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Issue: *Off-System Sales*
Witness: *Cary G. Featherstone*
Sponsoring Party: *MoPSC Staff*
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Case No.: *ER-2006-0314*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
September 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan.	))))	Case No. ER-2006-0314

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 20 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 8th day of September 2006.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

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REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2006-0314

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 filed direct testimony in this case on August 8, 2006 on the costs of construction projects of Kansas City Power & Light Company's (KCPL or Company) power plants.

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 Don A. Frerking, Senior Regulatory Analyst, relating to the Company's proposal to allocate off-system sale revenues, referred to by KCPL as "unused energy" allocator. The result of this allocation method is to allocate a disproportionate share of off-system sales margin to the state of Kansas.

Q. Is any one else going to provide rebuttal testimony on this issue?

A. Yes. Staff witnesses Lena M. Mantle, Manager of the Commission's Energy Department, will be providing rebuttal testimony on the system load factor of KCPL and how utilities build electric facilities to meet system demands through the integration resource planning process. Staff witness Erin L. Maloney, of the Commission's Energy Department, provides rebuttal testimony on the jurisdictional allocation factors and the unused energy allocator used by KCPL. Staff witness Steve M. Traxler, of the Commission's Auditing Department, addresses in his rebuttal testimony off-system sales and briefly addresses the unused energy allocation factor.

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony?

A. KCPL is proposing to allocate profits made from off-system sales in this case in new and novel way, benefiting Kansas customers at the expense of the Company's Missouri customers. This never-before-used allocation approach is unfair and inappropriate and results in Missouri losing approximately $8 million to the benefit of Kansas' operations. KCPL has not provided any justification nor supported the need to make this allocation adjustment in its direct filing. Because the Company has not provided any explanation in its direct testimony why it is proposing to deviate from the way off-system sales have been allocated previously, it difficult to ascertain the reasoning behind such approach. KCPL's Missouri operations have lower costs because KCPL has a better load factor than does the other jurisdictions in which KCPL operates. This better load factor results in Missouri having lower average fuel and purchased power costs than the Company's system average fuel and purchased power costs . The higher load factor in Missouri also results in a better utilization of generating plant facilities which would

provide more opportunity to engage in off-system sales transactions, thus providing more profits to the Company. The lower average fuel costs and better utilization of production plant facilities enable KCPL to participate in the off-system sales market generating a substantial amount of the Company's annual sales.

Missouri customers have historically provided KCPL the majority of its recovery in rates of the current fleet of generating and transmission facilities, and thus, should continue to receive the majority of the off-system sale margins. Missouri customers have historically paid for the majority of the fuel and purchased power costs for off-system sales. Missouri customers have historically paid for the majority of the maintenance and operations costs relating to the plant facilities. Missouri customers have historically paid for the majority of the payroll costs relating to the maintenance and the operations of the plant facilities. In addition, Missouri customers have historically paid for the majority of the administrative and overhead costs of the operations of KCPL. However, under KCPL's never-before proposed allocation methodology, the majority of the off-system sales margins are allocated to the Kansas jurisdiction. KCPL's never-before-proposed approach causes a revenue requirement increase of $8 million that it is requesting its Missouri customers to pay.

Finally, KCPL’s proposed adjustment to remove a portion of off-system sales margin from the revenue requirement in Missouri is not consistent with the KCPL Experimental Regulatory Plan approved by this Commission in a Report And Order on July 28, 2005 in Case No. EO-2005-0329.

Staff is opposed to this adjustment to reduce off-system sales margin from the Missouri jurisdiction.

KCPL's Unused Energy Allocator

Q. How did KCPL allocate off-system sales to the respective jurisdictions?

A. The Company allocated the off-system sales margins to Missouri retail, Kansas retail and FERC wholesale jurisdictions using what KCPL refers to as an "unused energy" allocator. KCPL witness Frerking identifies at page 7 of his direct testimony how the Company allocated off-system sales in its case. With respect to how KCPL allocated off-system sales, Mr. Frerking states:

> . . . The margin component was allocated on the basis of "unused energy." The Unused Energy allocator is derived from the Demand and Energy allocators. It is calculated by subtracting the actual energy usage from the "available energy". The available energy is defined as the average of the 12 coincident peak demands multiplied by the total hours in the test period. The allocation for all of these off-system revenue components is consistent with the allocation of the costs associated with these sales.

