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Construction Audits
Witness: *Cary G. Featherstone*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

Great Plains Energy Incorporated
KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
April 7, 2009

****Denotes Highly Confidential Information****

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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 and rebuttal 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. I also filed rebuttal testimony on jurisdictional allocations on March 11, 2009.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address the rebuttal testimony filed by KCPL witness Larry W. Loos, Black & Veatch consultant, hired by KCPL relating to the Company's response to the Staff' proposal for jurisdictional allocations. Specifically, Mr. Loos criticizes the Staff's proposal to allocate the costs of certain types of assets and expenses, and the profit from its off-system

sales (off-system sales margin). 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.

I will also respond to the rebuttal testimonies of several KCPL witnesses regarding the incomplete construction audits of several plant additions that have been added to the plant in service balances or will be added to the plant in service balances of KCPL and KCPL Greater Missouri Operations (GMO or GMO MPS and GMO L&P). These plant additions for KCPL and GMO L&P relate to the current construction project at Iatan 1 for environmental equipment and upgrades to the steam turbine (L&P), the completed construction project of environmental equipment at Jeffrey Energy Center, Units 1 and 3, of which MPS has an 8% ownership share and the environmental upgrades for the Sibley generating facility, Unit 3, which MPS has a 100% ownership share.

Executive Summary

Q. Please summarize your surrebuttal testimony?

A. Staff's review of the Iatan 1 construction costs is not complete and as such, Staff has proposed to either, (1) to the extent the costs of that project exceed KCPL's definitive estimate, make that portion of KCPL's rates interim subject to refund, or (2) expressly state in its Report and Order in this case that it is not deciding for the purpose of setting rates in this case the issue whether the construction costs of the Iatan 1 project were prudently incurred and that it will take up the matter of the prudency of

those costs in a future case, if a party properly raises the issue before the Commission in that case.

KCPL has misinterpreted Staff's recommendation concerning the completion of construction cost review, commonly referred to as a construction audit. KCPL indicates that it believes Staff's position is to exclude prudently incurred Iatan 1 costs from the current case. That is not correct. Under the first option, KCPL would be permitted by the Commission to collect in permanent rates the construction costs of Iatan 1 environmental enhancements up to the definitive estimate and the remainder of the construction costs interim subject to refund. Under the second option, KCPL would be permitted by the Commission to collect in permanent rates all of the construction costs of Iatan 1 environmental enhancements but requests that the Commission specifically state in its Order the Commission not decide the issue whether the construction costs of Iatan 1 were prudently incurred and would permit parties to take up that issue at a later time.

Staff opposes KCPL's recommendations on how certain plant, expenses and off-system sales margin should be allocated among the various jurisdictions the Company operates. KCPL uses a combination of a demand factor based on 4 coincidental peak (4 CP method) approach and an energy allocator factor to allocate steam production plant excluding nuclear among its jurisdictions. Using this blended factor, the Company allocates non-environmental plant based on a demand factor and environmental plant based on energy factor. The Company proposes to allocate its transmission facilities on the same basis as the production plant-- that is using the blended demand and energy allocation factor. Staff opposes the use of the "blended" allocation factor to

allocate the fixed costs of the steam production and transmission facilities. Staff allocates all production and transmission plant using the demand allocation factor.

KCPL proposes to allocate its gross plant differently from the way it allocates its accumulated depreciation reserve. Staff is opposed to this approach and uses the demand allocation factor based on a 4 CP method to allocate both plant and deprecation reserve on same basis.

KCPL proposes to allocate certain maintenance expenses using a variable cost factor commonly referred to as the energy allocator. Staff is opposed to allocating maintenance expenses that are more fixed in nature than variable using the energy allocator. Staff allocates operation and maintenance expenses on the same basis as it allocates plant-- referred to as "expenses follow plant" approach.

Finally, KCPL proposes to allocate the fuel and purchased power costs associated with off-system sales using an energy allocation factor resulting in off-system sales margin. This margin is then allocated to the jurisdictions using the demand allocator that is typically used to allocate fixed cost components such as plant related costs and capacity charge component of capacity sale contracts (bulk firm power sales). Staff is opposed to this method of allocating off-system sales margin. Staff allocates this item using an energy allocator.

Cost Review of Construction Projects

Q. Did KCPL address any concerns regarding Staff's review of the Iatan construction project?

A. Yes. Several Company witnesses responded to Staff's recommendation made at page 34 of my direct testimony relating to the review of the construction costs of

Iatan 1 for environmental equipment currently being installed and tested-- the Air Quality Control System (AQCS) equipment.

While several Company witnesses identify similar concerns regarding Staff's position on review of the construction costs for several construction projects completed or soon to be completed, KCPL witness Chris Giles states the general position regarding Staff's proposal for the review of construction costs for the Iatan 1 environmental equipment. Mr. Giles states the following at page 2 (starting at line 16) of his rebuttal testimony:

> …by suggesting that it might be appropriate for the Commission only to reflect in the Company's rates the CBE [Control Budget Estimate] for Iatan 1, Mr. Featherstone implies that costs incurred over and above the CBE were not prudently incurred. However, as I [Mr. Giles] and other Company witnesses explain, there is no evidence of any such imprudence.

KCPL witness Michael W. Cline states in his rebuttal testimony that Staff is proposing to exclude prudently incurred construction costs for Iatan 1 until it completes its review of these costs in future rate case. Mr. Cline states at page 12 (starting at line 19) of his rebuttal testimony the following regarding his opinion of Staff's recommendation:

> This adverse impact would be greatly exacerbated if the Commission were to adopt the second option proposed by Mr. Featherstone and exclude the Iatan 1 project costs in their entirety from this proceeding.

Q. Did any KCPL witness state an opinion about Staff's proposal to delay a finding by this Commission regarding the environmental plant additions, in particular Iatan 1 costs?

A. Yes. KCPL witness Cline indicates that a "worse-case scenario" would be for the Commission to adopt Staff proposal to exclude Iatan plant additions in this case. Mr. Cline states at page 12 (line 23) that

> …the worse-case scenario, which is Mr. Featherstone's second option whereby prudently incurred Iatan 1 costs are excluded from the current case. I [Mr. Cline] believe this would be extremely harmful to KCP&L. As I just discussed, even under the assumption of receiving the full amount of rate relief requested in this proceeding, KCP&L's cash flow and credit metrics are already under pressure as a result of the turmoil in the economy and the financial markets. Excluding Iatan 1 from this case would further reduce KCP&L's near-term cash flow, cause its credit metrics to deteriorate further, and very likely result in a downgrade of the Company's credit rating. A downgrade would be expected not only in light of the lower metrics, but from perceived liquidity risk from filling the cash flow gap with reliance on additional short-term funding and also, I [Mr. Cline] believe, from the signal that exclusion would send in terms of the rating agencies' view of the Commission's support of the regulatory plan.

Q. Have these witnesses accurately portrayed Staff’s recommendation?

A. No. Staff is not recommending the Commission exclude all Iatan 1 costs from cost of service, unless Iatan 1 is not fully operational and used for service by the true-up cut-off date established in this case.

Q. What is Staff's recommendation regarding the construction costs for the environmental plant additions for Iatan 1, Sibley and Jeffrey Energy Center?

A. Staff recommended the following in its direct testimony:

> Staff recommends the Commission either, (1) to the extent the costs of that project exceed KCPL's definitive estimate, make that portion of KCPL's rates interim subject to refund or (2) expressly state in its Report and Order in this case that it is not deciding for the purpose of setting rates in this case the issue whether the construction costs of the Iatan 1 project were prudently incurred and that it will take up the matter of the prudency of those costs in a future case, if a party properly raises the issue before the Commission in that case.

Q. Is Staff proposing to exclude construction costs relating to the Iatan 1 environmental plant additions in this case?

A. No. Staff is proposing, in particular with option 2, that the Commission simply state in its Order issued in this rate case that "…it is not deciding for the purpose of setting rates in this case the issue whether the construction costs of the Iatan 1 project were prudently incurred and that it [the Commission] will take up the matter of the prudency of those costs in a future case, if a party properly raises the issue before the Commission in that case. This means that the rates in this case, contrary to KCPL witness Cline's rebuttal testimony, would not exclude recovery for the Iatan 1 environmental plant additions. It would mean however, that the parties would have an opportunity to review the final completed and actual costs relating to the Iatan 1 project, as well as the other completed construction projects at GMO MPS and L&P.

At no time did Staff expressly state, imply or infer that rates in this case would not include completed Iatan 1 costs, assuming that the unit is fully operational and used for service. I don't know how Mr. Cline made the leap from Staff's proposal in my direct testimony (page 36), in particular, option 2 to Staff proposing that none of the Iatan 1 plant additions would be included in this case. Clearly, that is not the

Staff position advanced in my direct testimony. No other KCPL witness makes such a claim. All of the other KCPL witnesses state their opposition to Staff's proposal to delay the prudency determination, but appear to understand that Staff proposes that the Commission set rates based on the Iatan 1 additions if the improvements are fully operational and used for service. The lone exception to this is Mr. Cline who insists that Staff is imposing a "worse-case scenario" of excluding the costs of completed plant from KCPL's cost of service in this case.

