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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

Great Plains Energy, Inc.
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
March 11, 2009

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REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Cary G. Featherstone who filed direct testimony in this proceeding?

A. Yes, I am. I, with Curt Wells, filed direct testimony in this case on February 11, 2009 sponsoring Staff's cost of service report (Staff Report) for Kansas City Power & Light Company's (KCPL or Company) rate case filed on September 5, 2008.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to address the direct testimony filed by KCPL witness Larry W. Loos, Black & Veatch consultant, hired by KCPL relating to the Company's proposal for jurisdictional allocations. Specifically, Mr. Loos proposes to allocate the costs of certain types of assets and expenses, and the profit from its off-system sales (off-system sales margin) in manners the Staff finds to be unique and even extraordinary. In the Staff's view the result of Mr. Loos' allocation method is to

allocate a disproportionate share of certain plant costs and certain non-wage operation and maintenance costs to Missouri and allocate a higher level of off-system sales margin to Kansas. Both of these proposals result in higher revenue requirements to Missouri retail customers.

This rebuttal also responds to the direct testimony of John P. Weisensee, KCPL's Regulatory Revenue Manager, specifically pages 6 and 7 of his direct testimony, along with related schedules to KCPL's revenue requirement model.

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony?

A. The Commission should not allow itself to be misled by Mr. Loos' testimony about what he characterizes as the unfairness to KCPL of the Kansas Corporation Commission (Kansas Commission or KCC) using the 12 Coincident Peak (12 CP) allocation method in Kansas when this Commission uses the Four Coincident Peak (4 CP) method. In keeping with an agreement made in Kansas regarding that state's version of the Regulatory Plan for the Company's construction projects, KCPL used the 12 CP method in its 2006 rate case. KCPL also proposed to this Commission that the 12 CP allocation method be used to allocate fix investment costs for production and transmission plant.

In the 2006 KCPL rate case in Kansas, all issues were resolved in a global settlement. As part of that settlement, KCPL agreed to use of the 12 CP allocation method and the Kansas Commission accepted that settlement. Since then KCPL has entered into a subsequent settlement that includes continuing to use the 12 CP allocation

method in Kansas. Unlike in Kansas, in KCPL's 2006 Missouri rate case there was no settlement of the appropriate allocation method. This Commission rejected the 12-CP allocation method in favor of the 4-CP allocation method. Thus, because adoption of the 12-CP method by the Kansas Commission has been through stipulation and agreements KCPL entered into, it is disingenuous and misleading of KCPL to argue to this Commission that the 12 CP allocation method, a component of a larger agreement that KCPL voluntarily entered into, is unfair when KCPL entered into that larger agreement because it viewed the overall agreement to be favorable. In short, KCPL has not shown, and cannot show, the Kansas Commission's use of the 12 CP allocation method in Kansas with KCPL's consent has been unfair to KCPL.

In this case KCPL is proposing to allocate its off-system sales margin in a novel way to, at the expense of KCPL's Missouri customers, benefit KCPL for how, at the consent of KCPL, the Kansas Commission is treating off-system sales margin in setting rates for KCPL's Kansas customers. This highly unusual allocation approach is unfair and inappropriate and results in Missouri being required, if this proposal is adopted by this Commission, to provide KCPL an additional $4 million jurisdictional amount to the benefit of KCPL for the off-system sales margin [Loos direct, page 6, line 17]. KCPL has neither justification nor support for the extraordinary proposals it is making in this case regarding the development and application of jurisdictional allocation factors that are used to allocate plant investment costs, certain non-wage maintenance expenses and the off-system sales margin to Missouri. Mr. Loos calculated that the allocation of additional plant investment, depreciation expense and operation and maintenance expenses using his "constructed" 4 CP demand/ energy allocator results in an

approximate $1.7 million jurisdictional increase in revenue requirement to KCPL's Missouri customers [Loos direct, page 6, line 4].

KCPL continues its long-standing and ever changing policy of allocating its plant investment costs, expenses and off-system sales margin to the various jurisdictions in an inconsistent and inappropriate manner to the detriment of KCPL's customers in Missouri.

CORRECTION TO THE JURISDICTIONAL ENERGY ALLOCATION FACTOR

Q. Has Staff discovered an error in its jurisdictional allocation factors used in its direct filing made on February 11, 2009 in this KCPL rate case?

A. Yes. On March 10, 2009, Staff was notified by KCPL that it thought that an inconsistency in the way the energy factor was being developed with respect to past practice. Staff immediately investigated this matter and discovered that there was an inconsistency in the way Staff developed the energy allocation factor for this case with the way it had done so in the past, and notified the Company that Staff would correct both the factor itself and the result of using this corrected factor on the revenue requirement calculation. It is unknown at this time what the dollar value this correction will have on the case, but Staff will make the necessary corrections and provide this information to the other parties.

Q. What is the change Staff will be making to the energy factor?

A. Staff filed the energy factor using only the kilowatt hour sales in the months of June through September 2007, instead of the annual adjusted and normalized sales levels. The four monthly sales volumes resulted in an energy allocation factor of

56.64%. Using the annual sales levels result in a 57.30% corrected energy allocator. Staff is filing a pleading in this case to notify the Commission and all the parties of this correction, and will provide updated pages of the Staff Cost of Service Report with that pleading.

JURISDICTION ALLOCATION FAIRNESS

Q. Does the Staff have a response to KCPL witness Loos' testimony that it is unfair for KCPL to be subjected to a 12 CP allocation method in Kansas and a 4 CP allocation method in Missouri?

A. Yes. The Kansas Commission uses a 12 CP allocation method because KCPL proposed that method in its 2006 Kansas rate case, and KCPL has entered into stipulations and agreements that, among other things, provide for using the 12 CP allocation method. Since KCPL entered into these stipulation and agreements, which it must have determined to be overall beneficial to it, KCPL is in no position to complain that it is unfair to it for the KCC to use a 12 CP allocation method and this Commission to use a 4 CP allocation method.

JURISDICTIONAL ALLOCATION FACTORS

Q. What are the differences between KCPL and Staff regarding jurisdictional allocators in this case?

A. Both KCPL and Staff propose the allocation methodology generally referred to as the 4 CP method to develop its demand allocation factors. The 4 CP method is based on using the maximum overall system usage in Missouri in

each of the four summer months, June, July, August, September, to develop allocation factors which are then used to assign plant costs and expenses to the three jurisdictions (Kansas, Missouri, wholesale) served by KCPL. Unlike the Staff, KCPL proposes to combine demand and energy allocation factors to create a hybrid allocation factor to use to allocate certain of its plant investments and certain non-wage maintenance costs. In addition, KCPL proposes to assign a portion of off-system sales margin to Missouri using a demand allocator.

The Staff uses a demand factor to allocate production and transmission plant investment costs and related operation and maintenance expenses. Staff also assigns to the various jurisdictions the off-system sales margin based on an energy allocation factor.

