

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Received
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In the Matter of the Application of]
Mid-Kansas Electric Company, LLC for]
Approval to Make Certain Changes in its]
Charges for Electric Service in the]
Geographic Service Territory Served by]
Southern Pioneer Electric Company]

by
State Corporation Commission
of Kansas

KCC Docket No. 12-MKEE-380-RTS

DIRECT TESTIMONY OF

BRIAN KALCIC

RE: RESIDENTIAL RATE STRUCTURE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

April 23, 2012

1 **Q. Please state your name and business address.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

3

4 **Q. What is your occupation?**

5 A. I am an economist and consultant in the field of public utility regulation, and principal of

6 Excel Consulting. My qualifications are described in the Appendix to this testimony.

7

8 **Q. On whose behalf are you testifying in this case?**

9 A. I am testifying on behalf of the Citizens' Utility Ratepayer Board ("CURB").

10

11 **Q. What is the subject of your testimony?**

12 A. I will review Southern Pioneer's current and proposed residential rate structure. Consistent

13 with CURB's policy position regarding conservation, I will also discuss the need to

14 implement a more conservation-oriented residential rate structure on Southern Pioneer's

15 system.

16

17 **Q. Please summarize your primary recommendations.**

18 A. Based upon my analysis of Southern Pioneer's filing and interrogatory responses, I

19 recommend that the Kansas Corporation Commission ("KCC" or "Commission"):

20 • adopt the Company's proposal to reduce the rate discount currently

21 applicable to residential space heating customers; and

- 1 • direct the Company to begin tracking the billing information needed to
- 2 implement an inclining block rate structure for residential customers in the
- 3 Company's next rate proceeding.

4 The specific details associated with the above recommendations are discussed below.

5 Residential Rate Structure

6 **Q. Mr. Kalcic, please provide a brief description of Southern Pioneer's current**

7 **residential service rate structure.**

8 **A.** The Company serves residential customers via its Residential Service (RS) rate schedule,

9 which contains separate rates for Residential – General Use (RGU) and Residential – Space

10 Heating (RSH) customers. However, the majority (94.7%) of Southern Pioneer's

11 residential customers are general use customers.

12 The Company's RGU rates consist of a customer charge and a flat-rate energy

13 charge, which is seasonally differentiated (i.e., higher in the summer period than in the

14 winter period). The Company's RSH rates are identical to its RGU rates except for a

15 28.3% discount (off of the corresponding RGU rate) for monthly usage between 800-5800

16 kWh during the winter period (November through June). In other words, residential space

17 heating customers receive a discount on up to 5,000 kWh of usage each month during the

18 winter, starting with the 801st kWh used in the month, but otherwise pay the same winter

19 energy charge as general use customers.

20

21

22 **Q. Does Southern Pioneer propose to revise its residential rate structure in this**

23 **proceeding?**

1 A. No, it does not.

2

3 **Q. Have you provided a summary of the Company's proposed residential rate design in**
4 **this case?**

5 A. Yes, I have. The Company's present and proposed residential tariff charges are
6 summarized in Schedule BK-1. In general, the Company is proposing to maintain its
7 existing energy charge differential of approximately 1.1¢ per kWh across the summer and
8 winter seasons. This proposal results in a slightly greater percentage increase to the winter
9 (as compared to summer) energy charge.

10 In addition, line 7 of Schedule BK-1 shows that Southern Pioneer is proposing to
11 assign a proportionally greater increase to the discounted winter rate block (i.e., monthly
12 usage between 801-5800 kWh) that applies to RSH customers. This increase is intended to
13 move the RSH class closer to cost of service, as measured by the Company's class cost-of-
14 service study ("COSS").

15 Finally, lines 9-10 of Schedule BK-1 show that Southern Pioneer is proposing to
16 zero out the effective Energy Cost Adjustment ("ECA"), so as to synchronize the
17 Company's ECA Base Cost rate with its pro forma test year purchased power expense.¹

18

19 **Q. Does CURB agree with the Company's proposed residential rate design in this**
20 **proceeding?**

21 A. In part. CURB agrees with the Company's proposal to reduce the rate discount that applies
22 to RSH customers, since the existing discount is not supported by the Company's COSS.