Q. Has KCPL discussed with the Staff the proposal outlined in your direct testimony for the treatment for plant additions?

A. No. At no time has KCPL, Great Plains Energy, or GMO, made any attempt to discuss with Staff, Staff's proposal to address the prudency of the Iatan 1 environmental costs even to assure itself that it understood Staff's proposal. The Company did not engage in any discovery to assure itself that it understood Staff's position on this matter. The Company misunderstood Staff's position and then devoted significant time and resources to dispute its misunderstanding.

Q. When does KCPL anticipate the construction of the Iatan 1 environmental equipment to be completed?

A. KCPL is working on finalizing and testing the newly installed environmental equipment and presently anticipates the testing for the in-service criteria agreed to by the Company and Staff to be completed sometime in April 2009.

Q. What is KCPL's estimate of the final construction costs for Iatan 1?

A. In KCPL witness Brent C. Davis direct testimony, KCPL identifies the Iatan 1 environmental cost estimates as follows:

$ in millions	**Control Budget Estimate**	**Estimate at Completion**	**Increase (Decrease)**
Base Estimate	** **	** 5 **	** **
Project Contingency	** **	** **	** **
Reserve Contingency	** **	** **	** **
Total	** **	** **	** **

[Source: Highly Confidential Schedule BCD-1 Davis direct testimony]

Q. What are Iatan common costs?

A. Common costs are those plant systems, equipment and facilities that provide operational function to both units at Iatan, the original Unit 1 and Iatan 2. An example of Iatan common costs is the emissions stack or chimney. This single chimney facility has separate liners that for each of the two generating units at Iatan. Buildings used for equipment storage and shops are also common to both units. Water treatment facilities and equipment are also examples of common plant costs.

Q. What is the cost value of the Iatan common costs?

A. These costs have significantly changed a number of times.

The Iatan common costs as quantified by the Company can be summarized below:

Iatan Unit 1 AQCS Project Costs

	KCPL Share	**GMO L&P Share**
January 21, 2009	** **	** **
February 6, 2009	** **	** **
March 26, 2009	** **	** **

[Source: e-mail transmittals from KCPL to Staff]

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Q. Did KCPL recently provide support for Iatan common costs?

A. Yes. Staff just received support for the most recent March 26th version of the common costs on March 30, 2009. Staff will further examine common costs for the Iatan facility.

Q. Are there issues with the Iatan common costs?

A. At this point it is not possible to know if there are going to be differences on approaches of including common costs in rate base in this case. One element of concern involves the chimney that is going to be used for both Iatan 1 and Iatan 2. In KCPL witness Steven Jones rebuttal testimony at page 20, line 22, he states "even though the Iatan Unit 2 chimney liner will not be utilized until 2010, the entire chimney stack must be put into service in order to facilitate start-up and operations of Iatan 1 Unit AQCS." In KCPL witness Brent Davis' direct testimony, page 13, line 21 he states "…it is appropriate to include a portion of the cost of the new chimney in rates associated with the Iatan 1 projects and to allocate a portion to be in rates associated with Iatan 2." This apparent difference in position with the Company will have to be resolved in order to determine the proper level of common costs that should be included in plant for the true-up portion of this case.

Q. Will the common costs for Iatan 1 be included as part of the true-up audit?

A. Yes. Staff will have discussions and perform discovery on the common costs for the Iatan 1 and 2 construction projects. Not only will the actual costs be considered during the true-up review but also the allocation and assignment of these costs between the two Iatan units. Costs associated with Iatan 1 will be included in the plant in service. I am under the impression that KCPL will be seeking an Accounting Authority

Order (AAO) for a portion of the common costs, i.e., those common costs associated with Iatan 2. Staff will review any AAO proposal when and if KCPL provides such a proposal.

Q. Has Staff proposed similar treatment that it is proposing in this case in past cases?

A. Yes. In KCPL's 2006 rate case, Staff did not complete the construction audit regarding the Hawthorn 5 re-build which resulted from a boiler explosion that occurred in February 1999. The unit was out of service until June 2001. Staff reviewed several other construction costs for combustion turbines installed at various times from May 1997 through 2003. Staff did not complete its review of the Hawthorn 5 generating facility in the 2006 rate case. Staff identified the units that it had completed its review and stated that it was unable to finish the work to make a recommendation regarding the prudence of the Hawthorn 5 re-build. I addressed this at page 25 of my direct testimony filed in Case No. ER-2006-0314.

> Q. Was Staff able to go through the same review process for Hawthorn 5 construction costs as it did for the combustion turbine generators?
>
> A. No. Unfortunately, with time constraints of the filing deadline, Staff was not able to follow the same approach for Hawthorn 5 that was used for the combustion turbine generators. As an example, after the initial discussion with personnel regarding each of the combustion turbine generators construction, Staff submitted follow-up questions, and reviewed additional documentation. Follow-up discussion with KCPL construction personnel took place with further review of documentation and questions. With respect to the West Gardner and Osawatomie generating units, Staff talked to the KCPL project engineer three separate times. Staff has not had the chance to complete the review process of the Hawthorn 5 construction costs

> using the same information gathering approach it has used for the combustion turbine generators.
>
> Q. Is the Hawthorn 5 construction project larger than the combustion turbine projects?
>
> A. Yes, substantially. . . .
>
> * * * *
>
> . . . Staff has only started the review of these files within the last couple weeks of the audit. It is unlikely, with the press of the remaining schedule for the KCPL case, including the construction audit of the wind turbines during the true-up portion of the case, that Staff will be able to complete the document review. Staff will not be able to complete the follow-up interview process with Hawthorn 5 personnel. In fact, Staff has questions that are outstanding regarding interviewing KCPL construction management that Staff wants to complete. For these reasons, Staff will continue the Hawthorn 5 construction cost review in the next rate case filed by KCPL, which is currently scheduled to be filed February 1, 2007, according to the KCPL Experimental Regulatory Plan.

Q. Did KCPL express any concerns regarding the delay of Staff's review of construction costs regarding the re-build of Hawthorn 5?

A. No. KCPL did not express any concerns at all either in discussions it had with Staff or did it provide responsive testimony on this subject. Staff's alternative proposal to defer the issue of the prudence of the Iatan 1 environmental costs until a future case without the rates being interim subject to refund is the same as the position taken in KCPL's 2006 rate case referenced above regarding the review of the re-building of Hawthorn 5.

Jurisdictional Allocations

Q. What is the purpose of this section of your surrebuttal testimony?

A. I provide Staff's response to KCPL's criticism of Staff's jurisdictional allocation methods and factors which are presented in the rebuttal testimony of KCPL witnesses Loos and Weisensee.

Q. What is KCPL's criticism of how Staff developed the jurisdictional costs it used in this case?

A. As it did in its direct case filing, KCPL asserts rather than allocating all fixed costs such as power plant assets and transmission facilities based on a demand allocation factor that was computed using what is known as the 4 CP method as Staff did, instead, for fixed steam production plant (coal-fired-only) and related transmission plant the allocation factor should be a combination demand and energy allocation factor. This is a very unique approach to allocation of costs. KCPL presented this approach in the rebuttal testimony of KCPL witnesses Weisensee and Loos. Mr Loos is an employee of Black & Veatch. KCPL retained to provide expert testimony on the issue of jurisdictional allocations. KCPL identifies a portion of the plant at its coal-fired generation facilities as non-environmental plant which it allocates using the 4 CP demand allocation factor and it identifies a portion of the plant at its coal-fired generation facilities as environmental plant which it allocates using the energy allocator. The demand allocation factor the Company proposes is based on the 4 CP method and the energy allocation factor it proposes is based on the annual test year levels of sales Staff uses the same approach as KCPL to derive the 4 CP and energy allocation factors. KCPL further allocates some maintenance costs using a combination

of the demand and energy allocation factors. KCPL proposes to allocate boiler maintenance for the coal-fired generating facilities using this blended allocation factor and also the transmission facilities. The Company also proposes to allocate fuel and purchased power costs relating to off-system sales using the energy allocation factor and to allocate the resulting margin from these sales using the demand allocator, an approach not seen before by Staff.

Staff has followed a consistent and traditional approach of allocating fixed costs such as power plant assets and transmission facilities based on a demand allocation factor that was computed using what is known as the 4 CP method. Staff does not distinguish between non-environmental and environmental plant when allocating such production plant costs. The 4 CP method of allocation for demand-related costs has been used in all KCPL Missouri rate increase cases since at least 1983 when the Company and Staff entered into an agreement in Case No. ER-83-49. This method was proposed by the Company in the 1985 Wolf Creek rate case and used for over a 20-year period after the Wolf Creek rate case for surveillance reporting purposes. The 4 CP method used to develop the demand allocation factor was used by Staff and Ordered by the Commission in KCPL's 2006 rate case—ER-2006-0314—and was used by both KCPL and Staff in the 2007 rate case, Case No. ER-2007-0291. In essence, the 4 CP demand allocation factor has been used to allocate fixed production and transmission costs in the Missouri jurisdiction to determine KCPL's electric rates since at least the 1983 rate case. The energy allocation factor has been consistently used during that time period to allocate variable costs of fuel and purchased power to the Missouri jurisdiction. Staff proposes to

continue to use the demand and energy allocation factors proposed by Staff witness Alan Bax in this case, just as it has done for at least the last 25 years.