Q. What are the allocation factors that KCPL and Staff use in this case?

A. The KCPL and Staff jurisdictional allocation factors are:

	KCPL	Staff
Demand Factor	53.5835%	53.87%
Energy Factor	56.6750%	57.30% corrected
Combination Demand and Energy Factor	54.4680%	n/a

Q. How is KCPL allocating plant investment in this case?

A. KCPL proposes its demand allocation factor of 53.5835% to assign a portion of its steam-based production plant and all of its transmission plant to Missouri. KCPL is making the extraordinary proposal of proposing to assign steam-based production plant relating to environmental (pollution control) equipment using its higher energy allocation factor of 56.6750%. The combination (weighting) of the demand and

energy allocator results in a hybrid factor, or composite factor of 54.4680%. KCPL proposes this combination demand and energy factor be used to allocate to Missouri its steam production facilities (coal-fired and nuclear facilities) and its non-wage maintenance costs for its steam-based production plant. KCPL proposes its demand allocator to allocate its non-steam-based production facilities to Missouri. KCPL's non-steam-based production facilities; its natural gas-fired combustion turbines are primarily used to meet peak load demands.

Q. Is KCPL proposing to use its hybrid demand and energy allocator in the current Kansas rate case?

A. No. As referenced above, KCPL uses an entirely different method to allocate costs in Kansas. The hybrid allocator is not used to allocate to plant costs and expenses in the Kansas jurisdiction because another method is used in that state, the 12 CP allocation method.

In its 2006 rate case in Missouri, and in its companion rate case in Kansas, KCPL proposed a 12 CP allocation method demand factor be used to allocate all production and transmission facilities and related operation and maintenance expenses. While adopted in Kansas as part of an over all stipulation and agreement, this method was rejected by this Commission in favor of the Staff's 4 CP method.

Q. Have you ever seen anyone propose to allocate environmental plant on an energy basis before?

A. No. This type of plant has always been allocated using a demand allocation factor on the same basis as other production plant.

Q. How is Staff allocating KCPL's plant investment costs and related expenses in this case?

A. The Staff is applying a method that has been used over the last several KCPL rate cases. The Staff is using its demand factor (53.87%) for all production plant, including environmental equipment and transmission facilities, along with related operation and maintenance costs. The Staff has used this method in all KCPL rate cases in which I have been involved since the early 1980s. In addition, it is the same method the Staff uses to allocate production and transmission plant costs, and related operation and maintenance expenses for other electric companies operating in Missouri such as The Empire District Electric Company (Empire), Union Electric Company d/b/a AmerenUE and KCP&L Greater Missouri Operations Company.

Q. How does KCPL propose to allocate operation and maintenance expenses to the jurisdictions?

A. Generally KCPL uses the same allocation factors for expenses as it does for related plant costs similar to what Staff does. However, one notable and significant difference is that KCPL uses its hybrid demand and energy allocator to allocate non-wage maintenance costs for the steam production facilities.

Q. How does the Staff propose to allocate operation and maintenance expenses to the jurisdictions?

A. The Staff proposes the same allocation factors used to allocate the production, transmission and distribution plant investment be used to allocate the majority of the operation and maintenance expenses. This approach is known as the

"expenses follow plant approach" and has been used in Missouri at least since the early 1980s.

In KCPL's 1980 rate case the Commission found that it was appropriate to use the expenses follows plant method as shown in the quoted language from the Report and Order in that case which follows:

> Staff and Company are in disagreement as to the proper allocation of plant to the Company's Missouri jurisdictional portion.
>
> Staff used the single peak method. Single peak is a method adopted by NARUC and assigns cost based on peak responsibility.
>
> Company and Staff disagree with respect to Staff's "expenses followed plant" treatment and the functionalization of plant with respect to transmission and distribution facilities.
>
> Staff takes the position that its "expenses followed plant" treatment reward Missouri's good load factor. Further, Staff discovered under Company's methods certain substations were treated as distribution facilities and certain exceptional facilities were not assigned as such. Staff also maintains that the Company has used inconsistent methodologies before this Commission and FERC.
>
> The Commission reaffirms the propriety of the single peak method. The Commission finds that Staff's "expenses followed plant" treatment is appropriate, that Staff's treatment with respect to functionalization of plant properly reflects the capability of the system and that Staff has treated exceptional facilities properly. Therefore, the Commission finds that Staff's allocation method should be used in this case.
> [23 Mo. P.S.C. (N.S.) 499 (1980)]

Q. What else does KCPL propose in this case regarding jurisdictional allocations?

A. KCPL proposes to the use of the demand factor to allocate off-system sales margin. This is very similar to the position KCPL took in its 2006 rate case before

this Commission when it proposed to allocate the off-system sales margin using what it referred to as an "unused energy allocator." The Commission rejected that proposed treatment by KCPL in Case No. ER-2006-0314.

Q. How did KCPL allocate plant costs, expenses and off-system sales margin in its last rate case, Case No. ER-2007-0291, before this Commission?

A. In Case No. ER-2007-0291, KCPL used the same allocation method the Staff is using in this case, the 4 CP allocation method, to develop demand allocation factors which it applied in that case consistent with how the Staff is applying that factor in this case. KCPL allocated plant and related operation and maintenance expenses using a demand factor based on the 4 CP allocation method. KCPL allocated off-system sales margin based on an energy allocator, consistent with the Commission's determinations in KCPL's 2006 rate case.

In fact, KCPL's jurisdictional allocation methods in its last rate case were consistent with the way the Commission ordered the jurisdictional allocation factors be developed and applied in the 2006 rate case, Case No. ER-2006-0314. The 4 CP allocation method and application of demand allocation factor to assign production plant was also used in the Wolf Creek rate case, Case No. ER-85-185 and in the 1983 KCPL rate case, Case No. ER-83-49.

JURISDICTIONAL ALLOCATION FACTORS METHODOLOGY

Q. What is a 4 CP allocation method?

A. A coincident peak (CP) is the maximum hourly peak load that an electric utility experiences on its system. For KCPL it is the maximum hourly peak load KCPL experiences on its system among the three jurisdictions it serves: Missouri,

Kansas and the wholesale firm load regulated by the Federal Energy Regulatory Commission (FERC), the FERC jurisdiction. Coincident peak is the load of each jurisdiction that coincides with the hour of the utility's peak load. A 4 CP allocation method uses the highest hourly peaks from each of the 4 summer months of June, July, August and September.

The use of the peak demand to allocate costs among the various jurisdictions represents the largest electric load requirement that occurs on KCPL's system for a specific period, generally the maximum hourly loads for each of the four summer months—a 4 CP allocation method. KCPL, like most electric utilities, designs and constructs its electrical systems to meet maximum peak loads.

