

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Received
on

MAY 14 2012

In the Matter of the Application of]
Mid-Kansas Electric Company, LLC for]
Approval to Make Certain Changes in its]
Charges for Electric Services in the]
Geographic Service Territory Served by]
Western Cooperative Electric Association, Inc.]

by
State Corporation Commission
of Kansas

KCC Docket No. 12-MKEE-491-RTS

DIRECT TESTIMONY OF

BRIAN KALCIC

RE: RESIDENTIAL RATE STRUCTURE

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

May 14, 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 Western's current and proposed residential rate structure. Consistent with
13 CURB's policy position regarding conservation, I will also discuss the need to implement a
14 more conservation-oriented residential rate structure on Western's system.

15

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

17 A. Based upon my analysis of Western's filing and interrogatory responses, I recommend that
18 the Kansas Corporation Commission ("KCC" or "Commission"):

- 19
- 20 • adopt the Company's proposal to reduce the rate discount currently
21 applicable to residential space heating customers; and
 - 22 • direct Western to begin tracking the billing information needed to
23 implement an inclining block rate structure for residential customers in the
Company's next rate proceeding.

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

2

3 **Residential Rate Structure**

4 **Q. Mr. Kalcic, please provide a brief description of Western's current residential service**
5 **rate structure.**

6 A. The Company serves residential customers via its Residential Service (RS) rate schedule,
7 which contains separate rates for Residential – General Use (RGU) and Residential – Space
8 Heating (RSH) customers. However, the majority (95.7%) of Western's residential
9 customers are general use customers.

10 The Company's RGU rates consist of a customer charge and a flat-rate energy
11 charge, which is seasonally differentiated (i.e., higher in the summer period than in the
12 winter period). The Company's RSH rates are identical to its RGU rates except for a
13 26.4% discount (off of the corresponding RGU rate) for monthly usage between 800-5800
14 kWh during the winter period (November through June). In other words, residential space
15 heating customers receive a discount on up to 5,000 kWh of usage each month during the
16 winter, starting with the 801st kWh used in the month, but otherwise pay the same winter
17 energy charge as general use customers.

18

19 **Q. Does Western propose to revise its residential rate *structure* in this proceeding?**

20 A. No, it does not.

21

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

1 A. Yes, I have. The Company's present and proposed residential tariff charges are
2 summarized in Schedule BK-1. In general, the Company is proposing to maintain its
3 existing energy charge differential of 0.8¢ per kWh across the summer and winter seasons.
4 This proposal results in a slightly greater percentage increase to the winter (as compared to
5 summer) energy charge.

6 In addition, line 7 of Schedule BK-1 shows that Western is proposing to assign a
7 proportionally greater increase to the discounted winter rate block (i.e., monthly usage
8 between 801-5800 kWh) that applies to RSH customers.

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

12

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

15 A. In part. CURB agrees with the Company's proposal to reduce the rate discount that applies
16 to RSH customers, since Western has provided no cost-of-service evidence in support of
17 the existing discount. Reducing the discount will give RSH customers an appropriate
18 incentive to conserve electricity in the winter. CURB recommends that Western further
19 reduce the RSH discount in its next base rate proceeding.

20 However, CURB does not agree with the Company's proposal to retain its existing
21 flat rate energy charge that applies during the summer. As I discuss below, CURB
22 recommends that the KCC consider implementing certain revisions to Western's residential

1 rate design in the Company's next rate proceeding, so as to provide an appropriate price
2 signal to consumers to conserve electricity.

3
4 **Q. Why does CURB believe that it is appropriate to move toward a more conservation-**
5 **oriented residential rate structure?**

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

14
15 **Q. Couldn't a significant revision to Western's existing rate structure exacerbate the rate**
16 **increases that will be experienced by certain residential customers?**

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

19 [W]ith respect to rate impacts on consumers that may result from adjusting
20 the current rate structure or from moving to real-time pricing, the
21 Commission must also be an active participant in the creation of
22 mechanisms or rate structures that protect the most vulnerable of our
23 citizens. . . . CURB encourages the Commission to join with CURB, the
24 utilities and other intervenors, where appropriate, in finding mechanisms to
25 make sure there are rate protections and affordability programs for our low-
26 income and fixed-income customers. For example, rate design should

1 ensure that the first block of usage remains affordable for all customers.
2 Rate blocks above this first block can be adjusted upward, if necessary.¹
3

4 In other words, CURB finds that an appropriate residential rate design would encourage
5 conservation while at the same time providing a measure of affordability over a “first
6 block” or baseline level of customer usage. Usage in excess of the baseline level would be
7 subject to significantly greater pricing for all customers.
8

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

12 A. In order to meet those twin goals, Western needs to replace its existing flat-rate summer
13 energy charge with an inclining block rate structure. Under an inclining block rate, a
14 utility’s applicable energy charge increases as a customer consumes more kWh in a given
15 month. In other words, usage in excess of some predetermined (baseline) level of
16 consumption would become more expensive (on a per unit basis).