¹ See page 16 of the Direct Testimony of Richard J. Macke.

1 Reducing the discount will give RSH customers an appropriate incentive to conserve
2 electricity in the winter, and eliminate a portion of the subsidy that the RSH class receives
3 from other Southern Pioneer customers. CURB recommends that Southern Pioneer further
4 reduce the RSH discount in its next base rate proceeding.

5 However, CURB does not agree with the Company's proposal to retain its existing
6 flat rate energy charge that applies during the summer. As I discuss below, CURB
7 recommends implementing certain revisions of Southern Pioneer's residential rate in the
8 Company's next rate proceeding, so as to provide an appropriate price signal to consumers
9 to conserve electricity.

10
11 **Q. Why does CURB believe that it is appropriate to move toward a more conservation-**
12 **oriented residential rate structure?**

13 A. CURB's Consumer Counsel informs me that the Commission has the authority to adjust
14 utility rate structures to accomplish desired goals such as conservation. As a matter of
15 public policy, it is CURB's position that the Commission can, and should, encourage
16 conservation by revising existing rate structures to provide stronger conservation-oriented
17 price signals. Many Kansas electric utilities are currently adding and improving generation
18 facilities and making massive capital expenditures to serve growing demand. Greater
19 conservation, if achieved, will help consumers manage rising electric utility bills in the
20 coming years and delay the need for additional generation units.

21

1 **Q. Couldn't a significant revision to Southern Pioneer's existing rate structure**
2 **exacerbate the rate increases that will be experienced by certain residential**
3 **customers?**

4 A. Yes. CURB is cognizant of that possibility. In its comments to the Commission in Docket
5 No. 08-GIMX-442-GIV, CURB stated, in pertinent part:

6 [W]ith respect to rate impacts on consumers that may result from adjusting
7 the current rate structure or from moving to real-time pricing, the
8 Commission must also be an active participant in the creation of
9 mechanisms or rate structures that protect the most vulnerable of our
10 citizens. . . . CURB encourages the Commission to join with CURB, the
11 utilities and other intervenors, where appropriate, in finding mechanisms to
12 make sure there are rate protections and affordability programs for our low-
13 income and fixed-income customers. For example, rate design should
14 ensure that the first block of usage remains affordable for all customers.
15 Rate blocks above this first block can be adjusted upward, if necessary.²
16

17 In other words, CURB finds that an appropriate residential rate design would encourage
18 conservation while at the same time providing a measure of affordability over a "first
19 block" or baseline level of customer usage. Usage in excess of the baseline level would be
20 subject to significantly greater pricing for all customers.

21

22 **Q. Mr. Kalcic, consistent with the above discussion, how might the Commission modify**
23 **the Company's existing residential rate structure to encourage more conservation,**
24 **and yet still provide customers with an affordable, baseline level of consumption?**

25 A. In order to meet those twin goals, Southern Pioneer should replace its existing flat-rate
26 summer energy charge with an inclining block rate structure. Under an inclining block rate,
27 a utility's applicable energy charge increases as a customer consumes more kWh in a given

² *Comments of the Citizens' Utility Ratepayer Board*, Dec. 21, 2007, pp. 7-8, KCC Docket No. 08-GIMX-442-GIV.

1 month. In other words, usage in excess of some predetermined (baseline) level of
2 consumption would become more expensive (on a per unit basis).

3 In short, if Southern Pioneer were to move to an inclining block rate structure,
4 residential customers would have a greater incentive to conserve energy during the summer
5 (peak) season.

6
7 **Q. What would be an appropriate level of baseline usage for Southern Pioneer's**
8 **residential customers?**

9 A. Given that Southern Pioneer's existing rate structure includes a 0-800 kWh rate block for
10 RSH customers, it would be reasonable to establish that same 0-800 kWh rate block as a
11 baseline level of usage for all residential customers during the summer months.