Q. How do utilities meet their system load requirements?

A. Utilities use a combination of base load capacity like the LaCygne and Iatan units operated by KCPL, intermediate capacity such as smaller aged coal-fired power plants like KCPL's three Montrose units and combined cycle units like KCPL's Hawthorn 6 and 9 units, along with peaking units or combustion turbines, like KCPL's its West Gardner units, to meet their system load requirements. Base load units use nuclear or coal for fuel, while combined cycle units typically use natural gas for fuel. Combustion turbines are fueled by natural gas or oil, and have high operating costs, but lower installed capital costs. Base load units have very high installed capital costs, and lower operating costs. Combined cycle units have high capital costs compared to peaking units, but are more economical to operate compared to peaking units.

Utilities also make firm capacity purchases to supplement their own generation to meet their system load requirements.

Q. Why is the 4 CP method appropriate for KCPL?

A. The 4 CP method of allocations is proper for a utility like KCPL because of the customer mix with a high concentration of residential customers that exists on its system, particularly in Kansas, and the electricity demands those customers place on its system during the hot mid-western summers. KCPL has high peak demands in the summer months of June through September compared to the remaining non-peak, non-summer months of the year.

Q. What is “demand factor”?

A. A demand factor is used to allocate fixed costs such as capital costs of generation (production) and transmission facilities. Demand factors are used to allocate fixed costs because they are based on the coincident peaks which utilities must design and construct its electric system to meet customers' electricity needs. The utility must also have capacity requirements above the system requirements which are known as reserve margins, as contingency capacity should generating units go out of service. A demand factor is also used to allocate operation and maintenance expenses related to the production and transmission plant. It is reasonably assumed that there is a relationship between the operation and maintenance expenses relating to the production and transmission facilities and those facilities, so those expenses are allocated on the same basis as the plant investment costs.

A typical demand factor is computed by dividing the peak hourly loads for each jurisdiction by the total system peak hourly load in the summer months. The resulting

demand allocation percentage is used to assign the costs of the production and transmission facilities to each jurisdiction. The sum of the jurisdictional demand allocation factors equals one.

Q. What is "energy factor"?

A. An energy factor is used to allocate variable costs such as fuel and purchased power expenses. Since these costs vary directly with increase and decreased electric load requirements the energy factor provides an accurate way in which to allocate these costs. Both KCPL and Staff use an energy allocator to allocate fuel and energy related purchased power costs, consistent with the way these costs have been allocated in the past by other utilities. This allocation method uses the kilowatt hour sales on an annual basis to form a relationship of the various jurisdictions to total annual kilowatt hour sales, which is used to allocate the variable costs components of the utilities' operations.

It is also used historically to allocate off-system sales margin. Because the electricity sold as off-system sales are either generated by the Company's generating fleet or purchased from other utilities to re-sell power to other entities, the fuel and purchased power components of off-system sales are allocated using an energy factor. Because no other costs are deducted from off-system sales the resulting margin (or contribution) is allocated to the various jurisdictions using the energy allocator.

The energy allocation factor is the ratio of the adjusted annual kilowatt-hour (kWh) usage specific to each jurisdiction served by the utility to the total adjusted kWh usage in all jurisdictions. The sum of the jurisdictional energy allocation factors equals one.

Q. Has the 4 CP allocation method been used in prior KCPL rate cases?

A. Yes. This method was used in KCPL's 1983 rate case. In that case, designated as Case No. ER-83-49, the Commission's Report and Order stated at page 50 that "DOE, Staff and the Company have agreed to use a four coincidental peak method to develop the Missouri jurisdictional demand allocation factor."

KCPL proposed in the 1985 Wolf Creek rate case a 4 CP allocation method for production and transmission jurisdictional allocators. Staff proposed a 1 CP allocation method for these assets in that case. The Commission adopted KCPL's use of the 4 CP method of allocations. In its Report and Order in Case Nos. ER-85-128 and EO-85-185 the Commission stated the following:

> Company asserts that 4CP is the appropriate allocation method since it represents a compromise position between what it views as two extremes: the 1CP approach taken by the Missouri Staff and the 12 CP approach taken by the Kansas Corporation Commission Staff. In addition, Company argues that 4CP better reflects the duration of the Company's summer peak load resulting in cost allocation stability. Finally, KCPL asserts that the 4CP method allocates non-fuel production costs without the need to classify those costs as demand or energy related.
>
> In the instant case, the Commission has only two proposals before it and both are peak responsibility methods. The Commission cannot adopt Staff's 1CP method in this case. The Commission stated in this Company's rate design investigation:
>
> The coincidental peak method is the least equitable of the peak responsibility methods proposed in that it places total dependence on the single hour of system peak demand. Re: Kansas City Power & Light Company, 25 Mo. P.S.C. (N.S.) 605, 614 (1983).
>
> The Commission determines that the 4CP method as proposed by the Company should be used for purposes of this case since the

> utilization of multiple peaks does recognize some plant usage occurring at times other than the single system peak.
>
> Based on the foregoing the Commission determines that the production and transmission allocators to be used for purposes of this case shall be 65.78[%] and 59.89[%] respectively.
> [28 Mo. P.S.C. (N.S.) 236 (1986)]

Q. Did the Commission recently consider the use of the 4 CP allocation method?

A. Yes. In KCPL's 2006 rate case the Commission reaffirmed the use of the 4 CP method. At page 75 of its Report and Order in Case No. ER-2006-0314, the Commission stated:

> …not only the Staff, but Praxair, Ford, and Missouri Industrial Energy Consumers support the 4 CP methodology. Their evidence showed that a 4 CP methodology for a utility such as KCPL is appropriate because its non-summer peak demands are significantly lower than the summer peak demands. Moreover, Praxair witness, Maurice Brubaker, has testified hundreds of times on cost allocation issues, and his testimony was that the Commission should use the 4 CP method. In addition, Staff witness Maloney convincingly disputed KCPL's claim that its system is similar to The Empire District Electric Company's system, for which Staff recommends a 12 CP method. Maloney testified that Empire 's winter peaks are higher in relation to its summer peaks than are KCPL's peaks. The less developed gas distribution system in Empire's more rural service area results in more electric space-heating use in Empire's area, accounting for a higher winter load for Empire than for KCPL. KCPL's lower winter load suggests that a 4 CP allocation is more appropriate that a 12 CP method.

Q. Were jurisdictional allocations at issue in KCPL's last rate case?

A. No, .no jurisdictional allocations were not presented to the Commission for decision in Case No. ER-2007-0291.

JURISDICTION ALLOCATION FACTORS USED FOR PRODUCTION PLANT INVESTMENT

Q. What does the Staff believe is the proper method to use to allocate KCPL's investment in production plant in this case?

A. As indicated earlier, a demand allocation factor has always been used to allocate the production (generating) facilities in rate cases before this Commission. Staff continues to believe this is the proper type of allocator for this plant investment and for transmission facilities. Unlike KCPL, Staff drew no distinction between the environmental plant investment for production facilities and the other production investment at those facilities.

