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Issue: Class Cost of Service
Witness: Paul M. Normand
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Case No.: ER-2010-0355
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

SURREBUTTAL TESTIMONY

OF

PAUL M. NORMAND

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2011

KCPL Exhibit No. KCPL 49
Date 2/4/11 Reporter LMB
File No. ER-2010-0355

SURREBUTTAL TESTIMONY

OF

PAUL M. NORMAND

Case No. ER-2010-0355

Q: Please state your name and business address.

A: My name is Paul M. Normand. I am a management consultant and president with the firm of Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201, Reading, PA 19609. I am testifying on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company").

Q: Are you the same Paul M. Normand who prefiled direct and rebuttal testimony in this matter?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: The purpose of my surrebuttal testimony is to address certain parties' rebuttal testimony presented in this case. Specifically, I will address the rebuttal testimony of Missouri Public Service Commission Staff (Staff) witness Michael S. Scheperle, OPC witness Ms. Meisenheimer, the Department of Energy witness Dennis W. Goins and Ford, MEUA, MIEC, and Praxair witness Maurice Brubaker concerning class cost of service ("CCOS") studies proposed in this case.

Q: Would you summarize Mr. Scheperle's rebuttal?

A: Mr. Scheperle discusses the CCOS study results offered by the other parties, highlighting the benefits of the comprehensive studies performed by Staff and the Company with the simple, class level studies offered by Mr. Brubaker and Dr. Goins. Mr. Scheperle then

walks through the rate design proposals offered by the parties and provides comments on each. Company witness Tim Rush addresses the rate design aspects of this and other parties in his surrebuttal testimony.

Q: Do you have any specific concerns with Mr. Scheperle's CCOS-related comments?

A: Yes. As noted in my rebuttal testimony, the purpose of a CCOS study is to directly assign costs based on Company records or allocate each relevant and identifiable component of cost on an appropriate basis in order to determine the proper cost to serve the Company's customer classes under study. Mr. Scheperle suggests that usage of annual kWh for base allocation and 12 NCP for intermediate allocation are necessary as they improve upon potential data "distortions." I believe it is more appropriate to select a realistic method that closely matches the planning and operations of KCP&L's power system for all functional cost levels. I have some concern that Staff's selections incorrectly skew the results of the study to address data errors that may or may not exist.

Q: Did Mr. Scheperle's provide any evidence of the data errors you mention?

A: No. It appears that the comments are offered only to support the selection of the allocation methods not in response to any real condition examined with the Company data.

Q: Would you please comment on Staff's use of annual kWh for class allocation of base units?

A: Unfortunately, Mr. Scheperle's use of kWh for base and 12 NCP in fact increases the class distortion of these allocated costs. For example, I believe that base units are primarily energy producers for the majority of the 8,760 hours of a calendar year. In using a traditional class kWh allocation factor as Staff has done, a considerable amount

of non-base load energy is included in a disproportionate amount by customer class (see rebuttal Figure 3). This oversight results in a "double dip" allocation to certain classes.

Q: Do you agree with Staff's characterization of allocating fuel costs on class energy?

A: No, I do not. KCP&L's cost study carefully and correctly allocated the monthly fuel costs based on the adjusted class sales each month. In other words, a simplistic annual energy (kWh) was not used as alleged by Staff (i.e. monthly fuel costs times monthly class kWh sales adjusted for losses).

Q: Do you agree with Staff's characterization of your Off-System sales margin allocations to customer class?

A: No, I do not. Here again, Staff allocates these margins to classes using their annual energy (kWh) which totally misrepresents the resources used to produce these sales.

Base use for native customers is provided through base generation. The remaining energy requirements are met by units other than these initial base units, and the allocation process should recognize this to the maximum extent possible. Staff's approach is too simplistic and results in the misallocation of KCP&L resources used to produce these sales and resulting margins.

Q: Would you summarize Ms. Meisenheimer's rebuttal?

A: Ms. Meisenheimer's testimony only addresses the testimony offered by Mr. Brubaker on behalf of the Industrial customers.

