across the board 7% electric and 8% water increases.

Q. Is it possible for levels of rate increases to be lowered in future years below the level(s) approved by the BPU Board in this rate proceeding?

A. The BPU's goal is to have the lowest increase as possible while maintaining reliable service, taking into account the financial metrics that must be satisfied. As part of the ongoing process of reviewing operating and capital expenditures, the BPU staff will conduct an additional review each year and analyze the financial metrics of the utility to ensure a plan that produces the lowest possible rate proposal. If the BPU meets or exceeds the financial metrics set out in the plan, BPU staff will recommend a downward adjustment to the future years proposed rate increase.

Q. Are there still any issues in this rate proceedings that you recommend holding open for further study?

A. Yes, BPU staff still recommends holding open the issue of making a change to the on-peak period for the Billing Demand measurement time. The current Billing Demand measurement time is 10:00am to 8:00pm. The BPU staff had originally proposed changing the end time from 8pm to 11:00pm. After receiving and reviewing testimony, the BPU staff has determined that additional study of this issue should be undertaken, through such tools as the pilot time-of-use rate program that will be implemented, and data received from the AMR-AMI project. The additional analysis of the longer periods will include possible customer impacts and the associated critical capacity cost hours. BPU staff expects to bring this matter back to the Board for a final determination after the additional study has been completed.

Q: Does this conclude your written testimony?

A: Yes, it does.