Q. What does KCPL propose in this case regarding the jurisdictional allocation of the costs of its production facilities?

A. KCPL proposes that its production facilities be allocated to the jurisdictions by using a demand allocator, the same as Staff, except KCPL treats its environmental plant investment at its production facilities differently, and allocates the cost of those facilities with an energy allocator instead. The method which achieves this split allocation of the steam production facilities is a composite (weighting) of the demand and energy factors to arrive at a hybrid factor of the two allocators. This combination factor is applied to the steam production facilities resulting in an allocation of higher plant costs in rate base, higher depreciation expenses and higher non-wage maintenance costs for the steam production plant allocated to Missouri. In addition, KCPL proposes maintenance expense for the production plant be allocated on the same basis as the plant itself-- that is use the hybrid demand and energy allocator.

Q. Is it appropriate to allocate production plant costs to the jurisdiction with a combination of demand and energy allocators?

A. No. The Staff is aware of no facts or theory that supports breaking out the costs of production facilities based on whether they are from non-environmental production facilities such as turbines and generators or environmental plant such as scrubbers used at production facilities. In Staff's view KCPL's proposal is nothing more than an attempt to obtain the same result KCPL was seeking in its 2006 rate case, but through a different avenue. KCPL is attempting to move costs to Missouri and equalize an asserted revenue short-fall that allegedly exists because the Kansas Commission uses a different allocation method in Kansas than this Commission uses in Missouri. KCPL has unsuccessfully raised this assertion for years.

Q. Why is it inappropriate to allocate the costs of production facilities differently based on whether the facilities are non-environmental or environmental?

A. Power plants are designed to meet certain load requirements in provisioning electricity to native load customers. As discussed earlier, large base load units have high capital costs with generally lower operating costs. KCPL has chosen to allocate its coal-fired steam production costs assigning different allocation factors depending on whether the part of the production plant is classified as environmental or non-environmental related.

KCPL does not operate its production facilities separately based on whether it classifies the components of those facilities as being environmental or non-environmental related. KCPL is spending, and has spent, $100s of millions of dollars on environmental equipment that has increased its customer rates. Customers are paying significantly

higher rates because of this equipment. KCPL is not investing these sums of money and the Company's customers are not paying increased rates for this equipment to sit idle. This equipment is either in rate base or soon will be. This environmental equipment is connected to the power plant and, while the power plant can generate electricity without it, KCPL will not operate the plant without the environmental equipment. The environmental equipment is as important to the power plant as the steam turbine, generator and the steam boiler itself. No compelling distinction exists for allocating the costs of the environmental equipment on a different basis than the rest of KCPL's production facilities.

Like the costs of the rest of the power plant components, the costs of the environmental equipment should be allocated using a demand allocation factor.

Q. Overall, what effects do KCPL's jurisdictional allocation method proposals have on its cost of service in this case?

A. The allocation methods proposed by KCPL, if adopted, will result in the allocation of the costs of more production plant investment to Missouri along with increased depreciation expense and maintenance expenses. The effects of increasing the allocated costs will result in higher rates to Missouri customers.

OFF-SYSTEM SALES ALLOCATIONS

Q. How does Staff allocate off-system sales?

A. Staff uses an energy allocator. The energy allocator the Staff is using in this case has been corrected (discussed earlier) to 57.30%.

Q. What are off-system sales?

A. Off-system sales are sales of electricity made at times when utilities have met all obligations to serve native load customers and have excess energy to sell to other utilities or entities. The off-system sale transactions occur between utilities, resulting in profits (net margin) to the selling entity, in this case, KCPL.

The Company has two primary sources of off-system sales—non-firm off-system sales, which make up the majority of these revenues, and capacity sales (bulk sales), which represent firm sales made under contract between entities over an agreed upon period of time.

Q. How are off-system sales margins determined?

A. Off-system sales margins are determined by identifying the level of off-system sales revenues and subtracting related fuel costs and purchased power costs. In its case, Staff has included a level of off-system sale revenues and the related fuel and purchased power costs, resulting in a "margin," sometimes referred to as contribution from off-system sales. The off-system sales margin is included in the overall determination of KCPL's Missouri revenue requirement. Staff witness Bill Harris supports the Staff's adjustment for off-system sales in his section of the Staff's Cost of Service Report and in his rebuttal testimony.

Q. How did KCPL allocate its off-system sales margin among the various jurisdictions?

A. KCPL uses a demand factor to allocate off-system sales margins in this case. This is a non-traditional and inconsistent method for allocating off-system sales margin.

Q. Why is using a demand factor to allocate off-system sales margin an inconsistent method?

A. Off-system sales are made when a company has excess idle capacity available to use to sell power in the energy markets to other utilities. Also, KCPL purchases power to sell back into the energy market for a profit. The costs of fuel and purchased power are deducted from the off-system sales revenues to arrive at the off-system sales margin or contribution. The off-system sales revenues, and related fuel and purchased power costs, are allocated based on the energy factor. While Staff uses an energy factor to allocate the margin for off-system sales, KCPL is proposing to allocate the margin with a demand factor. It is inconsistent and inappropriate to allocate the fuel and purchased power costs using an energy factor and the residual margin using a different factor-- the demand factor.

Q. How is KCPL allocating higher revenue requirements to Missouri?

A. KCPL uses the higher energy allocator (KCPL's 56.675% compared to Staff's 57.30% energy allocator) to allocate costs relating to off-system sales to arrive at the margin to Missouri-- this is appropriate. However, KCPL then allocates this off-system sales margin (which can be thought of as a profit) to Missouri based on a lower demand allocation factor (KCPL's 54.9726% compared to Staff's 57.30% energy allocator). Thus, KCPL allocates higher costs to Missouri, then for the same transactions, KCPL allocates the margin to Missouri using different lower factor to give Missouri a net lower level of off-system sales margin.

An example of how this works to allocate less off-system sales margin to Missouri is illustrated on the following page:

	KCPL	**Staff**
Off-system sales revenues	$1,000	$1,000
Less: fuel & purchased power	500	500
Allocated energy factor		
Margin	500	500
KCPL allocated using demand	**54.9726%**	
Staff allocated using energy		**57.30%**
Allocation of margin to Missouri	**$ 275**	**$ 287**

[Note: For illustration the fuel & purchased power costs assumed use of same energy factor to show differences between KCPL and Staff allocation of margin]

Q. Is it appropriate to use a demand factor to allocate non-firm off-system sales margin?

A. No. Unlike capacity sales, non-firm off-system sales do not have dedicated generation and transmission facilities assigned to that operation. Capacity sales are made under contract for a finite period that is longer than the period for short-term non-firm off-system sales. Capacity sales pricing has two parts-- a demand charge for the fixed costs and an energy charge for the variable costs component. The demand charge is to cover fixed costs of plant facilities needed to make the sale transaction. The energy charges are for the variable (fuel) costs to produce the non-firm off-system sale. The demand allocator is used to allocate the demand charge portion of the capacity sale, while the energy allocator is used to allocate the energy portion (the fuel and purchased power costs).