12
13 **Q. Have you prepared a revised residential rate design that implements an inclining**
14 **block rate for usage beyond 800 kWh during the summer?**

15 A. No, I have not.

16
17 **Q. Why not?**

18 A. In data request CURB-68, CURB requested that Southern Pioneer split its total pro forma
19 RGU and RSH summer billing determinants into: a) usage up to 800 kWh per month; and
20 b) usage over 800 kWh per month. This information is necessary to order to implement an
21 inclining block rate structure (starting at 801 kWh of usage per month) that would apply to
22 *all* residential customers. However, Southern Pioneer's response stated that the requested
23 information was not available for RGU customers since the information is not currently

1 tracked in the Company's billing system.³ As a result, it was not possible for CURB to
2 prepare an alternate residential rate design for the Commission's consideration in this
3 proceeding.

4
5 **Q. How can the Commission rectify this situation in preparation for Southern Pioneer's**
6 **next rate proceeding?**

7 A. CURB recommends that Commission direct the Company to begin tracking RGU
8 consumption above and below 800 kWh of usage per month (even though such information
9 is not needed to bill RGU customers under the Company's current rate structure). Doing so
10 will enable CURB or other parties to prepare an appropriate inclining block rate design for
11 the Commission's consideration in the Company's next rate proceeding.

12
13 **Q. Does this conclude your direct testimony?**

14 A. Yes.

³ Southern Pioneer was able to provide the request information for RSH customers.

VERIFICATION

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) ss:

I, Brian Kalcic, of lawful age, being first duly sworn upon his oath states:

That he is a consultant for the Citizens' Utility Ratepayer Board; that he has read the above and foregoing Testimony, and, upon information and belief, states that the matters therein appearing are true and correct.

Brian Kalcic

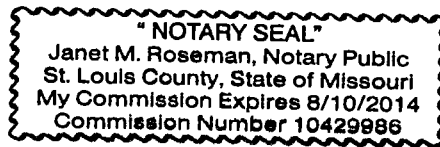
Brian Kalcic

SUBSCRIBED AND SWORN to before me this 19th day of April, 2012.

Janet M. Roseman

Notary of Public

My Commission expires: 8-10-2014



APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Benedictine University with a Bachelor of Arts degree in Economics in December 1974. In May 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University, including Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, and Texas, and also before the Bonneville Power Administration.

SCHEDULE BK-1

SOUTHERN PIONEER ELECTRIC COMPANY
Summary of Present and Proposed Residential Rates

<u>Line</u>	<u>Description</u>	Present Rates	Proposed Rates	Proposed Increase	
				Amount	Percent
		(1)	(2)	(3)	(4)
Customer Charge					
1	RGU	\$11.50	\$14.00	\$2.50	21.74%
2	RSH	\$11.50	\$14.00	\$2.50	21.74%
Energy Charge					
<u>RGU--Summer</u>					
3	All kWh	\$0.10491	\$0.12108	\$0.01617	15.41%
<u>RGU--Winter</u>					
4	All kWh	\$0.09410	\$0.11008	\$0.01598	16.98%
<u>RSH--Summer</u>					
5	All kWh	\$0.10491	\$0.12108	\$0.01617	15.41%
<u>RSH--Winter</u>					
6	0-800 kWh	\$0.09410	\$0.11008	\$0.01598	16.98%
7	801-5800 kWh	\$0.06745	\$0.10143	\$0.03398	50.38%
8	Over 5,800 kWh	\$0.09410	\$0.11008	\$0.01598	16.98%
Energy Cost Adjustment					
9	RGU All kWhs	(\$0.00185)	\$0.00000	\$0.00185	-100.00%
10	RSH All kWhs	(\$0.00185)	\$0.00000	\$0.00185	-100.00%

CERTIFICATE OF SERVICE

12-MKEE-380-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 23rd day of April, 2012, to the following parties:

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