Staff allocates production and transmission expenses using the demand allocation factor in what is known as the "expenses follow plant" approach -- it is assumed that all expenses relating to the plant assets, including the distribution and general plant assets, get allocated on the same basis as the allocation of the plant itself.

Q. Mr. Loos states at pages 1 and 2 of his rebuttal testimony that Staff has allocated 100 percent of fixed costs solely on the basis of coincident peak demands during the months of June through September. Has KCPL also allocated 100 percent of fixed costs using the four coincident peak demands for June through September?

A. Yes, with the exception that the Company is allocating environmental fixed costs for steam production plant (excludes the nuclear unit Wolf Creek) and boiler maintenance costs using the energy allocation factor. Mr. Loos also recommended that the fixed costs relating to the transmission facilities should be allocated on the same basis as the coal-fired units, in other words using the composite demand and energy allocation factor.

However, Mr. Loos' demand factor used to allocate the non-environmental plant is developed using the same method as Staff-- that is the 4 CP method.

Q. Is Staff in agreement with the way KCPL proposes to allocate jurisdictional costs in this case?

A. No. Staff believes that KCPL’s approach to jurisdictional allocation in this case presented in the direct and rebuttal testimony of Larry Loss and John Weisensee is very similar to the approach the Company took in the 2006 rate case where it attempted

to shift costs (plant costs for return on and of investment and expenses) to the Missouri jurisdiction and off-system sales margin away from Missouri to other jurisdictions. The Commission rejected this attempt by KCPL in Case No. ER-2006-0314 to get the Commission to adopt another jurisdiction's allocation method that was developed to benefit the Kansas customers. The Commission should not be misled by KCPL's attempt to mask its allocation proposal in this case as being different from the one it proposed in the 2006 rate case. KCPL's "method" may be different in this case, but the intent of the result is the same-- to saddle its Missouri customers with inappropriate methods of jurisdictional allocations in this state. Because the Company agreed to use the 12CP allocation method in Kansas, which is an inappropriate method according to its own witness, Mr. Loos, KCPL through its own voluntary actions, appears to place at risk rate recovery of some of its costs. Since KCPL voluntarily agreed to the 12 CP allocation method as part of an overall settlement in Kansas one cannot conclude KCPL is not recovering all of its Kansas costs through rates in Kansas.

Q. Why is the jurisdictional allocation method used by KCPL in this case wrong?

A. KCPL developed a different allocation methodology in Missouri solely to bolster the Company's assertion that it is not getting a fair chance to recover its plant investment costs, expenses and "profits" from off-system sales margin from all of its jurisdictions. KCPL's assertion is based on the difference between the methods used by Missouri and Kansas jurisdictions. In order to address this problem, completely created by KCPL itself, the Company contracted with a consulting firm, Black & Veatch who supplied a witness in this case, Larry Loos. Mr. Loos set out to rectify the asserted

"plant falling in the river at the state line" created issue by developing the allocation method he addresses in his rebuttal testimony.

The jurisdiction allocation Mr. Loos recommends should be used in this case is improper and should be rejected by the Commission in the same way that KCPL proposed jurisdictional allocation method was not adopted in the 2006 rate case. KCPL's methods of allocation in this case are wrong because:

1. The jurisdiction allocation methods proposed by KCPL are inconsistent with the way Missouri has allocated jurisdictional costs in the past rate cases going back to at least 1983

2. The jurisdiction allocation methods proposed by KCPL are inconsistent with the way the surveillance reporting is made in Missouri

3. KCPL's jurisdiction allocation of steam production plant for its coal-fired fleet is inconsistent with the way it proposes to allocate the remaining production plant for its nuclear plant-- Wolf Creek and the Company's combustion turbine plant fleet

4. KCPL's proposed jurisdiction allocation of plant and accumulated depreciation reserve is inconsistent with the way Missouri customers have provided recovery of depreciation expense in the past. Through this allocation method, KCPL shifts increased jurisdictional net plant to Missouri giving other jurisdictions the benefit of depreciation previously recovered from Missouri electric rates

5. The jurisdiction allocation approach proposed by KCPL has not been used by Missouri or any other regulatory commission

6. The jurisdiction allocation approach used by KCPL in this case is inconsistent with the methodology it uses in its other jurisdictions-- Kansas and the FERC wholesale. As such, it will not "fix" the asserted "problem" between the two jurisdictions

7. The jurisdiction allocation method being proposed in this case by KCPL is simply the wrong method to use in Missouri. As such, Mr. Loos and KCPL are proposing that the state with the highest rates and most efficient use of KCPL's resources subsidize the

other jurisdictions by paying for a greater share of plant costs and operation and maintenance expenses and receiving a smaller share of off-system sales

Q. Mr. Loos states at page 6 of his rebuttal testimony that he disagrees with what he believes is Staff's position regarding fixed costs. Mr. Loos states that "Staff assumes that KCP&L incurs no fixed costs related to energy production." Is this a correct statement?

A. No. Staff's allocation approach, the approach that KCPL has used consistently in past Missouri and Kansas rate cases, and the approach the Company is using in its current Kansas rate case, assumes that there are fixed costs related to energy production. In fact, with the exception of the fuel and purchased power costs incurred to generate and acquire energy for sale of electricity to its customers, all of the production facilities have been allocated on a fixed costs basis using a demand allocation factor by the Company and Staff. Staff has used the demand allocation factor to split the fixed assets (production and transmission plant) among KCPL's three jurisdictions-- Missouri, Kansas and the wholesale business under the jurisdiction of the Federal Energy Regulatory Commission (FERC). On the same basis, KCPL has used this demand allocation factor to assign the production and transmission plant to Kansas in its current case, and the Company has used this very same approach in both the Missouri and Kansas jurisdictions in its 2006 and 2007 rate cases. KCPL has used the demand allocation factor to assign the fixed costs relating to all the production and transmission plant in all past cases of which I am aware. The only difference in the use of the demand allocation factor for production and transmission plant in the Kansas rate cases filings by the Company is the way in which the allocation factor has been computed. In the

Kansas rate cases, the Company uses the 12 coincidental peak, or 12 monthly peaks. This is referred to as the 12 CP method. In the past, KCPL has presented the use of the 4 coincidental peak (4 CP) method of determining the demand allocator. Since the early 1980's, Missouri has historically used the 4 CP method. Other than the difference in the months used to determine the demand allocation factors in Missouri and Kansas, once these factors are determined on either the 4 CP or 12 CP basis, they have been consistently applied to the fixed production and transmission facilities. That is until this case and the recommendations made by Mr. Loos.

Q. Even though Mr. Loos and KCPL endorse the use of the 4 CP method in the past for allocations, does Mr. Loos recommend a departure from how the Company traditionally applied the demand allocation factors?

A. Yes. Mr. Loos has proposed several unusual and unique approaches to how the fixed costs KCPL's production and transmission facilities should be allocated among the jurisdictions. Mr. Loos is proposing to allocate the fixed costs of the steam production facilities using a combination of demand allocation factor based on the 4 CP method and energy allocation factor.

Mr. Loos indicates at page 11 of his rebuttal testimony that he agrees that the Production Plant should be allocated based on the demand allocation factor and in fact, states "…this is precisely what Mr. Weisensee has done."

Production Plant Allocations to KCPL's Jurisdictions

Q. Has KCPL allocated the Production Plant using the demand allocation factor as Mr. Loos states in his rebuttal testimony at page 11?

A. No. KCPL has used the demand and energy allocator, referenced above, to allocate the fixed production facilities. Oddly, Mr. Loos separates the fixed costs of the power plants owned by KCPL between steam production equipment including the boiler and turbine generator, dispatch center, instrumentation and controls, turbine and boiler building facilities, any related common plant and all other site facilities from environmental plant and equipment. This can be referred to as the non-environmental plant and the environmental plant. Mr. Loos states in his rebuttal testimony (page 12) that he recommended KCPL allocate the non-environmental steam Production Plant and the environmental plant along with the non-fuel operation and maintenance costs based on a blended traditional demand allocation factor (developed using 4 CP method) and the energy allocation factor. In essence this approach allocates the fixed costs relating to environmental plant based on the energy allocator, the same allocation factor used to allocate variable costs such as fuel. Mr. Loos apparently views that the fixed costs of environmental plant the same as he does fuel and purchased power, a rather novel concept.