Q. What is the "unused energy" allocator?

A. While Mr. Frerking does identify how the unused energy allocator is calculated, in his direct testimony, this allocation factor is not defined as to its purpose and the reason for its use by KCPL anywhere in its direct testimony, by Mr. Frerking or any other KCPL witness. While KCPL is proposing this adjustment for the very first time in Missouri, it did not identify the rationale or any reason why the unused energy allocation factor is appropriate or necessary. The Company has provided no basis for this allocation adjustment which moves a significant portion of off-system sales that otherwise would be included in the determination of Missouri's revenue requirement to the state of Kansas. This allocation is being proposed by KCPL to the benefit of its Kansas retail customers, and to the detriment of its Missouri retail customers, without any explanation whatsoever by KCPL in its direct filing made on February 1, 2006. It seems

that KCPL is seeking to draw as little attention as possible to the fact that it is seeking to remove $8 million of profit from the Missouri retail jurisdiction in a manner never seen before.

Q. Why is Staff opposed to KCPL's Unused Energy allocation of off-system sales?

A. Staff is opposed to the approach that KCPL has used in this case to allocate off-system sales among the three jurisdictions served by the Company because:

1. KCPL has not provided any justification nor explanation why departing from the traditional way of assigning off-system sales to the respective jurisdictions

2. KCPL's approach has never been employed before this case in Missouri of any other jurisdiction

3. KCPL's approach does not take into consideration that the Missouri retail load has a better load factor that results in a more efficient production of electricity through better utilization of production facilities, thus the Company has lower average costs in this state than the other jurisdictions.

4. KCPL's approach to allocating the off-system sales is unfair and inequitable to the Missouri retail customers served by the Company with respect to the way that these customers have been required to support the infrastructure that has been constructed to allow KCPL to engage in the off-system sales market

5. KCPL's proposed adjustment to remove off-system sales from the revenue requirement in Missouri is not consistent with the KCPL Experimental Regulatory Plan approved by this Commission on July 28, 2005 in Case No. EO-2005-0329 and the Commission's Report And Order.

Q. What are off-system sales?

A. Off-system sales relate to 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 the test year 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 margin is included in the overall determination of KCPL's Missouri revenue requirement. Staff witness Steve M. Traxler addresses off-system sales in his direct and rebuttal testimonies.

Q. Has KCPL ever proposed its "unused energy" allocation method before?

A. No. According to the Company's response to Data Request 502, the "unused energy" allocator used in KCPL's original and June updated case has not been used or even proposed prior to the rate case filing made on February 1, 2006. KCPL stated that

> the Unused Energy allocation methodology for non-firm energy sales "margin" has not previously been proposed or adopted in any KCPL rate proceedings in Missouri or Kansas. KCPL first proposed the use of the Unused Energy allocation methodology for non-firm sakes "margin" in the current rate case filings in Missouri and Kansas.

Q. Has this proposal ever been used in another jurisdiction?

A. KCPL could not identify any other jurisdiction where the "unused energy" allocator has been used. In response to Data Request 502, KCPL stated that it:

> . . . did not do any exhaustive research on the allocation methodologies approved in other jurisdictions, which relate specifically to the margin on non-firm energy sales.
>
> Many companies do not report the margin component of non-firm energy sales. Many jurisdictions allocation methodologies were developed at a time when non-firm energy sales were not priced at market but rather at cost plus a small margin.

Q. How are generating assets allocated among the jurisdictions?

A. The generating assets that produce the energy to enable KCPL to make off-system sale transactions have been allocated historically, and currently in this case, by both KCPL and Staff on a demand allocation method. Also, the fuel and purchased power costs that are necessary to make the off-system sale transactions are allocated on an energy allocation method by both KCPL and Staff. While there is a dispute as to the appropriate methodology to develop the demand allocation factors by using either the KCPL method of the 12 coincident peaks (the 12 CP method) or the Staff method of the 4 coincident peaks of the summer months of June through September (the 4 CP method), both parties use a demand allocator for generating (production) assets and an energy allocator to allocate fuel and purchased power costs to the respective jurisdictions.

Q. What are the 12 CP and 4 CP methods of cost allocation?

A. Staff witness Erin L. Maloney discusses these allocation methods in her direct testimony. In addition, Ms. Maloney provides the rationale as to why Staff is using the 4 CP method to allocate costs in this case in both her direct and rebuttal testimonies.

