

Prepared Rebuttal Testimony of Craig E. Brown

1 ***I. Introduction***

2 **Q. Please state your name and business affiliation.**

3 A. Craig E. Brown, Manager, B&V Management Consulting Division of Black &
4 Veatch Corporation.

5 **Q. On whose behalf are you appearing?**

6 A. I am appearing on behalf of the Board of Public Utilities of the Unified
7 Government of Kansas City, Kansas and Wyandotte County, Kansas (“BPU”).

8 **Q. Have you previously provided testimony in this matter?**

9 A. Yes. I sponsored direct testimony related to electric revenue requirements and the
10 Environmental Surcharge.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of my testimony is to present changes to the original “Rate Plan”
13 (consisting of a series of four rate increases over four years designed to recover
14 the prudently incurred costs and to meet the minimum financial requirements to
15 maintain the current favorable bond rating and to increase liquidity) developed by
16 the BPU staff and Black & Veatch working together. I will also comment on
17 some of the specific adjustments made by witness for the Industrial Intervener
18 Group, Mr. Mike Gorman.

19 **Q. How is your testimony organized?**

20 A. My testimony is organized into four sections as follows:

21 I. Introduction

22 II. Revised Rate Plan

1 III. Rate Impact of a One Year Adjustment to Restore Financial Metrics

2 IV. Other Potential Cost Increases and Contingencies

3 V. Adjustments to Cost of Service

4 ***II. Revised Rate Plan***

5 **Q. Have you been advised by BPU staff to make any modifications to the**
6 **revenue requirements that would affect the Rate Plan?**

7 A. Yes. The following summarizes the modifications that have been made to the
8 revenue requirements that affect the five-year financial forecast:

- 9 1. Recover currently known capacity charges related to purchase power in base
10 rate. The original Rate Plan proposed to recover all capacity charges related
11 to purchase power in the Energy Rate Component (ERC).
- 12 2. Delay the construction schedule for the planned combustion turbine
13 generating facility (CT5) by one year.
- 14 3. Reduce the non-labor escalation factor for operation and maintenance expense
15 from 4% to 3%.
- 16 4. Change the timing of the first bond issues for both capital and environmental
17 projects from July 2010 to January 2011. This adjustment also includes
18 shifting certain projects previously scheduled for 2010 into 2011.
- 19 5. Reduce the number of currently open positions that will be filled by 2014.
20 The original rate plan planned to fill all 681 currently approved positions by
21 2014. The BPU's current plan is to build to 635 positions in the study period.

22 **Q. Please describe the first change related to purchase power capacity charges.**

1 A. As described in detail in the testimony of Mr. Blake Elliott, the original rate plan
2 proposed to recover capacity charges for purchase power contracts in the ERC.
3 The BPU has revised its position and feels that certain capacity charges that are
4 currently known and measurable are appropriate to include in base rates.

5 **Q. What is the proposed change in terms of dollar impact?**

6 A. The currently known capacity charges for 2010 are about \$2.53 million. The
7 BPU is proposing to include an allowance of \$2.6 million per year for capacity
8 charges from 2011 through the end of the study period, or until the next rate
9 hearing. It is assumed that at the next rate hearing, the currently known capacity
10 charges would be updated and included in the base rates. In the event that
11 capacity charges for purchase power exceed the level included in base rates, those
12 costs will be included in the ERC.

13 **Q. What is the total increase to the base rate revenue requirement due to this**
14 **change?**

15 A. This change adds a cumulative total of \$12.2 million to the amount of revenue
16 recovered in base rates from 2010 through 2014.

17 **Q. How does this change affect the original proposal to have a series of four 7%**
18 **rate increases from 2010 through 2013?**

19 A. The Electric Utility cannot propose rate increases in excess of the series of four
20 7% rate increases originally proposed. For the BPU to still meet the goals of 1.60
21 times debt service coverage without PILOT and 60 days of O&M in operating
22 reserves, it will need to reduce revenue requirements in other areas. Had no other
23 changes been made to the revenue requirements, rate increases of 8% would be

1 required in each year from 2011 through 2013 to meet the change of recovering
2 the known capacity charges in base rates.

3 **Q. Please describe the second change related to the timing of CT5.**

4 A. As discussed in the testimony of Mr. Darrell Dorsey, the BPU decided it was
5 appropriate at this time to delay the overall construction schedule of CT5 by one
6 year. The construction schedule is projected to begin with initial design activities
7 in 2012 and be completed in 2015. Because of this change, the overall Capital
8 Improvement Plan (CIP) for 2011 through 2014 is reduced by \$8.5 million.