Q. Why does Mr. Loos believe that fixed environmental costs should be allocated like variable fuel and purchased power costs?

A. Mr. Loos provides his rationale at page 12 (line 10) of his rebuttal testimony wherein he states that "plant related to meeting environmental requirements is required in order to generate electricity and hence should be allocated on the basis of energy requirements."

Q. Does Staff believe that it is appropriate to allocate the steam production facilities using a blended demand and energy allocation factor as Mr. Loos recommend?

A. No. Staff has never seen such a proposal. It makes no sense to separate the environmental plant from the non-environmental plant as Mr. Loos is recommending KCPL do in this case. Generating plants are made up of many extremely complex systems and multiple pieces of equipment that are required to operate together. All of the power plant components should be allocated on the same basis—with a demand allocation factor. As stated above this is consistent with how KCPL allocates these production facilities in the current 2009 rate case in Kansas and how the Company has historically allocated this fixed costs plant in all rate cases I am aware in both Kansas and Missouri jurisdictions.

The use of the energy allocation factor for environmental plant instead of the 4 CP demand allocation factor assigns more costs to Missouri because the energy allocation factor is greater than the 4 CP demand factor. Traditionally all production plant -- non-environmental and environmental-- has been allocated using the same factor- a demand allocator. By using the higher energy allocator for a portion of the plant -- environmental costs -- KCPL is assigning more plant cost to Missouri than it has in the past using the more traditional approach of using a demand allocation factor, the factor Staff used to allocate these assets.

Q. On page 8 of his rebuttal testimony Mr. Loos states that "KCP&L incurred these fixed costs so customers can benefit from lower variable (fuel) cost associated with coal-fired generation." Is this statement correct?

A. No. KCPL incurs the costs of installing environmental equipment so it can operate the power plants to produce electricity. KCPL must meet many environmental permitting issues in order to keep its fleet of power plants operating.

One example is the construction of new environmental equipment currently being completed at Iatan 1. I attended most if not all the work shops, working group meetings and was part of the group that worked on the Missouri Regulatory Plan for KCPL's Comprehensive Energy Plan. KCPL brought many stakeholders together to accomplish the construction of Iatan 2. One of the important selling points for the development of the Iatan 2 project was the opportunity for lower emissions at the Iatan facility, even though the capacity of the Iatan site was going to more than double. This was brought about because of the willingness of the Company and stakeholders to agree to the Regulatory Plan. In other words, Iatan 1 environmental equipment is being installed today because of the need for KCPL to have additional generating capacity and to allow the Iatan 1 unit to continue to operate over many years using new state of the art pollution control equipment. To suggest as Mr. Loos does that this significant capital expenditure for environmental upgrades is being made to solely meet lower fuel costs is just plain wrong. These plant additions will allow the Company to operate this unit many years into the future.

Q. Are you aware of any instance where an energy allocation factor been used before to allocate fixed costs production facilities?

A. No. The energy allocation factor is used to allocate variable costs not fixed costs associated with power plants, whether these fixed costs are environmental or non-environmental in nature. In fact, Mr. Loos indicated in his March 18, 2009

deposition that he was unaware of anywhere this approach had ever been ordered to be used by the Missouri Commission. Mr. Loos stated in his deposition in answer to the question: "Do you know of any Missouri rate case where the Missouri Public Service Commission approved a classification and allocation of environmental control equipment costs in the manner you are recommending be done in this case? Answer: "I'm not aware of any." [Loos deposition p. 67, line 11] In fact, Mr. Loos could not cite any regulatory body that has approved of the allocation of environmental equipment fixed costs using the energy allocator. [Loos deposition p. 67, lines 11-15]

Q. What fixed costs does Mr. Loos recommend be allocated among the Missouri, Kansas and FERC jurisdictions using the energy allocator?

A. KCPL allocates its fixed costs for its steam turbine production facilities, excluding nuclear generation (Wolf Creek) and combustion turbines, using its blended demand and energy allocation factor. The Company also uses its blended factor to allocate transmission plant costs, and operation and maintenance expenses. Thus, KCPL uses the energy allocator (which is used to allocate variable costs) as a component to allocate a substantial portion of the Company's fixed costs.

Q. How did Staff allocate the fixed costs associated with KCPL's generation facilities?

A. Staff used the demand allocator for all fixed costs including all generation assets. The demand allocation factor was used to allocate the transmission facilities also.

Q. Do the fixed costs of power plants vary with output?

A. No. The installed plant investment costs of Wolf Creek and Iatan generating units, all of the production fleet of KCPL for that matter, do not vary with

their output--the generation of electricity. Wolf Creek's original installed costs total $1.4 billion (KCPL's ownership share of 47%). Iatan 1 original installed plant costs equal $271 million (KCPL's ownership share of 70%). KCPL incurs the same fixed costs for these facilities as well as all the other fixed costs relating to these production facilities, including significant millions of investment dollars for environmental costs, if the units generate tens of thousands of megawatt hours of electricity or a single megawatt hour. The fixed costs do not vary in any way based on the output (electricity produced) – thus, these plant investment costs are considered fixed in nature and are classified as "fixed costs."

Q. Do KCPL's environmental plant investment costs vary with output?

A. No. These plant costs are also fixed, as recognized by Mr. Loos through-out his direct and rebuttal testimonies. KCPL's environmental plant investment costs do not vary with usage and, therefore, should not in any way be allocated using a variable cost allocation factor, such as the energy allocator. The energy allocator is specifically used to allocate the variable cost component of fuel and purchased power costs.

Allocation of Maintenance Costs

Q. How does Mr. Loos recommend maintenance costs be allocated among the various KCPL jurisdictions—Missouri, Kansas and FERC?

A. At page 9 of his rebuttal testimony, he states he thinks that boiler maintenance increases as generation increases. He further states that "these expenses are related to customer energy requirements and should be allocated accordingly." While there may be some variability to maintenance costs as

generation output increases, a more critical factor is the age of the units. Certainly boiler maintenance, or any other generation plant maintenance, does not vary sufficiently with generation output to warrant use of the energy allocator. The energy allocator is used to allocate fuel and purchased power costs which are directly variable to output. As generation increase or decreases, fuel goes in direct proportion-- not so with maintenance costs. Mr. Loos recognizes that maintenance costs do not directly vary with output when he states at page 9 of his rebuttal that maintenance "expense does not vary in the short term in direct response to changes in output." These expenses do not vary sufficiently to warrant use of the energy allocator.

Q. Does plant require more maintenance as it ages?

A. Yes. As units get older those units need more repair, regardless of generation output. Iatan 1 in the late part of last decade and the early part of this decade experienced many more forced outages than it had historically, resulting in much higher maintenance and repair costs than in the past. Mr. Loos assumes that as unit generation output increases so does maintenance costs, thus the reason he proposes to use the energy allocation factor which is normally used to allocate variable costs. However, maintenance much of the time does not directly follow unit output-- in other words is not variable in nature. Maintenance costs for base load and intermediate units tend to track outages in that the more the unit is out of service the higher the maintenance costs. In some instances as the generating unit's output declines its maintenance costs can increase which would not support the notion that maintenance costs are variable.

Another more recent example is the Wolf Creek Nuclear Generating Facility. In 2008 its generation output was down because of a significantly longer re-fueling in the spring that year. Its maintenance costs were significantly higher because of the extended re-fueling outage.

Q. How has Staff allocated maintenance costs?

A. Staff has allocated the maintenance costs of the production facilities and transmission plant on same basis as it has in the past rate cases—it used the same allocation factor it used to allocate the plant costs.

Q. Do maintenance costs vary sufficiently with energy output to warrant allocating those costs on an energy allocation basis?

A. No. Staff continues to believe that the best way to allocate plant maintenance costs is using the same allocation factor used to allocate the plant itself. Since the demand allocation factor is used to allocate production and transmission plant then that same factor should be used to allocate maintenance costs associated with that same plant. The distribution plant is assigned by state location so the same allocation process should be used to assign distribution maintenance.

Allocation of Plant and Accumulated Depreciation Reserve

Q. Does Mr. Loos make any other recommendations that Staff views to be non-traditional?

A. Yes. As in every recommendation made by Mr. Loos and implemented by KCPL, in an effort to have more costs assigned to Missouri, a unique and extraordinary proposal is made to allocate plant and depreciation reserve. Mr. Loos states at page 12 of his rebuttal testimony, that he recommends allocating plant in service and

accumulated depreciation on totally different bases. He recommends allocating steam production plant (coal-fired facilities) using the demand allocator (53.5835%) and energy allocator (56.6750%) resulting in a composite of 54.4680% made up using a break-down of 28.61% for environmental plant and 71.39% for non-environmental plant. However, Mr. Loos recommends that the accumulated depreciation reserve for steam production plant be allocated using the above demand and energy allocation factors resulting in a composite of 53.9959% using a split for environmental plant of 13.34% and non-environmental plant of 86.66%.