Unlike capacity sales, the pricing of non-firm off-system sales do not have a demand component. These sales have historically been allocated using an energy allocator, since the only cost component assigned to these sales is the variable costs to produce the sales, the fuel and purchased power costs.

Q. Mr. Loos states at page 30, line 5 of his direct testimony that off-system sales "margin represents a contribution to power supply fixed costs." Do you agree with this statement?

A. No. Off-system sales margin does not represent offsets to power supply costs. Off-system sales margin represents a contribution to the overall revenue requirement, not to any one set of costs. A utility's system is designed to meet the utility's native load demand responsibilities. It is the entirety of the system that is required to meet the customer demand from the operations of the power plant, the transmission and distribution systems, customer service and accounting along with a host of other operational needs of the utility to deliver reliable electric service on a safe and reasonably priced basis. When opportunities exist, the utility will use the same system network and personnel to make off-system sales. This is simply another service the utility engages in. Since the customers pay for all the costs relating to off-system sales they are entitled to the contributions made from these transactions to lower the overall revenue requirement, not just the fixed production facilities as Mr. Loos is suggesting by how he proposes to assign the margins from these sales.

Q. Is the approach taken by Staff in this case for allocating off-system sales margin to the jurisdictions similar to how the Staff has been allocating off-system sales margin to the jurisdictions for other electric companies regulated by this Commission?

A. Yes. Staff has been allocating off-system sales on the basis of an energy allocator for the past several years at other electric utilities, dating back to at least the mid-1990's. This method has been used at The Empire District Electric Company and Aquila Networks - MPS and Aquila Networks – L & P (the former St. Joseph Light & Power Company) divisions and their predecessors. KCPL has historically allocated off-system sales in this manner in the surveillance reports provided to Staff and other parties to previous rate cases on an annual basis since the late 1980's. In past KCPL rate cases such as Case Nos. ER-83-49 and EO-85-185 (the Wolf Creek rate case), Staff did use a demand allocator to assign the off-system sales to the various jurisdictions. In those cases, capacity sales were generally allocated based on demand allocators. The levels of sales in the non-firm off-system sales market then was insignificant compared to the levels of this market today.

Q. How has the Staff allocated KCPL’s fixed production plant costs in this rate case?

A. The generating assets that produce the electricity which permit KCPL to meet its native load system requirements are historically allocated using a demand allocator. In this case the demand allocator developed by KCPL is 53.5835% and the one Staff is using is 53.87% based on the 4 CP allocation method. However, KCPL is proposing to allocate off-system sales margin based on using a composite production allocation factor of 54.9726% (weighting of the demand and energy allocation factors) based on a demand factor using the 4 CP methodIf KCPL's proposal to allocate non-firm off-system sales is adopted by the Commission, either using Staff or KCPL's demand allocator, the Missouri retail jurisdiction would be required to pay a higher portion of

plant investment compared to the other jurisdictions for the facilities required to generate these non-firm off-system sales. However, the Missouri jurisdiction would receive a lower portion of the benefit of these very sales. Put another way, KCPL would be allocating lesser costs to the Kansas jurisdiction based on the 12 CP method, yet would be benefiting from a greater share of off-system sales by virtue of using the unused energy allocator endorsed by the Kansas Commission.

Q. How does KCPL explain why it believes off-system sales margin should be allocated primarily using a demand allocator?

A. Mr. Loos addresses this point at page 4, line 17, of his direct testimony wherein he states:

> In KCP&P's prior Missouri rate case (Case No. ER-2006-0414), the Company proposed to allocate margin associated with off-system sales on "unused energy." I understand this allocation basis underlies the settlement approved by the Kansas Commission in KCP&L's most recent rate case filed in Kansas. Again, in its 2006 Missouri case, the Commission did not adopt KCP&L's proposal. Instead, the Commission adopted an allocation based on energy deliveries. In KCP&L's most recent Missouri rate case, Docket No. ER-2007-0291, the Company allocated off-system sales margin based on energy deliveries.

Q. Does Staff believe KCPL’s basis for allocating off-system sales margin using an allocation factor that is a composite of a demand allocation factor and an energy allocation factor is connected to the different allocation methodologies for the demand factor used in Missouri and Kansas—12-CP vs 4-CP?

A. Yes. At page 5, line 18 of Mr. Loos' direct testimony, he states the problems relating to this very point:

> For multi-jurisdictional utilities, the use of different jurisdictional allocation bases usually results in the Company either not recovering its entire revenue requirement or over recovering its revenue requirement. This result (over or under recovery) is determined through the consequences of the actions of the Commissions. For KCP&L, the different allocations used by the Missouri and Kansas Commission results in KCP&L not recovering its entire revenue requirement.

Q. How is it that KCPL is subjected to different allocation methods in the Missouri and Kansas jurisdictions?

A. KCPL has only itself to blame for this situation. KCPL entered into an agreement with the Kansas Commission to use the 12 CP allocation method even though it knew the Missouri Commission used the 4 CP method and had done so since the early 1980s. Mr. Loos himself uses the 4 CP allocation method for his demand allocation factor before he modifies those factors for the purpose of allocating certain plant and expenses in a very unique and non-traditional way.

Yet, despite the use of the 4 CP method in Missouri, KCPL agreed to use the 12 CP method in its rate cases filed in Kansas as part of that state's version of the regulatory plan that is complementary to KCPL's comprehensive energy plan. KCPL also agreed to use an allocation method for off-system sales margin--the unused energy allocator-- that in Kansas penalizes Missouri by allocating a greater share of those margins to Kansas. The Company first proposed this method of allocating off-system sales margin in the 2006 rate cases in both Missouri and Kansas, and in its last case before the KCC KCPL agreed to continue to use the unused energy allocator in its newly implemented fuel clause. KCPL's last agreement in Kansas was approved by the Kansas Commission November 2007 in Docket No. 07-KCPE-905-RTS.

Q. Has KCPL criticized using a demand allocation factor for off-system sales margin?

A. Yes. In KPCL's 2006 rate case before this Commission the Company witness for this issue identified the reason the demand allocator should not be used to allocate off-system sales margin. Mr. Don Frerking described why the demand allocator cannot be used for non-firm off-system sales in his rebuttal testimony. Mr. Frerking indicated a belief that each state has a right "to call on a level of MWH [megawatt hour] output or "Available Capacity" [Frerking rebuttal, page 11, line 17]. This concept considers that each state has, or is, paying for certain capacity through the demand allocation. Further, each state has at most times of the year during non-peak periods, excess capacity that can be used to transact off-system sales, either firm or non-firm. Mr. Frerking was supporting KCPL's unused energy allocation methodology instead of a demand factor allocation for off-system sales margin. The unused energy allocation method attempted to identify each state's excess capacity to determine its "Available Capacity" that does, from KCPL's point of view, result in unused energy.