Q. Has the 4 CP 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 method for production and transmission jurisdictional allocators. Staff proposed a 1 CP method for these assets in that case. The Commission adopted KCPL's use of the 4 CP method of allocations. The Commission's Report and Order in Case Nos. ER-85-128 and EO-85-185 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

System Load Factors

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. 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. For a discussion on load factor, see the rebuttal testimony of Staff witness Lena M. Mantle, Manager of the Commission's Energy Department.

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. 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 Kansas retail and FERC 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 FERC wholesale customers benefit in the same way.

Q. How does it happen that Kansas retail and FERC wholesale 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 direct testimony. 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 FERC 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 retails'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 FERC 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 Missouri operations?

A. No. KCPL has not 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 FERC wholesale customers by virtue of the way these costs are allocated using the system energy allocation factor. Staff witness Maloney 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 FERC wholesale.

Q. Is KCPL's proposal to allocate off-system sales based on "unused energy" allocation method proper?

A. No. In addition to the fact that KCPL has offered no rationale, KCPL's new proposal to allocate more off-system sales to Kansas retail and FERC wholesale jurisdictions is inconsistent with how the Company is allocating other components of its case, specifically plant costs and fuel and purchased power costs. At page 7 of his direct

testimony, KCPL witness Frerking identifies the Company's approach to allocating revenues and costs relating to off-system sales in this case:

> The bulk power, or off-system, sales revenues are for the capacity and non-firm energy sold to other utilities. The revenues from off-system sales were subdivided into four components for allocation purposes. These components are: (1) the capacity sales revenues; (2) the transmission revenues associated with and included in the off-system sales revenues; (3) the cost of sales (e.g., fuel costs) associated with and included in the off-system sales revenues; and (4) the margin or profit included in the off-system sales revenues. The capacity and transmission components were allocated using the Demand allocator. The cost of sales component was allocated using the Energy allocator. The margin component was allocated on the basis of 'unused energy'. The Unused Energy allocator is derived from the Demand and Energy allocators. It is calculated by subtracting the actual energy usage from the 'available energy'. The available energy is defined as the average of the 12 coincident peak demands multiplied by the total hours in the test period. The allocation for all of these off-system revenue components is consistent with the allocation of the costs associated with these sales.

KCPL allocates its production and transmission plant costs based on a demand factor (using a 12 CP method). KCPL is proposing to require the Missouri customers to pay the majority of the plant costs, 53.82%, yet receive only 46.97% of the off-system sales margin. The Missouri customers must pay, using KCPL's method of allocation, 53.82% of plant costs used to generate the majority of the off-system sales and yet, under KCPL's method of allocation, receiving only 46.97% of the profits from off-system sales. Kansas is being allocated using KCPL's approach 45.30% of the production and transmission facilities but getting 52.25% of the off-system sales profit. From Staff's perspective this is a completely inequitable way of assigning the tremendous benefits from off-system sales, especially in light of the fact that Kansas retail and FERC wholesale are benefiting from Missouri's relatively high load factor.

Q. Are there other components to off-system sales?

A. Yes. KCPL also has bulk power sales to the cities of Springfield and Independence, known as capacity sales.

Q. How does KCPL allocate these other off-system sales?

A. KCPL allocates bulk power sales, or capacity sales, based on a demand factor for the capacity component of capacity sales, which the Company has determined using the 12 CP method as 53.82% to Missouri and 45.30% to Kansas. The Company calculated the energy allocator for the energy component for capacity sales of 57.12% to Missouri and 41.96% to Kansas. The fuel and purchased power costs relating to these capacity sales are allocated by KCPL using its 57.12% energy allocator. Thus, the profit for the energy component of capacity sales is 57.12% allocated to Missouri and 41.96% to Kansas. Any resulting margin (profit) from capacity sales is allocated to Missouri is based on using either the 57.12% or 53.82% depending on if the profit is for the demand or energy component of capacity sales. However, the way in which KCPL has chosen to allocate the non-firm off-system sales margin (profit) to Missouri using the 46.97% "unused energy" factor is completely inconsistent with how it chose to allocate the capacity and energy components of firm off-system sales.

Q. How did Staff allocate off-system sales in this case?

A. Staff allocated all off-system sales the same, regardless if the sales were non-firm or capacity sales. Staff witness Maloney determined the Missouri energy allocator of 56.68% to which was used for both firm and non-firm off-system sales related to energy and the demand allocator for Missouri of 53.46% for the demand

component of firm capacity sales. Staff did not use an "unused energy" allocator anywhere in its case nor is the Staff aware of this concept having been previously raised.