KCPL proposes depreciation reserve be allocated differently than KCPL proposes allocating plant in service. This results in a complete mismatch of the net assets of identified in rate base. Accumulated depreciation, FERC Account 108, is an account where the depreciation expense charged to Account 403 is accumulated during the life of the assets. This account is an off-set to Account 101 - Electric plant in service, resulting in a net plant amount used for rate base. From the utility regulatory perspective, accumulated depreciation represents the amount of recovery of plant investment from its customers. Utility investment is recovered over the life of the assets with utilities receiving a "return of" and a "return on" its investment. Depreciation represents the "return of" component and the accumulated depreciation (investment amounts already recovered from customers) offsets the plant in service resulting in net plant which is included in rate base.

Using the KCPL proposed approach (only proposed for use in the Missouri jurisdiction) of allocating a smaller jurisdictional amount of accumulated depreciation results in more net plant assigned to Missouri and a higher revenue requirement to this state.

Q. How does this part of Mr. Loos' recommendation result in greater costs to Missouri, if adopted?

A. In implementing this recommendation, KCPL's Missouri revenue requirement is increased by using the higher composite demand and energy allocator of 54.4680% to allocate plant, but KCPL also proposes to use the lower composite of 53.9959% to allocate the associated depreciation reserve to Missouri. The resulting lower jurisdictional depreciation reserve for steam production plant off-sets the higher jurisdictional steam production plant causing net plant allocated to Missouri to be higher. An example illustrates how this happens. Using the allocation factors developed by KCPL the following jurisdictional net plant results:

KCPL APPROACH	**Total Company**	**Jurisdiction Factor**	**Jurisdictional Amount**
Plant	$100,000	54.4680%	$54,468
Reserve	50,000	53.9959%	$26,998
Net plant	$ 50,000		**$27,470**

Q. How has Staff allocated the production plant and associated depreciation reserve?

A. Staff has consistently used the same demand allocation factor to properly assign production plant and depreciation reserve. Using the allocation factors developed by KCPL but applying the same allocation factor for both plant and reserve the following jurisdictional net plant results:

STAFF APPROACH	**Total Company**	**Jurisdiction Factor**	**Jurisdictional Amount**
Plant	$100,000	54.4680%	$54,468
Reserve	50,000	54.4680%	27,234
Net plant	$50,000		**$27,234**

The difference in net plant is $236 higher under the KCPL approach with the sole difference the result of manipulating how the depreciation reserve is allocated to the Missouri jurisdiction. While Staff does not advocate using KCPL's composite demand and energy allocator, these examples illustrates the nature of the impacts on KCPL's cost of service of the KCPL proposal to allocate plant in service differently than depreciation reserve.

Q. Does Staff believe that KCPL's proposal to allocate plant and depreciation reserve with different allocation factors should be rejected by the Commission?

A. Yes. This is clearly an inappropriate method to determine net plant on a jurisdictional basis. It is non-traditional and neither KCPL nor Staff has ever used this approach in the past. It is also inconsistent with the way that net plant is being determined by KCPL in its current Kansas rate case.

Moreover, KCPL's proposed jurisdiction allocation of plant and accumulated depreciation reserve is inconsistent with the way Missouri customers have provided recovery of depreciation expense in the past. Through this allocation method,

KCPL shifts increased jurisdictional net plant to Missouri giving other jurisdictions the benefit of depreciation previously recovered from Missouri customers in their electric rates.

Off-System Sales Margins

Q. How does KCPL propose to allocate off-system sales margin among the jurisdictions?

A. Mr. Loos states the Company position at page 9 of his rebuttal testimony (line 21) that "since Staff treats all fixed power supply costs as demand related, my recommendation would be that Staff allocate off-system sales margin on the basis of coincidental peak demands" -- in other words on the basis of using the demand allocator. Staff disagrees with this treatment and has fully addressed this matter in my rebuttal testimony. Mr. Loos' rebuttal testimony provides no new argument on how off-system sales margin should be allocated to the jurisdictions, and nothing in his rebuttal testimony would cause Staff to change its position regarding the proper allocation of off-system sales margin using the energy allocator. Staff continues to believe that the correct approach to the allocation of off-system sales is to allocate the margin using the energy allocator which is on same basis as what is used to allocate the fuel and purchased power component of these off-system sales.

Q. Mr. Loos states at page 10 of his rebuttal testimony (line 3), that "Staff proposes to allocate these margins on the basis of energy sales. By doing so, Staff has introduced a fundamental mismatch between its allocation of the fixed costs of power supply and its allocation of the benefit of off-system sales margins." Does Staff agree

that allocating off-system sales using an energy allocator represents a "fundamental mismatch?"

A. No. Mr. Loos' position is that off-system sales margin should be determined by allocating the variable fuel and purchased power component of off-system sales down to the margin. Both Company and Staff are in agreement as to the definition of off-system sales margin identified at page 10, line 9 of Mr. Loos' rebuttal testimony that they "represent revenues less the variable cost incurred in making those sales." Company and Staff even agree that the fuel and purchased power costs are allocated using the energy allocator, an allocator that is higher than the demand allocator. But Staff cannot agree that the remainder of the off-system sales, after the deduction for fuel and purchased power costs -- the margin -- be allocated differently by using the demand allocator. Mr. Loos has provided no evidence that these margins should be allocated based on a demand allocation factor developed and used to allocate fixed costs. The margins have no fixed-cost characteristics.

In fact, KCPL incurs many types of costs unrelated to the production facilities costs used to generate off-system sales, including computer software costs, wages of personnel who analyze and execute the sales, accounting costs, billing and collection function costs, reporting function costs. None of these costs, and none of the power plant costs, are "assigned" to off-system sales, since the "margin" or "profit" is used to offset the over all revenue requirement of the Company. Off-system sales have never been identified to specific costs, except for fuel and purchased power costs.

In addition, off-system sales are not just made from KCPL's production facilities. KCPL has a significant level of off-system sales made by purchased power transactions

that have nothing to do with KCPL's production facilities. Mr. Loos has not made any reference to these purchases made for resale as off-system sales.

Q. Mr. Loos states at page 10 of his rebuttal testimony that he finds "nothing in Staff's Report to justify its proposed treatment." Did Staff provide support for how it jurisdictionally allocated off-system sales?

A. Inherit in Staff's revenue requirement model, off-system sales, along with bulk firm sales, were allocated to the Missouri jurisdiction using the energy allocator. Staff stated at page 144 of the Cost of Service Report that the energy allocator was used to allocate variable costs that fluctuate directly with increased or decreases electricity output. In Staff's Report an example was given regarding how the energy allocation factor was used for fuel and purchased power, the only costs assigned to off-system sales. As Staff allocated off-system sales margin using the energy allocation factor in the exact same way it has done in every electric rate case I am aware, and in the way KCPL allocated off-system sales in the last Missouri rate case, Staff believed it provided necessary basis for allocating these variable sales transactions.

Q. How did KCPL allocate firm bulk sales?

A. KCPL allocated these interchange sales in the same way that Staff did, using the energy allocator for the energy component of these sales [KCPL direct testimony of John Weisensee, Schedule JPW-4]. Any margin that occurred from the sale of bulk sales was allocated based on the energy allocation factor. This treatment is exactly consistent with the way in which Staff has allocated off-system sales margins in this and prior rate cases.

The capacity charge component made under the capacity sale contract was allocated by KCPL and Staff on the same basis using the demand allocator.

Q. Are firm bulk sales the same as off-system sales?

A. Yes, for purposes of how each should be allocated among the Missouri, Kansas and FERC jurisdictions. Off-system sales are made on a non-firm basis and margins are used to off-set overall revenue requirements. These sales are made when the Company has otherwise idle generating capacity and/or opportunities to purchase power that allow it to sell energy to other utilities or parties. With respect to the energy component of firm bulk power, while these energy sales are made under contract, they are similar to non-firm off-system sales in that the electricity comes from the same generating plant. KCPL allocates margins from firm bulk sales for the energy component using the energy allocation factor as does Staff. Staff believes that the same approach of using the energy allocation factor should apply to the non-firm off-system sales margin.

Q. Will using the demand factor to allocate off-system sales margin result in less of the "profit" being allocated to Missouri?

A. Yes. Since the demand allocation factor is lower than the energy allocation factor this assigns less of the margin, or “profit,” to Missouri. However, with KCPL’s proposal Missouri also gets more costs relating to off-system sales because the energy allocator is higher than the demand factor. The net result is that Missouri receives less of the off-system sales margin using the KCPL proposal which causes a higher revenue requirement.

Q. Does Staff have an opinion as to why KCPL is seeking out a different approach than it used in the past in Missouri regarding off-system sales margin?

A. Yes. The difference in way Kansas and Missouri allocated off-system sales margin was an issue in KCPL's 2006 rate case. This Commission rejected the Company's use of an "unused energy" allocator factor in that case. However, the Kansas Corporation Commission adopted this allocation method for Kansas because it provided the Kansas jurisdiction a greater share of off-system sales that historically had been allocated to Missouri. Since Missouri did not change its method of allocation for off-system sales, there is a difference between the amounts allocated to the states that arguably results in a potential shortfall to the Company. This will be addressed in the next section of this surrebuttal testimony.