Q. Did Staff support the use of the unused energy allocation method to allocate off-system sales margin to the various jurisdictions?

A. No. The issue was presented to the Commission and the Commission rejected this allocation method. Staff believed the unused energy allocation methodology failed to recognize that the two major jurisdictions are not the same in the way they each place demands on KCPL's electrical system. KCPL's Missouri operations have a better efficiency and utilization of the Company's existing facilities than does Kansas.

This is demonstrated by each state's load factor. The unused energy allocation methodology assumed that since Kansas had (and continues to have) a poorer load factor, that state's customers have more of its Available Capacity that results in greater "unused energy." This "freed-up" capacity is available to make off-system sales. What this concept failed to consider is that the better load factor state, Missouri, will have more opportunities to engage in off-system sales with its lower than average system fuel costs that results from a better utilization of the existing fleet of generating units.

Q. What did the Commission say about the unused energy allocation methodology relating to off-system sales margin?

A. The Commission said the following at pages 38-40 of its Report and Order in Case No. ER-2006-0314:

> Staff recommends that the Commission continue to use the energy allocator for revenues from non-firm off-system sales of energy, including the margin component thereof. This is the time-tested and widely accepted method for allocating such revenues in this state because it is appropriate for allocating the revenues and associated costs that are purely variable with the amount of energy sold.
>
> The Staff opposes the Company's proposal, which would shift some $4.4 million in revenues from KCPL's Missouri jurisdiction to its Kansas jurisdiction. Other parties, such as OPC, Praxair, MIEC, and DOE, support the traditional energy allocation mechanism proposed by Staff.
>
> The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff. A primary concern is the underlying philosophy implied by utilization of the unused energy allocator. Specifically, the unused energy allocator rewards the lower load factor of KCPL's Kansas retail jurisdiction by allocating a greater percentage of the profit from non-firm off-system sales to that jurisdiction. Load Factor is average energy usage divided by peak demand. The lower load factor of KCPL's Kansas jurisdiction causes the Company to build

higher energy cost combustion turbines, which provide KCPL with less opportunity to make off-system sales.

In KCPL's recent Regulatory Plan case (Case No. EO-2005-0329), some $14 million in expenditures was authorized for demand response programs that should result in increasing KCPL's load factor, and hence, reducing KCPL's need to acquire higher energy cost combustion turbines. Yet, KCPL proposes to allocate a greater portion of the off-system sales margin to the lower load factor Kansas jurisdiction. Thus, use of the unused energy alloctor creates a possible disincentive to implement projects aimed at increasing load factor. Furthermore, application of the unused energy allocator ignores the fact that, thanks to Missouri's higher load factor, Kansas is already benefiting to a greater extent than Missouri from a lower overall cost of energy.

The only costs assigned to non-firm off-system sales is the fuel and purchased power costs- the variable costs- hence the appropriateness of using the energy allocator. This is consistent with the way KCPL itself allocates the costs relating to the energy portion of firm capacity contracts- using the energy allocator. The reason is simple- the energy allocator is used to allocate variable costs of fuel and purchased power costs relating to retail sales. Using the same rationale, the energy allocator is equally appropriate to use as the allocator factor for both energy of firm (as KCPL does) and non-firm off-system sales. The demand based unused energy allocator should not be used to allocate off-system sales-- either energy from firm capacity sale contracts or non-firm off-system sales. Because plant is not dedicated to support non-firm off-system sales, there is no associated demand charge.

KCPL's settlement of its Kansas case, recently approved by the Kansas Corporation Commission, is a "black box" settlement, meaning that the Commission cannot tell what level of off-system sales are built into KCPL's Kansas rates. This means that any off-system margins that this Report and Order would ostensibly assign to Kansas would not go to Kansas ratepayers, but instead would go to KCPL shareholders. This Report and Order sets KCPL's Missouri rates at a just and reasonable level; any assignment of off-system sales margin away from Missouri using KCPL's proposed allocator would result in a windfall for KCPL shareholders. Thus, the Commission will reject KCPL's novel unused energy allocator, and will use the energy allocator proposed by Staff and other parties.

Q. Does KCPL still use the unused energy allocator in Kansas?

A. Yes. KCPL used the unused energy allocator methodology in both the 2006 Kansas and Missouri rate cases. KCPL entered into an agreement to use this method in Kansas while it litigated this issue in Missouri. It was not surprising that Kansas and the Company could reach an agreement on this issue since Kansas benefited from the allocation of more of the off-system sales margin, resulting in a decrease to the overall revenue requirement for the 2006 Kansas rate case. KCPL has been using this method in Kansas since, just recently agreeing to use the unused energy allocation of off-system sales margin for the fuel clause agreed to by the KCC and the Company.

Missouri has always been the largest jurisdiction for KCPL's operations, yet the Company supports allocation methods that penalize this state by attempting to assign a greater share of costs and reduced share of off-system sales margin resulting in higher rates to Missouri customers. Even though KCPL made the decision to agree to the 12 CP allocation method and the unused energy allocation factor method in Kansas as part of a larger settlement, it now expects the Missouri Commission to solve the alleged problem of under recovery of revenue requirements from the different allocation methods by increasing rates in this state. Staff cannot support such a proposal. KCPL had as much responsibility to this state as it did to Kansas. In fact, with Missouri being the larger of the two states and with its better load factor it should have been Missouri that KCPL entered an agreement with to use the long-standing 4 CP method to allocate costs to the jurisdictions. KCPL should have gone to Kansas with the 4 CP method and attempted to get that jurisdiction to reach an agreement or, in the alternative, litigated the issue before the Kansas Corporation Commission.

Q. Why is it important to address the unused energy allocator and the 12 CP method used in Kansas?

A. Mr. Loos references the problems associated with the two jurisdictions using different allocation methods several times in his direct testimony. Mr. Loos even goes so far as to suggest that Missouri is "unjustly enriched when costs reasonably associated with serving that jurisdiction (say for example, Missouri) are assigned through the allocation process to [Kansas]." (Loos direct, page 19, line 3) Mr. Loos states that Kansas is subsidizing Missouri (Loos direct, page 19, line 6 and page 53, line 7).

Not surprising, Staff does believe the Missouri jurisdiction is "unjustly enriched" by its long-standing use of a consistent method to allocate costs to this state.

KCPL DIFFERENT ALLOCATION METHODS

Q. Mr. Loos states at page 5, line 5 that "once an allocation basis is established and adopted by all jurisdictions that method should continue to be applied until circumstances change." Do you agree with this statement?

A. Yes. In fact, the entirety of Mr. Loos' remarks on regulatory consistency are important. Mr. Loos stated the following on page 5 of his direct:

> Once an allocation basis is established and adopted by all jurisdictions that method should continue to be applied until circumstances change. Allocations that produce substantially different results from year to year may result in substantial shifts in costs that are unduly disruptive and inherently inequitable to customers and the Company. Further, changes in jurisdictional allocation bases should not be unduly disruptive to customers in any jurisdiction.