17 In short, if Western were to move to an inclining block rate structure, residential
18 customers would have a greater incentive to conserve energy during the summer (peak)
19 season.
20

21 **Q. What would be an appropriate level of baseline usage for Western’s residential**
22 **customers?**

¹ *Comments of the Citizens’ Utility Ratepayer Board*, Dec. 21, 2007, pp. 7-8, KCC Docket No. 08-GIMX-442-GIV.

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

4
5 **Q. Have you prepared an alternative residential rate design that implements an inclining**
6 **block rate for usage beyond 800 kWh during the summer?**

7 A. No, I have not.

8
9 **Q. Why not?**

10 A. In data request CURB-47, CURB requested that Western split its total pro forma RGU and
11 RSH summer billing determinants into: a) usage up to 800 kWh per month; and b) usage
12 over 800 kWh per month. This information is necessary in order to implement an inclining
13 block rate structure (starting at 801 kWh of usage per month) that would apply to *all*
14 residential customers. However, Western's response stated that the requested information
15 was not available for RGU customers since the information is not currently tracked in the
16 Company's billing system.² As a result, it was not possible for CURB to prepare an
17 alternative residential rate design for the Commission's consideration in this proceeding.

18
19 **Q. How can the Commission rectify this situation in preparation for Western's next rate**
20 **proceeding?**

21 A. CURB recommends that Commission direct the Company to begin tracking RGU
22 consumption above and below 800 kWh of usage per month (even though such information

² Western was able to provide the requested information for RSH customers.

1 is not needed to bill RGU customers under the Company's current rate structure). Doing so
2 would enable CURB and other interested parties to sponsor an alternative inclining block
3 rate design for the Commission's consideration in the Company's next rate proceeding.
4

5 **Q. Do you believe that tracking RGU consumption above and below 800 kWh of usage**
6 **per month would be overly burdensome to Western?**

7 A. No, I do not. The Company's billing system is already programmed to track this exact
8 information for RSH customers. As such, I would expect that the cost of modifying
9 Western's billing system to track this same information for RGU customers would be *de*
10 *minimus*.
11

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

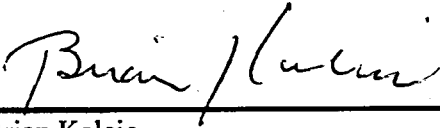
13 A. Yes.

VERIFICATION

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

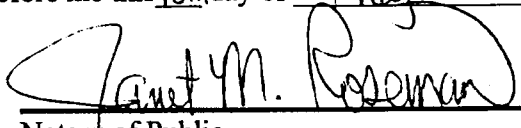
I, Brian Kalcic, of lawful age, being first duly sworn upon his oath states:

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.



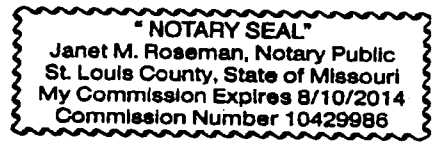
Brian Kalcic

SUBSCRIBED AND SWORN to before me this 10th day of May, 2012.



Notary of Public

My Commission expires:



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

WESTERN COOPERATIVE ELECTRIC ASSOCIATION, INC.
Summary of Present and Proposed Residential Rates

Line	Description	Present Rates	Proposed Rates	Proposed Increase	
				Amount	Percent
		(1)	(2)	(3)	(4)
Customer Charge					
1	RGU	\$8.39	\$10.00	\$1.61	19.19%
2	RSH	\$8.39	\$10.00	\$1.61	19.19%
Energy Charge					
<u>RGU--Summer</u>					
3	All kWh	\$0.09908	\$0.10417	\$0.00509	5.14%
<u>RGU--Winter</u>					
4	All kWh	\$0.09108	\$0.09617	\$0.00509	5.59%
<u>RSH--Summer</u>					
5	All kWh	\$0.09908	\$0.10417	\$0.00509	5.14%
<u>RSH--Winter</u>					
6	0-800 kWh	\$0.09108	\$0.09617	\$0.00509	5.59%
7	801-5800 kWh	\$0.06703	\$0.07373	\$0.00670	10.00%
8	Over 5,800 kWh	\$0.09108	\$0.09617	\$0.00509	5.59%
Energy Cost Adjustment					
9	RGU All kWhs	\$0.00181	\$0.00000	(\$0.00181)	-100.00%
10	RSH All kWhs	\$0.00181	\$0.00000	(\$0.00181)	-100.00%

CERTIFICATE OF SERVICE

12-MKEE-491-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic mail this 14th day of May, 2012, to the following:

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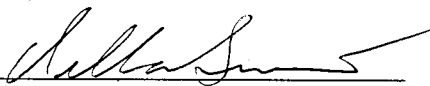
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