KCPL Uses Improper Allocations Method in Kansas

Q. Mr. Loos indicates at page 10 of his rebuttal testimony (line 13) while discussing how power supply related fixed costs are allocated in relation to off-system sales that "Missouri customers are receiving a direct subsidy." Does Staff agree?

A. No. While Mr. Loos is attempting to make a point regarding allocation of off-system sales margin, he has made similar remarks in his direct testimony concerning allocation of plant costs as well. He has suggested more than once that Missouri customers are somehow being subsidized, although he has never clearly stated how occurs. I do not believe that Missouri customers are being subsidized. Nor do I believe that Missouri customers are subsidizing the customers of any other jurisdiction.

Q. Why do you believe that Missouri customers are not subsidizing KCPL's Kansas or FERC customers?

A. The Commission wisely rejected a proposal that was intended by design to shift cost recovery from Kansas customers to Missouri customers. Had the Commission adopted KCPL's proposed 12 CP and unused energy jurisdictional allocation methods in the 2006 rate case as the KCC did, the overall result would have been to shift cost recovery from Kansas ratepayers to Missouri ratepayers, arguably a subsidy. Missouri customers would have been inappropriately charged a higher share of jurisdictional costs which would then allow Kansas rates to be lower than they should have been. But since the Commission rejected the use of the improper 12 CP methodology and the allocation of a disproportionate share of off-system sales margin to Kansas using what KCPL referred to as the "unused energy" allocator, no "subsidy" is being paid by Missouri to Kansas.

Q. Why do you believe that the allocation proposal made by KCPL in the 2006 rate case was designed to "subsidize" KCPL's Kansas customers at the expense of KCPL's Missouri customers?

A. KCPL proposed the use of the 12 CP allocation method in both the Kansas and Missouri rate cases filed in 2006. The use of the 12 CP method is not a proper allocation method to be used for the KCPL electric system. KCPL's outside consultant witness Mr. Loos has said that he would not recommend in Kansas or Missouri use of the 12 CP method to allocate KCPL's costs among the Missouri, Kansas and FERC jurisdictions. In the deposition taken of Mr. Loos on March 18, 2009 he stated

his opinion that he did not support and would not use the 12 CP method of allocation to determine the demand allocation factor.

In his March 18, 2009 deposition Mr. Loos testified:

> Q. In this case, NO. ER-2009-0089, did you recommend the use of the twelve coincident peak allocation basis to allocate KCP&L costs between the Missouri, Kansas and FERC jurisdictions?
>
> A. I did not.
>
> Q. Why not?
>
> A. As I indicated before, I prefer an allocation that better recognizes the maximum demand place on the system by customers, which is single CP, 4 CP, sometimes 3 CP.
>
> Q. In your opinion would the twelve coincident peak allocation basis be an appropriate basis for allocating KCP&L costs between Missouri, Kansas and FERC jurisdictions for a rate case before the Kansas Corporation Commission?
>
> A. I wouldn't recommend it.
>
> Q. And why not?
>
> A. Because I believe that there are methods that are preferable to it, either single or 4 CP, yeah.
>
> Q. The same reasons that you wouldn't recommend it in this case?
>
> A. Uh-huh. Yes.
>
> Q. Do you know the circumstance where you would ever recommend the use of the twelve coincident peak allocation basis for allocating costs among State and Federal jurisdictions for ratemaking purposes?
>
> A. If the -- if the utility loads are relatively constant -- or essentially constant over twelve months, it would make a little difference. And under that situation it could capture and allocate additional amounts to perhaps some classes we didn't want to allocate it to.
>
> [Source: Loos March 18, 2009 deposition, page 31 and 32]

Q. Why is Mr. Loos' opinion not to use the 12 CP method of developing the demand allocation factor significant?

A. Mr. Loos, in effect, through his testimony, has identified the real issue as it relates to jurisdiction allocations that has created numerous issues in cases before this Commission. Because Kansas and Missouri use two different approaches for jurisdictional allocations, there is potential for the sum of the parts not to equal the whole.

Because the Company has agreed to use in Kansas the allocation method its own witness, Mr. Loos opines is wrong, KCPL through its own voluntary actions, appears to place at risk rate recovery of some of its costs. Since KCPL voluntarily agreed to the 12 CP allocation method as part of an overall settlement in Kansas one cannot conclude KCPL is not recovering all of its Kansas costs through rates in Kansas. The Missouri Commission should not be sympathetic to KCPL relating to the jurisdiction allocation situation it finds itself, as the Company has only itself to blame.

Ironically, KCPL agreed to use the 12 CP method in its version of the regulatory plan in Kansas which requires the Company to use this improper allocation method for all four of the rate cases contemplated in that Kansas plan.

Q. Why does Staff believe that Mr. Loos does not agree with the jurisdictional allocation method used by KCPL in Kansas?

A. The 12 CP method of determining the demand allocation factor is the same method which KCPL has used in Kansas for many years, dating back to at least the early 1980s that I am personally aware. In fact, it is the very method which KCPL agreed

to use in the Kansas version of the regulatory plan for its comprehensive energy plan (CEP) in Docket No. 04-KCPE-1025-GIE. The Kansas Commission approved this plan which contained the 12 CP method of allocation on August 5, 2005.

As indicated above, Mr. Loos opposes the use of the 12 CP method as basis of allocating fixed costs. Since this is the only allocation method I am aware of being used in Kansas, this wrong allocation method causes the significant part of the differences between how the two state jurisdictions allocate costs among the Missouri, Kansas and FERC jurisdictions.

Q. Has KCPL ever challenged the use of the 12 CP method as the basis for the demand factor in Kansas?

A. Not to my knowledge. While KCPL has pursued for years a policy of using the wrong allocation method in Missouri because it uses the wrong allocation method in Kansas (12 CP method-- the very method that Mr. Loos does not support) and has litigated this issue numerous times before the Missouri Commission (see the Commission's Orders addressed in my rebuttal testimony in filed on March 11, 2009 in this case), the Company has failed ever to address jurisdictional allocation issues with the Kansas Commission.

Q. Has the Kansas Commission Staff ever commented on the use of the 12 CP allocation method?

A. Yes. Jeffrey D. McClanahan, Chief of Accounting and Financial Analysis for the Kansas Commission, provided direct testimony in Docket No. 04-KCPE-1025-GIE dealing with KCPL's regulatory plan in Kansas for the Comprehensive Energy Plan. In Mr. McClanahan's testimony filed on behalf of the Kansas Commission Staff

supporting the regulatory plan filed in that state, he addressed various matters regarding that plan and KCPL's Comprehensive Energy Plan. He specifically addressed the jurisdictional allocation method agreed to by the parties to KCPL's Kansas regulatory plan. Mr. McClanahan stated the following regarding the use of the 12 CP method as the basis for the Kansas allocation approach:

> The jurisdictional allocation provision in Appendix C states that the 12 Coincident Peak (12 CP) method of allocating cost to the Kansas jurisdictional cost of service will be used. By defining the use of the 12CP methodology in the S&A, Staff and KCPL have eliminated any possible contention in the rate filings. Moreover, the 12 CP methodology is consistent with prior allocation treatment in Kansas.
>
> [Source: page 27 of Jeffrey D. McClanahan direct testimony filed May 10, 2005 in Kansas Docket No. 04-KCPE-1025-GIE]

Q. What is the effect of KCPL agreeing to use the 12 CP method of allocation in the Kansas rate cases that were part of the regulatory plan?

A. The effect is that KCPL has a binding agreement to only use the 12 CP method in the four Kansas rate cases, which results in the Company developing a strategy to close the "gap" it asserts exists because the two states use different allocation methodologies. KCPL claims it is pursuing this issue in this case to ensure that it recovers all of its jurisdictional costs from among its jurisdictions.

In a data request response, KCPL indicated that it has had no discussions with the Kansas Commissioners regarding jurisdictional allocations since it began filing rate cases in 2006, nor has the Company presented any jurisdictional allocation issues in Kansas for the Kansas Corporation Commission to decide. In contrast, this Missouri Commission has examined, or is examining, jurisdictional allocation issues in two out of KCPL's last

three rate cases (including this case). Ironically, according to Mr. Loos, this jurisdiction—the Missouri Commission—is using the correct allocation method (the 4 CP method) while in Kansas (the jurisdiction that has an agreement signed by the Company) the Kansas Corporation Commission uses what Mr. Loos characterizes to be an inappropriate method.

Q. Is it reasonable for the Company to seek to recover overall from its jurisdictions all its plant investment and expenses?