9 **Q. Please describe the third change related to non-labor operation and
10 maintenance (O&M) expense.**

11 A. BPU staff has advised Black & Veatch to reduce the annual escalation factor used
12 to forecast non-labor O&M expenses from 4% to 3% annually.

13 **Q. Please describe the fourth change related to the timing of bond issues.**

14 A. The original filing of the study had bonds being issued in July 2010. Because of
15 the continuation of the rate hearing, the bonds could not be issued as planned.
16 Based on the current realistic plan, the bonds will be issued in January 2011. This
17 change is applicable to both the \$36.2 million capital bonds and the \$40.8 million
18 bond for environmental projects.

19 **Q. Please describe the fifth change to the original revenue requirement forecast
20 related to the number of employees.**

21 A. The original Rate Plan called for gradually adding additional employees through
22 the study period up to the 2009 budgeted number of 681 positions. BPU staff

1 does not feel it is realistic to hire that many employees before 2014 and has
2 revised its forecast to build to 635 employees by 2014.

3 **Q. What are the results of the revised Rate Plan?**

4 A. The results of the revised Rate Plan will be presented in my Recommendation
5 Testimony. The BPU staff is currently reviewing all final changes to the Rate
6 Plan, the results of which will be included in Recommendation Testimony.

7 ***III. Rate Impact of a One Year Adjustment to Restore Financial Metrics***

8 **Q. Would it be possible for the BPU to restore its financial metrics in one year?**

9 A. Yes. If the BPU did not have the ability to get approval for a multi-year rate
10 increase and its only option was to restore its operating reserve to 60 days and
11 maintain debt service coverage of 1.60 times in one increase, a 19% increase
12 would be needed in January 2011.

13 **Q. Is this a realistic option for the BPU?**

14 A. No, but this helps to illustrate the reasonableness of the BPU's Rate Plan. By
15 proposing a series of rate increases from 2011 through 2013, BPU staff and the
16 Board will have the opportunity on an annual basis to review the reasonableness
17 of the approved rate increases and reduce them if feasible.

18 **Q. Can you elaborate further?**

19 A. Yes, the multi-year rate plan has benefits for all stakeholders. First, by having
20 four consecutive years of rate increases approved, and a Rate Plan that shows how
21 the BPU will return to meeting its financial metrics, such a plan is one element
22 that Rating Agencies consider in evaluating the BPU's creditworthiness and may
23 provide a basis for the removal of BPU from a negative credit watch. Second, the

1 BPU staff can, for the first time in many years, effectively plan its capital
2 spending and complete projects to maintain safe and reliable operations that have
3 been deferred in recent years. Third, with a multi-year plan, the BPU's customers
4 can effectively plan and budget for the rate increases. There will never be a good
5 time for a rate increase from a customer's perspective, but with this Rate Plan
6 they will know what to expect and budget for it.

7 ***IV. Other Potential Cost Increases and Contingencies***

8 **Q. Are there any other potential cost increases that have not been considered in**
9 **the revised Rate Plan?**

10 A. Yes, the revised Rate Plan is considered a minimal plan to restore the BPU's
11 financial metrics. There is not significant room for contingencies or unplanned
12 expenses.

13 **Q. Can you provide some examples?**

14 A. Yes. As part of BPU's revised Rate Plan, they have reduced the escalation rate
15 for non-labor related expenses from 4% to 3%. This results even less room for
16 error than the original plan. If certain costs that are currently manageable, such as
17 certain commodity costs, rapidly increase, the BPU's budget for maintenance
18 supplies could be damaged. The Rate Plan does not have significant escalation
19 built in for increases in health insurance costs. The labor burden percentage
20 increases for added pension costs, but assumes health insurance costs will
21 increase proportionally to labor increases. The cost of health insurance over the
22 next five years could easily increase at a much faster rate than the labor growth
23 projection of 2%. In general, moving forward with a minimal plan makes it more

1 difficult for the BPU to deal with unforeseen expenses such as major storm
2 damage.