Q: Do you have any comments concerning Ms. Meisenheimer's rebuttal?

A: I would simply concur with her comment that Mr. Brubaker's allocation choices result in a higher allocation of costs to the Residential class. As discussed in my rebuttal testimony, the study results clearly show that the primary beneficiaries of production

allocation factors based on a CP method are large energy users who conserve many times greater energy per coincident kW. In addition, the use of any CP allocation factor for production and transmission simply ignores a major portion of the planning process.

Q: Would you summarize Dr. Goins' rebuttal?

A: Dr. Goins' rebuttal testimony focuses on his concerns with the base, intermediate, peak production allocation methods utilized in the class cost of service studies offered by Staff and the Company.

Q: Do you have any specific concerns with Mr. Goins' comments?

A: Yes. Dr. Goins mischaracterizes the use of the base, intermediate, peak method in multiple ways. First, he claims the method inappropriately allocated base load production costs. Second, he suggests that differences in the classification of generation assets render the method unusable. Third, he suggests that the average and excess method offered by Mr. Brubaker is an appropriate allocation method to be used in this case.

Q: Please explain your concerns.

A: To begin, the base, intermediate, peak (BIP) as applied in my study provides a more complete recognition of the dual nature of generating resources and provides a more structured and precise way to model the fixed and variable production costs and develop appropriate class allocators. My use of base energy, established as using the lowest monthly (non-zero) energy use for the test year and applying this level to each month, forms the basis for allocating the initial or base portion of production-related costs. The remaining non-base production costs were then subsequently allocated using a combination of 12 CP and 4 CP demand-related methods less any prior class assignment responsibility. These layered or stacked approaches to production allocation

appropriately account for the demand and energy elements of customer usage contrary to Dr. Goins' assertion.

Q: Do you have any additional concerns?

A: Yes. Mr. Goins' repeatedly asserts that since Staff and I cannot agree on the application of the BIP method, it is not suitable for allocation of production plant. This logic is fundamentally incorrect. The BIP method is documented as one of many appropriate production allocation methods in the NARUC Cost Allocation Manual (1992). Simple disagreements about the application of the class allocation within the method do not render the method useless. In fact and to the contrary, these disagreements highlight the flexibility and robustness of the method. The BIP method, as applied in my study, is the result of a systematic review of historical hours of operation, generated kWh, and MW contribution to system peak to arrive at a reasonable and representative allocation of production costs to customer classes, rates and seasons. While I disagree with the class allocation methods applied by Staff within the BIP structure, I contend the BIP method provides a more realistic and consistent method which more closely matches the planning and operations of KCP&L's power system for all functional cost levels.

I identified my concern with Dr. Goins' support of the average and excess method proposed by Mr. Brubaker and will discuss those jointly with my discussion of Mr. Brubaker's rebuttal.

Q: Would you summarize Mr. Brubaker's rebuttal?

A: Mr. Brubaker concentrates his discussion on the CCOS studies offered by Staff, OPC, and the Company and his concerns with the allocation methods employed. Similar to the arguments offered by Dr. Goins, Mr. Brubaker contends the BIP method is not

appropriate for use in this case and offers the average and excess and other methods as more suitable for production cost allocation. Finally, I address what appear to be two errors in Mr. Brubaker's rebuttal.

Q: Please elaborate on your concerns with Mr. Brubaker's rebuttal.

A: Concerning the suitability of the BIP method for production allocation I would refer back to discussion of Dr. Goins' rebuttal. In summary, despite the accusations levied, the BIP method is well recognized as one of several production stacking methods acknowledge by NARUC and is by far the most representative procedure that mirrors both the complex planning and operation of any utility's production facilities. The BIP method is one of several methods that allow for a more complete recognition of the dual nature of generating resources and provides a more structured and precise way to model the costs and develop appropriate class allocators for production plant. In other words, the production and transmission allocation process Staff and I employed properly synchronizes the fixed and variable costs of the production functions to customer classes.