A. Yes, of course. And KCPL may very well be doing so. Certainly jurisdictional allocations were not the only matter resolved in the agreement KCPL reached in Kansas. To the extent KCPL may have a "real" issue regarding jurisdictional allocations, here, the state where the majority of KCPL's assets are is, in effect, being pushed to a corner in an effort to force it to change its long-standing and consistent allocation methodology because KCPL has failed to challenge this allocation issue in Kansas, the state where less of its assets are. As I noted in my rebuttal testimony, Missouri is also the better load factor state, which means, from a cost perspective, KCPL's generating and transmission assets are used more efficiently in Missouri than in Kansas. The load factor in Missouri for 2008 was 56.5% compared to Kansas 48.6% (Data Request 570).

Consequently, while it is important for the Company to recover its reasonable and prudent costs necessary to provide electricity to all its customers, it should not do so at the expense of other jurisdictions that are using the appropriate allocation methods. Because aspects of KCPL's regulatory plan in Kansas at least create the appearance of unfairness, this should not place the burden on Missouri customers to alleviate that

apparent unfairness. If the Kansas Regulatory Plan was truly unfair to KCPL as a whole, then it should not have agreed to the terms of that plan. It is patently erroneous to view one aspect of that plan and deem it unfair since that aspect is merely one of many aspects that KCPL accepted overall. Missouri customers should not be saddled with an inappropriate method of allocating jurisdictional costs just because another state jurisdiction requires the use of another method that KCPL's expert believes to be an improper allocation method.

Q. Should the Commission adopt the jurisdictional allocation methods presented in the rebuttal and direct testimony of KCPL's witnesses?

A. No. While KCPL is presenting this issue using a 4 CP method of determining the demand allocation factor in this case, which is consistent with the way Missouri has allocated jurisdictional costs in the past, the Company is proposing unique allocation methods that have not been used in this jurisdiction or any other state jurisdiction. Since Mr. Loos endorses the use of the 4 CP method and rejects the use of the method used in Kansas (the 12 CP method) he has in effect support the Missouri Commission's and Staff's approach. However, even though Mr. Loos believes the use of the 12 CP Kansas method is improper basis of allocating jurisdictional costs, KCPL asserts the way in which allocations are made among the jurisdictions is "unfair." Since Missouri and Kansas are using different allocation methods, KCPL developed a strategy in this case to "correct" this "unfairness," even though KCPL voluntarily agreed to the 12 CP allocation method as part of an overall settlement in Kansas and one cannot conclude KCPL is not recovering all of its Kansas costs through rates in Kansas.

Q. What did KCPL do in preparation of this rate case to bridge the “gap” it asserts exists between the state jurisdictions due to jurisdictional allocation factors?

A. KCPL approached Black & Veatch with a work plan specifically designed to “correct” the allocation “gap” between Kansas and Missouri. While it did not pursue this matter in Kansas, Mr. Loos was engaged to present a new and unique allocation approach in Missouri-- the very state that Mr. Loos believes uses the correct allocation method, the 4 CP method; the state that has used the 4 CP method consistently since the 1980s; the state that has compromised by moving from a single or one CP method to the 4 CP method to help bridge the gap between the state jurisdictions; the state that has the majority of KCPL's assets; and the state where KCPL more efficiently uses it assets as shown by KCPL having a significantly better load factor in Missouri than in Kansas.

Attached to this surrebuttal testimony is Schedule 1 which is a scope of work prepared by KCPL and presented to Black & Veatch as to how the Company wanted to present jurisdictional allocations in future rate cases. Black & Veatch, in identifying the scope of work and the agreement in which it would perform this work, provided its work plan to address KCPL's requests. This work plan is entitled "Kansas City Power & Light Jurisdictional Allocation Study" dated May 2008.

Q. What was the importance of this work scope developed by KCPL?

A. KCPL presented to Black & Veatch its requirements to examine the jurisdictional allocation “problem” it has with the state jurisdictions. The Jurisdictional Allocation Study was attached as Exhibit 3 in the March 18, 2009 deposition of Mr. Loos and was discussed with him at page 93. The following is an excerpt of the work plan addressing what KCPL provided to Black & Veatch sometime in

early 2008 as to what the Company requested what it wanted the consultant to perform as part of scope of work in this engagement:

> The purpose of this Jurisdictional Allocation Study includes: 1) Determining the impact on KCP&L of selecting the 4CP, 12CP, or other basis for allocating generation plant, transmission plant, and associated O&M expenses, among its Missouri, Kansas, and wholesale jurisdictions. Additionally, 2) Exploring support for allocating environmental equipment using an energy allocator, with the objective of improving the Company's earnings on its investment in, as well as its recovery of O&M expense related to, such equipment. Lastly, 3) KCP&L seeks support for an unused energy allocator in Missouri, or other approach, to attempt to improve the current situation in which more than 100% of all-jurisdiction off-system sales margins are being returned to customers, due to the different allocation treatments being ordered by Kansas and Missouri.
>
> [Source: Surrebuttal Schedule 1-5 and Loos deposition, page 93]

Since KCPL entered into an agreement with Kansas as to the use of the 12 CP method of allocations through the regulatory plan and agreed recently to use the unused energy allocator to allocate off-system sales margin in the Kansas fuel clause, the above work scope really was only to affect Missouri. If Missouri would have adopted the use of the improper 12 CP method and the equally improper unused energy allocator method then the Company would have met its "objective of improving the Company's earnings on its investment in, as well as its recovery of O&M expense related to, such equipment." Wisely the Commission rejected these approaches in 2006 which created the need for the Company to come up with an equally novel and unique allocation proposal of allocating environmental plant using an energy allocator. Interestingly, this was not Black & Veatch's idea but one that KCPL itself came up with.

Q. Is KCPL's rebuttal testimony on jurisdictional allocations compelling so that is causes Staff to change its jurisdictional allocation method for KCPL's costs?

A. No. Mr. Loos' recommendations should be rejected in total as it relates to allocation of costs to the Missouri jurisdiction. KCPL, to the extent it continues to believe that it is not fully recovering its investment costs to which it believes it is entitled, should devote its attention on this issue to the jurisdiction that Mr. Loos believes is using the wrong allocation method, namely Kansas.

Q. Is the jurisdictional allocation issue an example of how KCPL approaches rate cases in Missouri differently in Kansas than in Missouri?

A. Yes. The state that has the highest load factor yet the lower electric rates compared to Missouri is receiving several benefits from KCPL proposals in this rate case. The Company already provides benefits to Kansas in the way they allocate costs to that state using a method that it own witness dies not support. Because of those differences KCPL is under pressure to seek out higher cost allocations to this state.

Staff witness Hyneman describes in his surrebuttal testimony of a re-fueling settlement reached with the Department of Energy (DOE) where the Company opposed any rate treatment benefit be provided to Missouri customers, yet KCPL was willing to provide Kansas customers with a three-year amortization of the benefits of this same settlement. Whenever KCPL sees an opportunity to allocate costs to Missouri ratepayers it tries to do so, and it seems that whenever it has an opportunity to provide benefits to Missouri ratepayers it, at best, ignores those opportunities.

KCPL’s proposals for allocating costs and revenues among the jurisdictions are examples of this -- how off-system sales margin are allocated; the allocation of net plant

for coal-fired power plants using different allocation factors for plant and depreciation reserve; allocation of fixed costs for environmental plant for coal-fired power plants; the allocation of transmission costs and operation and maintenance costs for the steam production costs and transmission plant all result in more costs and less profit being allocated to Missouri. Missouri electric rates will be higher if these proposals are adopted.

Q. Does this conclude your surrebuttal 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 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 Surrebuttal Testimony in question and answer form, consisting of 45 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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 7th day of April, 2009.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Notary Public

BUILDING A WORLD OF DIFFERENCE®

KANSAS CITY POWER & LIGHT

Jurisdictional Allocation Study

May 2008

BLACK & VEATCH
Building a world of difference®

SCHEDULE 1-1

BLACK & VEATCH
Building a world of difference.

May 2, 2008

Mr. John Weisensee
Senior Technical Professional, Regulatory Affairs
Kansas City Power & Light
1201 Walnut Street
Kansas City, Missouri 64141

RE: JURISDICTIONAL ALLOCATION STUDY

Dear John:

We are pleased to respond to your Request for Information (RFI) to conduct a jurisdictional allocation study for KCPL's Missouri, Kansas, and wholesale jurisdictions.

As requested, please find the following enclosed: 1) a narrative discussing our planned approach for completing the study and our hourly billing rates, 2) a listing of investor-owned utility (IOU) client references, and 3) the credentials of Mr. Larry Loos, whom we propose to ultimately provide testimony and witness support to the study results. Mr. Loos has previously testified before both the Kansas and Missouri Commissions. Jurisdictional and off-system sales allocations were covered in many of Mr. Loos' IOU rate case testimonies.

Copies of testimonies Mr. Loos prepared and filed in two separate cases are attached as examples of work he has done since 1987. Both of these cases involved jurisdictional allocation in connection with electric utility cost of service studies. In the attached copy of the 1987 testimony filed on behalf of Iowa Public Service Company (IPS), Mr. Loos discusses the cost of service study beginning on Page 13, Line 10. Please also refer to Page 17, beginning on Line 15, and Page 21, beginning on Line 5, for examples of where Mr. Loos addresses specific allocation topics related to those of interest to this RFI.