3 ***V. Adjustments to Cost of Service***

4 **Q. Have you made any adjustments to the revised cost of service?**

5 A. Yes, we have made one change to the cost of service study.

6 **Q. Please describe the change.**

7 A. We have changed how the proposed debt service related to certain projects in the
8 Capital Improvement Plan (CIP) is functionally allocated. Specifically, we have
9 changed the way the costs of the Advanced Metering Infrastructure (AMI)
10 program are allocated to the classes. The AMI project totals \$13 million in the
11 study period. Of that amount, \$2 million is related to infrastructure required to
12 support the system and \$11 million is for the purchase of the meters. It is our
13 feeling that the costs of the meters should be recovered from the classes based on
14 their allocated share of the meters costs. The AMI program will be funded in part
15 from both the 2011 and 2012 capital bonds. The amount allocated separately for
16 the allocation of the AMI project is the relative share of the annual debt service
17 payment for the bonds that is for the meters. This amounts to \$820,000 that is
18 removed from the allocation for Proposed Debt Service and is now allocated
19 using the Meters allocator. The table below shows each class's relative share of
20 the AMI costs in the revised Rate Plan.

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Rate Class	Meters Allocator (CUS3)	Allocated Costs by Rate Class
100 - Residential	73.1%	\$599,300
200 – SGS	15.9%	\$130,400
300 – LGS	7.1%	\$58,400
400 – LPS	1.2%	\$9,900
USD 500	0.9%	\$7,700
700 – Private Area Lights	0.0%	\$200
KCK/BPU/Borderline	1.7%	\$14,100
Total	100.0%	\$820,000

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2 **Q. Do you think a separate “Metering Surcharge” is necessary to recover the**
3 **cost of the AMI program?**

4 A. No, I do not. By properly allocating the costs of the AMI program to the classes
5 that should bear the costs, a separate Metering Surcharge is not necessary. Using
6 the cost of service results as a guideline to develop the revenue to be recovered
7 from each class is sufficient to recover the AMI costs without the addition of
8 another surcharge.

9 **Q. Do you have any comments on the cost of service study prepared by the**
10 **Industrial Intervener Group witness, Mr. Mike Gorman, that have not been**
11 **previously addressed by Mr. Overcast?**

12 A. Yes, in the cost of service study prepared by Mr. Gorman, he has made some
13 adjustments that he has not addressed or mentioned in his testimony. Specifically,
14 his adjustment for allocating the cost of service for BPU Interdepartmental, City

1 of KCK Use, and Borderline is different than the Black & Veatch cost of service
2 study.

3 **Q. Please describe how the costs of service for these three groups were assigned**
4 **in the original Black & Veatch cost of service.**

5 A. The purpose of this adjustment is to assign the costs of non-revenue producing
6 classes (Interdepartmental and KCK) and the under recovery of costs from
7 Borderline customers (due to contractual limitations). The costs of KCK and
8 Borderline are allocated to the paying classes on the basis of energy, or kWh
9 sales. The costs assigned to BPU Interdepartmental are assigned on the basis of
10 Base Net Cost of Service, or on the basis of each classes relative share using the
11 cost of service study results.

12 **Q. What is the reasoning for using these cost assignments?**

13 A. Essentially, the costs for KCK sales are the equivalent of a tax on the revenues of
14 the BPU. By allocating these costs on energy, the tax is collected on a uniform
15 cents per kWh basis. Since the largest portion of this cost is energy, this
16 allocation reflects the nature of the costs. For Interdepartmental costs, these costs
17 are sometimes referred to as Company Use costs. Company use is just like any
18 other firm service customer and should have costs allocated just like other
19 customers. These costs are then added to other customers based on their share of
20 total COS. For Borderline sales, the revenue shortfall results from contract
21 pricing that is favorable to Borderline customers. In the absence of full cost
22 recovery, the only source of revenue is other customers. The allocation of the

1 shortfall based on the same underlying cost allocation for other sales classes is
2 consistent with cost causation.

3 **Q. How has Mr. Gorman allocated these costs differently?**

4 A. Mr. Gorman has allocated the costs of both BPU Interdepartmental and KCK use
5 on the basis of Net Cost of Service. He has excluded the under recovery from
6 Borderline customers from the other classes. By making this exclusion, the BPU
7 is forced to under recover the revenue requirements that form the basis for the
8 annual increases. Pending the ability to renegotiate the contract, any shortfall
9 must be made up from other customers.

10 **Q. What reasoning did Mr. Gorman provide in his testimony for these changes?**

11 A. Mr. Gorman did not provide an explanation or acknowledge that he made this
12 change in his testimony.

13 **Q. Is the change significant?**

14 A. Yes, it is. Mr. Gorman's proposed cost of service results show the Large Power
15 Service (LPS) class has an 8.6% under recovery of its cost of service. By simply
16 changing the allocation of these customers cost back to the original way proposed
17 in the Black & Veatch study, the LPS customers show a 13.8% under recovery of
18 its cost of service. This is a 60% increase from his proposed result.

19 **Q. Does this conclude your rebuttal testimony?**

20 A. Yes, it does.