The Average and Excess method also acknowledged by NARUC also attempts to provide recognition (indirectly) that production plant serves both energy and demand requirements. In fact, I am told that the Company historically has applied a similar, basic allocation method called the Average & Peak method in its studies. However, the BIP method is a much more robust approach to this energy versus demand allocation tradeoff. The BIP method allows us to recognize the dual nature (fixed and variable) of our generating resources and give us a structured and more precise way to incorporate a large, base load unit into our rates in an equitable manner. Furthermore, the BIP method can be easily replicated and introduces sufficient detail into the causation of production

costs to allow a detailed examination of seasonal costs and the resulting seasonal rate allocations. This important characteristic is not provided by the Brubaker proposal.

Q: You mentioned two possible errors with Mr. Brubaker's rebuttal. Would you please describe those potential errors?

A: On page 8, Mr. Brubaker claims I allocated transmission costs in proportion to the generation plant investment also noted as a composite BIP allocation on Brubaker's page 2. This is incorrect. Please reference page 12, line 6 of my direct testimony. There I state:

> ***Q. How did you allocate transmission plant costs?***
>
> *A. Transmission plant costs are a function of many factors which include interconnection to other utilities, connecting generation to the grid and single contingency analyses relating to plant loads, maintenance outages, etc. In order to balance all of these factors and recognize a relationship to generation, I simply allocated transmission plant and related costs using a 12 CP average demand factor. This allocator was then used to allocate all of transmission plant and related costs. The seasonal cost allocation was determined by using each class's seasonal average demand ratio.*

Q: Have you provided any additional testimony regarding your transmission plant allocation in this filing?

A: Yes, I have prepared additional comments in my rebuttal testimony on pages 11 and 12.

Q: What is the second error in Mr. Brubaker's mischaracterizing my testimony?

A: The second error is concerning the allocation of off-system sales margins. On page 8 Mr. Brubaker claims I allocated these margins using "a BIP demand allocation." Again, this is incorrect. Please reference page 11, line 8 of my direct testimony. There I state:

> ***Q. How did you allocate the margins that KCP&L receives from its sale of energy to various other customers not considered as retail customers?***
>
> *A. These customers are served from KCP&L's resources which are available throughout the year. In recognizing that the initial KCP&L units*

are placed in service to meet the Company's firm retail base portion of each customer's annual load curve, the next and most likely generation available is the non-base or remaining steam units. Using this approach and maintaining consistency in assigning these margins to classes in a manner consistent with the allocation of production plant responsibility, I used the 12 CP Remaining allocator (DEM1B). In doing this, I have synchronized the plant cost assignment to classes with the margins recovered from any sales from these resources. Any other approach would unnecessarily skew the results and be inequitable and inconsistent with the plant allocations.

Q: After reviewing the rebuttal testimony of the other parties do you still believe the methods and results of KCP&L's CCOS study as proposed provide the most reasonable results?

A: Yes, I do. The BIP method as applied in my study provides a more complete recognition of the dual nature of generating resources and provides a more structured and precise way to model the costs and develop appropriate class allocators for production plant in an equitable manner. My study is more realistic and more closely matches the planning and operations of KCP&L's power system for all functional cost levels. Accordingly, the CCOS results are more appropriate for use by the Commission to guide the application of any overall rate change to the Company's individual customer classes or rates.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Docket No. ER-2010-0355

AFFIDAVIT OF PAUL M. NORMAND

COMMONWEALTH OF PENNSYLVANIA)
) **ss**
COUNTY OF BERKS)

Paul M. Normand, being first duly sworn on his oath, states:

1. My name is Paul M. Normand. I am a management consultant and president with the firm of Management Applications Consulting, Inc. in Reading, Pennsylvania. I have been retained by Great Plains Energy, Inc., the parent company of Kansas City Power & Light Company, to serve as an expert witness to provide testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eight (8) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Paul M. Normand

Subscribed and sworn before me this 4 day of January, 2011.

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Stephen A. Parzanese, Notary Public
Sinking Spring Boro, Berks County
My Commission Expires June 18, 2014
Member, Pennsylvania Association of Notaries

Notary Public

My commission expires: _____