Mr. Loos' 1991 IPS testimony filing is also an example of his experience with preparing a jurisdictional cost of service study. Please refer to the engagement description on Page 3, Line 8, and Page 9, Line 8, where the testimony begins to address concepts more specifically related to the objectives of the RFI.

We appreciate the opportunity to provide this information. Please do not hesitate to contact Bob Brady at 913-458-3372 with any questions or comments.

Very truly yours,

BLACK & VEATCH CORPORATION

Thomas J. Sullivan
Vice President

TABLE OF CONTENTS

GENERAL CORPORATE INFORMATION

A.1. Describe your corporate legal structure. Identify the parent corporation, public / private ownership, stock market listing if any, D&B number, and other key identifying information about your organization.

"Black & Veatch Corporation is a corporation within the Black & Veatch family of companies who are directly or indirectly owned by the Parent, Black & Veatch Holding Company. Black & Veatch Holding Company is a privately held corporation with majority ownership by an ESOP (employee stock ownership program)."

A.2. Summarize your company's financial picture. Please provide recent figures, e.g., for the last three years, for annual revenues, net income if public, and sales and / or profitability growth.

See attached financial information

A.3. Summarize your company's locations, facilities, geographic presence, number of employees, and organizational structure.

Black & Veatch is an employee-owned company with more than 100 offices worldwide and have completed projects in more than 100 countries on six continents. Black & Veatch employs a total staff of more than 8,000 involved in a wide range of engineering and management consulting services, some of these relate to utility development and operations, finance, economics, planning, environmental, civil, electrical, structural, and mechanical engineering, as well as construction, science, and architecture. An organizational chart will be provided upon award of contract.

A.4. Identify any key partnerships or alliances between your firm and other service providers that are relevant to your ability to meet KCP&L's requirements related to this RFP.

None.

A.5. Please indicate whether your business is a certified small or disadvantaged business or a minority or woman-owned business enterprise. If your firm is majority owned or controlled, please indicate your ability to partner with or subcontract to small or disadvantaged, diverse businesses.

Black & Veatch can and does partner with these businesses on a project-by-project basis

A.6. A.6.Please provide, if available, up to three customer references for your services, preferably for customers who are a similar size or industry as KCP&L, and / or local companies.

Mr. Larry Headley
Manager, Rates and Tariffs
Aquila
1815 Capitol Avenue
Omaha, Nebraska 68102
(402) 221-2023

Mr. Fred Eichenmiller
General Manager Rates
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219
(412) 337-8876

Ms. Kelly Walters
Vice President Regulatory and General Services
Empire District Electric Company
P.O. Box 127,
Joplin, MO 64802-0127
(417) 625-6288

Ms. Suzan Stewart
MidAmerican Energy Company
Senior Managing Attorney
401 Douglas Street
P. O. Box 778
Sioux City, IA 51102-0078
(712) 277-7587

WORKPLAN

The purpose of this Jurisdictional Allocation Study includes: 1) Determining the impact on KCP&L of selecting the 4CP, 12CP, or other basis for allocating generation plant, transmission plant, and associated O&M expenses, among its Missouri, Kansas, and wholesale jurisdictions. Additionally, 2) Exploring support for allocating environmental equipment using an energy allocator, with the objective of improving the Company's earnings on its investment in, as well as its recovery of O&M expense related to, such equipment. Lastly, 3) KCP&L seeks support for an unused energy allocator in Missouri, or other approach, to attempt to improve the current situation in which more than 100% of all-jurisdiction off-system sales margins are being returned to customers, due to the different allocation treatments being ordered by Kansas and Missouri.

Available data includes:

- KCP&L Jurisdictional Cost of Service Study
- KCP&L system and jurisdictional Load Data

Scope of Work

The scope of work, as requested by KCP&L, includes:

- Obtain an understanding of KCP&L's existing methodologies for jurisdictional allocation among the Company's Missouri, Kansas and wholesale jurisdictions, and related Commission Orders and financial impacts, as pertains to:
  - Generation and transmission plant and associated O&M expenses, and
  - Off-system sales margins
- Provide information as to how other multi-state investor-owned utilities handle similar allocations.
- Recommend allocation methodologies that might be acceptable to the Commissions.
- Provide rebuttal testimony, respond to data requests and attend hearings, as necessary.

The recommended allocation procedures would be completed and provided to KCP&L by early June.

Black & Veatch Proposed Work Plan

- Upon authorization to proceed we will request information that includes KCP&L's Revenue Requirement and Jurisdictional Cost of Service Study, and relevant commission orders and testimony. This information, as well a kickoff meeting with Company personnel, is aimed at obtaining an understanding of KCP&L's systems, existing allocation methodologies, and to discuss alternative methodologies to investigate from among the range of options that we believe we could support. We would also like to discuss their initiatives in Demand Side Management (DSM) and the possible future implications on future jurisdictional allocations.
- To address the shortfall in KCP&L's allocated generation and transmission rate base and related O&M expense, Black&Veatch proposes to investigate the treatment received by up to twelve other multi-jurisdictional electric utilities, by reviewing the recent decisions of regulatory commissions, through surveying our client base, and by enquiring of commission staff members.
- We will then proceed with the research portion of our work plan. Once we have completed this phase, we will meet with KCP&L to present our findings and to discuss the pros and cons of each optional course of action. The objective of this phase is to jointly determine and agree upon how best to direct our remaining efforts in a manner most consistent with KCP&L's interests, with due consideration to our findings and our professional experience and judgment.
- Based on survey results and our experience we will evaluate alternative jurisdictional allocation methodologies on KCP&L systems. We believe that any alternative recommended would require a strong

philosophical foundation and should result in moving KCP&L towards full recovery of jurisdictional rate base. The methodology should also complement off-system sales allocations.

- Regarding selection of an allocator for off-system sales margins, we are prepared to argue that the requirement to allocate generation and transmission plant with the 4CP method, as the Missouri Commission has ordered, is more compatible with employing unused energy, rather than energy, for allocating jurisdictional off-system sales margins. We may also consider our base and excess methodology that we provide an example of in our attached 1987 Iowa testimony. That testimony addressed unused energy within the context of our base and excess allocation. We may also consider modifying total unused energy for market price considerations.
- We are prepared to advocate using an energy-based factor for allocating KCP&L's environmental equipment, as we believe such an allocator to be a logically supportable cost driver.

Black & Veatch would then proceed to prepare and present to the Company a written report that documents our efforts, findings, and recommendations. This report would be suitable for KCP&L to rely on in its upcoming July 1st Kansas and Missouri rate case filings. We understand that our report will be fully discoverable during such rate filings, and we will be prepared to perform post-filing items such as rebuttal testimony, respond to data requests and attend meetings, as necessary, as cited above under Scope of Work. More fully, we will prepare and present to KCP&L, upon request, a draft copy of rebuttal testimony and exhibits supporting the Company position as developed in the process described above, and will incorporate, as appropriate, review comments received. Additional tables and other materials will be prepared if needed to effectively support our testimony.

Black & Veatch professionals will be available to provide additional post-filing support functions that may include assistance in preparing counsel for cross examination of staff and intervener witnesses, assistance in preparing post hearing briefs, and other tasks as requested by KCP&L, in connection with the Jurisdictional Allocation Study.

KCP&L Resources Needed to Complete the Study within the Schedule

1. Timely response to data requests and review of interim work products.
2. Load data, meter reading data and billing data summarized by KCP&L in a format and specification mutually agreed to with Black & Veatch.
3. Jurisdictional Cost of Service study updated by KCP&L to the current test year to be filed.

FEE

For all services proposed herein, Black & Veatch proposes to bill at our standard hourly billing rates plus direct expenses at out of pocket cost. For all services completed during calendar year 2008, our standard rates are as set forth below. Black & Veatch reserves the right to adjust our standard rates once each calendar year beginning on December 31, 2008.

Invoices will be sent via email. Invoices paid within 15 days of the date of the invoice will be discounted by 5 percent. If an invoice is not paid within 30 days of receipt, interest will be added and accrue at the lesser of 1-1/2 percent per month or the maximum rate permitted by law. In no event, not withstanding any other provision to the contrary, Black & Veatch is not obligated to provide any deliverable if any invoice is 45 or more days outstanding.

Job Description	Hourly Billing Rates ($/hr)
Clerical/Administrative Support	85.00
Analyst	170.00
Senior Analyst	190.00
Consultant	210.00
Manager	250.00
Principal	280.00
Director	325.00
Managing Director	335.00
Associate Vice President/ Executive Consultant	350.00
Vice President	425.00
Senior Vice President	450.00

Black & Veatch proposes to perform the services described herein pursuant to the terms and conditions of Black & Veatch's standard long form consulting services agreement. We have attached a copy for review in Appendix A.