

BEFORE THE  
KANSAS CITY BOARD OF PUBLIC UTILITIES

Prepared Direct Testimony of

Randy Otting

Issue:

Finance & Data Requirements  
Rates

March 2023

## Testimony of Randy Otting

Q: Please state your name and your business address

A: Randy J. Otting; 540 Minnesota Ave, Kansas City, Kansas 66101

Q: What is your occupation?

A: Director of Accounting for Kansas City Board of Public Utilities

Q: How long have you been employed in this position?

A: Since 2007 (16 year's)

Q: Please summarize your educational background.

A: Bachelors degree in Accounting from Washburn University (Topeka KS) in 1994

Bachelors degree in Business Administration from Kansas State University (Manhattan KS) in 1992

Q: What are your responsibilities relating to the current electric and water rate hearing?

A: In early 2022, I was informed of the need to seek electric and water utility rate study. I was responsible for developing the RFP (request for proposal) and evaluating the proposals to choose the engineering consultants for perform the Cost of Service Study.

In addition, I'm responsible for the coordination of some of the rate hearing activities, including the publication of the Notice of Public Hearing and the gathering and dissemination of information. Acting as a liaison, I ensured that timelines were in place and activities related to the rate study were completed. Other responsibilities were to collect the required financial information and operating data of BPU, and to coordinate the data requests with rate consultants and BPU staff. Throughout the process, I worked to facilitate the information and data gathering processes required by rate consultants to complete both Electric and Water rate studies.

Q: What was the purpose of Black & Veatch & 1898 & Co. rate reports?

A: The purpose was to evaluate the adequacy of BPU's existing base rates and to recommend fair and equitable adjustments to current rates, if necessary. Both firms completed a comprehensive three step process to evaluate BPU's existing base rates. These steps were:

- Revenue Requirements
- Cost of Service
- Evaluate Current Rate Design

The Revenue Requirements study determined the overall change in rates needed to meet forecast cash requirements of the utility, meet debt service requirements, and maintain appropriate cash reserves. The Cost of Service study proportionally allocated BPU's total cost responsibility to each customer class. The purpose of the Rate design process was to establish how rates should be adjusted by customer class, to reflect cost of service and still remain sensitive to customer impact.

Q: What information was provided to complete the rate studies?

A: The information provided for the rate studies mainly included the following:

- Most recent audited financial statements.
- Year-end Accounting level trial balances of revenues and expenses, as well as assets and liabilities, by detail account, for each year.

- Historical operating expenses and revenues.
- Approved current fiscal year operating budget, broken down by line item, for the Electric and Water Utilities, with common costs or shared services identified how they are allocated between the utilities.
- Any known changes to future year budget that would provide information for development of escalation factors for future O&M expenses.
- Annual debt service payments associated with existing revenue bond issues and/or any other long-term obligations applicable to the Electric & Water Utilities.
- Financing assumptions (interest rate, term, and issuance expense %) for any future borrowing costs.
- BPU's current financial policy document including definitions and sample calculations for minimum operating cash and debt service coverage ratios or other key financial metrics.
- Summary of revenues received for the past four years, by each rate class.
- Summary of Other operating and non-operating income for the last four years, by source (e.g. interest income, late fee/penalties, service connections, etc.) and by account, for both utilities.
- Reconciliation of Environmental Surcharge (ESC) costs and revenues, as well as the projects costs to be recovered in the ESC in the study period.
- Detailed monthly billing determinants (customer charges, actual demand, billed demand, facilities demand, and energy by rate block) for all applicable rate classes.
- Annual number of water customers billed, sales volume, and revenues from each customer class
- Data related to types of services, number of bills, meter sizes, customer charge revenues.
- Inventory of Street Lights and Private Area Lights by size and type and a recent month's calculation of Street Lighting revenue.
- Load Forecast data and Power Supply information
  - Load Forecast by rate class for number of customers and energy sales (kWh) through 2032
  - Energy Rate Component (ERC) forecast that is reconciled to the Load Forecast
  - Most recent 12 month's invoices from the Southwest Power Pool (SPP)
- Plant in service by FERC account showing original cost and accumulated depreciation for the most recent audited year.
- Five-Year Capital Improvement Program (CIP) Budget tied to the 5-year forecast.
- Average Installed Costs (engineering estimates) for
  - Meters and Services to typical customers in each major rate class
- Typical Installed cost of Line Transformers for Residential and Small to Medium Commercial customers. Include Overhead and Underground
- Number of circuit miles of lines by voltage level (3 phase and 1 phase), overhead and underground
- Existing Wholesale water contracts
  - Quantity of water delivered to the water system on an average day, maximum day and maximum hour for 2019 - 2021.

Q: How do rates work?

A: There are five basic components that makeup the electric rates for BPU.

Customer Charge:

This charge is intended to recover costs of system access and customer service including the cost of meter reading, billing, postage, and infrastructure that connects a customer to the electric grid. This charge appears monthly on a customer's bill regardless of usage. This monthly charge varies depending on customer's rate classification, which is determined by their electric load.

Energy/Commodity Charge:

This is a base energy commodity charges, expressed in kilowatt-hours & kilowatts, which is intended to pay for transmission, distribution and production costs. The total amount of this charge varies based upon the amount of electricity used by the customer.

Energy Rate component (ERC):

This charge that recovers cost associated with the fuels used to generate electricity as well as the purchase power from the grid. The ERC is billed on a kilowatt-hour basis to each customer and adjusts each quarter depending on fuel and purchase power prices.

Environmental Surcharge (ESC):

This charge that recovers costs related to Local, State and Federal mandates. The ESC is billed on a kilowatt-hour or kilowatt basis depend on the sized of the customer. The ESC rate adjusts annually and is directly tied the annual debt service repayment of related capital projected to comply with Local, State and Federal mandates.

PILOT (Payment-in-lieu-of-Taxes):

PILOT is set by the Unified Government of Wyandotte County and treated as a pass thru transfer by BPU. The PILOT is expressed as a percentage of the customer charge, Energy, Demand, ERC and ESC components.

For Water, the rates include monthly customer charges which vary with meter size, plus declining block volume charges. Retail rates include minimum usage requirements that vary by meter size. There are three basic component that make up a water bill.

Customer charge:

This charge is intended to recover costs of system access and customer service including the cost of meter reading, billing, postage, and infrastructure that enables customer to connect to the water system. This charge appears monthly on a customer's bill regardless of usage. The Customer charge for all customer classes is based on meter size. Most residential water customers in BPU's service territory have .625" or .75" inch meter sizes.

Commodity charge.

This charge is a volume charge which is based on the quantity of water used by the customers. The commodity charge includes a declining block rate structure in which the unit price of each succeeding block usage is charged at a lower unit rate than the previous block(s).

PILOT (Payment-in-lieu-of-Taxes):

PILOT is set by the Unified Government of Wyandotte County and treated as a pass thru transfer by BPU. The PILOT is expressed as a percentage of the water customer charge and commodity charges.

Q: Does this conclude your written testimony?

A: Yes.