Ironically, KCPL has not listened to its own consultant regarding consistency in how it has approached the jurisdictional allocation issue over many years in Missouri, and has not embraced this concept. I agree with Mr. Loos that consistency in the proper allocation methods is important. Over the years, Missouri has attempted to compromise on the differences between how the states approach allocation methodologies. Once Missouri used a 1 CP approach, but, went to a more compromised 4 CP method when Kansas continued to use a 12 CP method. Kansas has not made any movement regarding the jurisdiction allocation approach, but KCPL is asking, and expecting this Commission to make further moves to attain conformity with Kansas.

Staff has consistently used a 4 CP allocation method since the early 1980s.

Q. Mr. Loos states page 11, line 18 of his direct testimony that "regardless of the nature of costs and cost drivers, an allocation that does not permit the utility a reasonable opportunity to earn its allowed rate of return" is "patently unfair." Do you agree with this statement?

A. Yes. However, I disagree that KCPL has been denied an opportunity to earn its allowed rate of return. KCPL agreed to the use of the 12 CP allocation method in Kansas as part of global settlements reached with parties in that jurisdiction. KCPL had its reasons to settle those cases and believed it was in its best interest to reach agreement. One must assume that when KCPL accepted the terms of the agreements in Kansas it believed it was obtaining an opportunity to earn its authorized return. Simply because Kansas uses another allocation method should in no way force Missouri to adopt proposals that are contrary to its interests, and even detrimental to Missouri customers. Use of the 12 CP allocation method in Kansas is irrelevant to this case. KCPL is to

blame for the position it finds itself regarding the differences in the allocation methods used by Kansas and Missouri. KCPL and Mr. Loos apparently believe it is up to the Missouri jurisdiction to "fix" the crack that exists between the two different state methods in allocating costs. I suggest that KCPL stop agreeing to a method in Kansas that it knows full well is not acceptable to Missouri, the dominate jurisdiction. Missouri has always been the majority of KCPL's business, but it is even more so with the acquisition of the former Aquila Missouri electric properties, now referred to as KCP&L Greater Missouri Operations Company.

If Kansas used the same 4 CP method of allocating costs that is used in Missouri then the Company would get 100% of its costs recovered through consistent allocation procedures as suggested by Mr. Loos at page 12, line 5 of his direct testimony. The real problem with what Mr. Loos and KCPL are proposing in this case is that it puts all the burden on the Missouri jurisdiction to fix the problems relating to the allocation of cost and revenues between states. Apparently, KCPL believes that Missouri has caused this issue and is now obligated to fix the problem relating to the jurisdictional allocations and therefore, must take the responsibility to provide the solution regardless of its impact on rates to the Missouri customers.

Q. Has KCPL been consistent in its use of allocation methodologies for its rate cases?

A. No. KCPL continues to present an ever changing and inconsistent method of allocations used to assign plant costs and various expenses to its three regulated jurisdictions. In the 2006 rate case, the Company proposed the use of a 12 CP method

knowing full well that Missouri employed a 4 CP methodology, and had for many years dating back to the early 1980s.

In the 2007 rate case, KCPL adopted the 4 CP method of allocating costs to Missouri and used the energy allocator to assign the margin from off-system sales.

In this case, while the Company says it is using the 4 CP method of developing the allocation factors, it applies them inconsistently by using a combination of demand and energy to certain plant and non-wage maintenance costs. It uses the demand factor to assign a smaller share of off-system sales margin to Missouri than it did in the last rate case.

Q. Has the Company used inconsistent allocation methods in its Kansas jurisdictions?

A. No. In Kansas, KCPL uses and has used a consistent allocation methodology called the 12 CP method, or the maximum hourly peak demand for the full calendar year-- 12 months peak demands. The Company uses what it refers to as an "Unused Energy Allocator" method to assign to Kansas a disproportionate share of off-system sales margin to Kansas.

Both the use of 12 CP method and the unused energy allocator result in assigning less plant costs and expenses to Kansas, even though they are the less efficient operations of KCPL. At the same time, KCPL assigns more of the off-system sales margin to Kansas through the use of the unused energy allocator. In essence, Kansas pays for less plant and gets more off-system sales profit. All of these approaches used in Kansas result in higher revenue requirement shifts to Missouri and ever higher rates.

Q. Are the electric rates the same in Missouri and Kansas?

A. No. Missouri rates are higher than in Kansas. If the Commission authorizes the use of the jurisdictional allocation methodologies requested by KCPL in this rate case, the rate disparity will increase. At the time rates are higher in Missouri, KCPL is employing allocation methodologies to shift an even larger burden of costs on Missouri and assigning an even smaller share of off-system sales to Missouri.

SYSTEM LOAD FACTORS

Q. Are there differences between jurisdictions regarding how efficiently KCPL supplies electricity to meet its customers' demands for electricity?

A. Yes. A common measure of how efficiently a utility is meeting its system load requirements is its load factor. The load factor in Missouri has consistently been higher than in Kansas. Yet despite Missouri having a better load factor KCPL's electric rates in Missouri are higher than in Kansas. And despite Missouri's load factor being better than Kansas, the Company proposes to assign an even greater share of costs to Missouri and at the same time, allocate to Kansas a disproportionate share of off-system sales margin. The higher Missouri rates will be even higher if KCPL's proposal for allocations is adopted in this case.

Q. What is load factor?

A. The load factor capability of an electric system like KCPL's is a measure of the efficiency of the use of the physical facilities. More specifically, it is the measure of output of the system to peak demand during a specific period of time, either monthly or, more typically, on an annual basis. Load factor is expressed as a percentage.

The higher the load factor, the more efficient the system is considered. An electric utility like KCPL, serving three different jurisdictions, Missouri retail, Kansas retail and FERC wholesale, has separate load factors for each jurisdiction. Historically, Missouri has had the best load factor; therefore, it is KCPL's most efficient operation compared to the other two jurisdictions.

Q. Why does Missouri have a better load factor than Kansas?

A. Missouri has a better "mix" of customers between the different rate classes than does Kansas. KCPL's Missouri operations comprises a more diverse mix of residential, commercial and industrial (large users) classes of customers that allows a more efficient use of its facilities, resulting in lower overall costs. Missouri has a better mix of small, medium and large customers that provide better use of KCPL's facilities, resulting in a higher load factor.

Q. Has Missouri had a better load factor than Kansas in the past?

A. Yes. Since I have been involved with KCPL rate cases dating back to the early 1980s, Missouri has had the better load factor of the two states.

Q. What are the load factors in Missouri and Kansas?

A. The following represents the load factors in the two state jurisdictions, along with the wholesale jurisdiction:

	Missouri	Kansas	Wholesale
2005	56%	47%	59%
2004	55%	46%	56%
2003	51%	44%	54%
2002	55%	47%	56%
2001	54%	46%	56%
2000	56%	46%	53%
1999	55%	44%	53%

[Source: Data Request 513 in Case No. ER-2006-0314]

KCPL's load factor for Missouri has consistently been better than its load factor for Kansas. The above load factors are very similar for each jurisdiction dating back to 1987, the earliest information KCPL provided to Staff. During this time, Missouri has been in the mid- to lower 50% range while Kansas has always had a load factor ranging from a low of 37% in 1986 to a high of 47% in 2002 and 2005.

KCPL's wholesale jurisdiction has a comparable load factor to the Missouri jurisdiction, however, the wholesale jurisdiction is a very small part of KCPL's total operations.

Q. How are load factors determined?

A. The load factor is calculated by dividing the average hourly load by the maximum hourly load for the given year. For 2005, the average hourly load was for Missouri was 1,038.5 megawatts with the maximum hourly load (annual peak load) of 1,856.1 megawatts, resulting in the 56% load factor above [Date Request 513, Case No. ER-2006-0314].

Q. Are there benefits to having a better load factor?

A. Yes. The state of Missouri benefits by having more efficient operations. The more efficient operations result in lower costs to serve Missouri customers, but KCPL's customers in the other two jurisdictions also enjoy lower costs as a result of Missouri's relatively high load factor. The reasons for the lower costs to serve Missouri customers is the better utilization of generating and transmission facilities, resulting in better than average system costs related to these facilities.

Q. How do KCPL's Kansas retail and wholesale customers benefit from Missouri's lower than average system costs?

A. Since Missouri has lower than average system fuel costs than the other two KCPL jurisdictions, the energy allocation factor used by KCPL assigns the benefits of Missouri's lower fuel costs among all jurisdictions. Thus, Kansas, with a lower load factor than Missouri, benefits from Missouri's higher load factor because of the way fuel and purchased power costs are allocated to the various jurisdictions using the energy allocation factor. The wholesale customers benefit in the same way.

Q. How do KCPL's Kansas retail and wholesale customers benefit from Missouri's relatively high load factor?

A. The answer lies in how fuel and purchased power costs are determined in an electric rate case. Utilities, as well as other parties including Staff, use a computer generation units model called a production cost model (commonly referred to as a fuel model) to simulate the operations of the utility's generating units in the production of electricity to meet the utility's system load requirements. Staff uses a model called RealTime. For a detailed discussion of the production cost model used by Staff in this

case, see Staff witness Leon C. Bender's description on pages 74-75 of the Staff Report, Cost of Service filed February 11, 2009 in this case. KCPL also uses a model to develop its fuel and purchased power costs for its generating requirements. Both models identify the costs of generation for the KCPL electric system on a total company basis including all three jurisdictions, Missouri retail, Kansas retail and wholesale.

The electric loads of the total company system are met by producing and/or purchasing power. The fuel model determines the optimal way to meet the system load requirements using a set of assumptions and inputs. The fuel model identifies the least cost generation or purchases to meet the next block of demand of electricity. This process is known as joint dispatch. Since the fuel model is developed on a company-wide basis to meet the entire system demand, an allocation method must be used to assign fuel costs to each jurisdiction.

Q. Does the use of joint dispatch for the system result in efficiencies?

A. Yes. All three jurisdictions benefit from operating the system on a "joint" basis. The generating and purchasing decisions can be made to maximize the benefit to all three operating service areas when all the system load requirements are considered together. However, the jurisdiction with the best system load factor (in this case, Missouri) provides the benefit to the other two jurisdictions, (in this case, Kansas retail and FERC wholesale) because Missouri's average costs are lower than the total system average costs. In other words, Kansas retail and FERC wholesale benefit from Missouri retail's higher load factor. Missouri retail, with its better load factor, could use KCPL's generating fleet more efficiently if it were a stand-alone system. Missouri's more efficient operations benefit Kansas retail and wholesale customers by lowering the

overall fuel and purchased power costs, which would otherwise be higher on average than Missouri's.

Q. Has KCPL made an adjustment in its case to reflect the lower average fuel and purchased power costs for its Missouri operations?

A. No. KCPL has neither reflected in its rate filing an adjustment nor included the results of Missouri operations having lower average system costs in its fuel and purchased power model. The joint dispatch and allocation methodology is such that any reduction to overall costs resulting from Missouri's lower average costs is shared among the jurisdictions. As an example, with Missouri having a better load factor, it would have lower average fuel and purchases power costs compared to the other two jurisdictions. These lower fuel and purchased power costs benefit not only Missouri, but also Kansas retail and wholesale customers by virtue of the way these costs are allocated using the system energy allocation factor. Staff witness Bax developed the energy allocation factor which Staff used in this case. Through this allocation, all three jurisdiction benefit equally from the savings relating to using system average costs, as determined by the fuel model. Because Missouri has a better load factor, its system average fuel costs are lower, yet it must "share" these savings with the higher than average fuel costs jurisdictions of Kansas retail and wholesale.

KCPL is using the system average fuel and purchased power costs, which benefits Kansas retail customers when Kansas does not have as good a load factor as Missouri, and, therefore, has higher average fuel and purchased power costs.

Q. Does using system average costs to set rates adversely impact the jurisdiction that has the lowest average system costs?

A. Yes. Since, owing to its better load factor, Missouri's average costs are lower than those of the other two jurisdictions, which means the utility system's generating facilities are used more efficiently from a cost perspective by the Missouri retail jurisdictional load, the Missouri retail jurisdiction should have greater opportunities to benefit from opportunities in the interchange market because Missouri's average costs are lower than the other two jurisdictions. Having lower system average costs means that KCPL's Missouri operations would, on a stand-alone basis, have an opportunity to make more off-system sales, not less, at market-based prices compared to higher cost companies such as the Kansas retail and wholesale jurisdictions of KCPL. These additional off-system sales would benefit Missouri customers of KCPL.

However, as noted earlier, Missouri's lower fuel costs get averaged in with the higher than average costs of the other two KCPL jurisdictions. Thus, the overall average system fuel costs are higher than Missouri's average fuel costs causing Missouri to be less favorable to make off-system sales in relation to the opportunities that would exist if the Missouri retail jurisdiction's average fuel costs could be used on a stand-alone basis.

Despite Missouri having the better load factor, KCPL's method of allocating off-system sales in this case penalizes the very jurisdiction that should get the majority of the benefit from these sales. KCPL's Missouri retail customers should receive the benefit of Missouri's better load factor. Instead, KCPL proposes an adjustment through an allocation methodology to divert off-system sales profits from Missouri to jurisdictions that have the less favorable load factors.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan.	)))))	Case No. ER-2009-0089

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 40 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Subscribed and sworn to before me this 11th day of March, 2009.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

Notary Public