Q. Is the approach taken by Staff in this case common to the manner in which off-system sales are allocated by other companies regulated by the Commission?

A. Yes. Staff has been allocating off-system sales on the basis of the 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 has used a demand allocator to assign the off-system sales to the various jurisdictions

Q. Is KCPL proposing to provide other benefits to the Kansas retail jurisdiction?

A. Yes. In addition to the benefit of using the "unused energy" allocator to allocate off-system sales, KCPL has developed its revenue requirement in this case by giving the Kansas retail jurisdiction the benefit of using a demand allocation method which assigns less plant investment and costs to that jurisdiction. KCPL uses the 12 CP method to allocate costs and investments in this case, a method the Kansas Commission Staff has advocated since at least the early 1980s which benefits KCPL's Kansas retail customers. This method allocates more plant, and therefore, more costs, to Missouri than does the 4 CP method, which Staff is using in this case. As discussed above, KCPL is

also proposing for the first time the "unused energy" allocation of off-system sales margins. The "unused energy" allocator benefits the Kansas retail jurisdiction in the amount of approximately $8 million by shifting Missouri revenues to Kansas. At the same time, 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. Is the use of system average costs to set rates detrimental or not beneficial to 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 FERC wholesale jurisdictions of KCPL. These additional off-system sales would be to the benefit of 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 thereby causing for the KCPL system, it 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.

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

Q. Is KCPL's proposal allocating the majority of the off-system sales margins to Kansas fair treatment to KCPL's Missouri retail customers?

A. No. KCPL's approach to allocating the off-system sales is unfair and inequitable to KCPL's Missouri retail customers with respect to, among other things, these customers having supported through their payment of KCPL's rates the infrastructure that has been constructed to allow KCPL to engage in the off-system sales market. In this case, both the Company and Staff have allocated to Missouri the majority of the plant investment costs including depreciation; fuel and purchased power costs; operation and maintenance costs; payroll and payroll related benefit costs; and administrative and general costs. These costs have historically been allocated substantially to Missouri customers. The jurisdictional allocation factors for production facilities was 65.78% and for the transmission facilities was 59.89% determined in the 1985 Wolf Creek rate case, the last formal rate case filed by KCPL. KCPL in this case,

has proposed an adjustment that results in the assignment of 47% of off-system sales margins to Missouri. While Missouri retail customers have provided the majority of the cost recovery to support KCPL's operations, the Company has chosen to assign the minority of the off-system sales to this jurisdiction giving no explanation for this significant change.

Q. Does Missouri still comprise a majority of KCPL's utility operations?

A. Yes. According to Great Plain Energy Inc.'s (GPE) 2005 annual shareholder report, KCPL's Missouri operations comprise the majority of its operations: "Missouri jurisdictional retail revenues averaged 57% of KCP&L's total retail revenue over the last three years. Kansas jurisdictional retail revenues averaged 43% of KCP&L's total retail revenue over the last three years [page 7, 2005 SEC Form 10 attached to shareholder report]."

The demand and energy allocation factors used by both KCPL and Staff indicate that Missouri is still the dominant jurisdiction, although the Company's business is shifting slowly to Kansas as result of growth in KCPL's residential service territory in that state.

Q. Has this shift been occurring for a substantial period of time?

A. Yes. As I previously noted, I have been involved with KCPL rate cases since the early 1980's and the growth in Kansas has caused a gradual movement in allocation factors from Missouri to Kansas. More and more of KCPL's electrical usage is being derived from Kansas, resulting in an allocation of costs to that state and away from Missouri. As an example, in 1985, the Commission noted in its Report and Order in Case Nos. ER-85-128 and EO-85-185 that the production (demand) allocation factor was

65.78% (based on 4 CP method), the transmission allocation factor was 59.89% and the energy allocation factor was 69.10%. In this case, Staff is using a demand allocation factor of 53.46% (based on a 4 CP method) for both production and transmission plant and an energy allocation factor of 56.68%.

Q. Is KCPL's proposal to remove a portion of off-system sales from the Missouri rate case consistent with the agreement reached in the Regulatory Plan?

A. No. KCPL's proposal regarding off-system sales is completely inconsistent with the letter and intent of the Stipulation and Agreement in Case No. EO-2005-0329, and approved by the Commission on July 28, 2005 as KCPL's Experimental Regulatory Plan. KCPL is proposing an adjustment to remove off-system sales from the revenue requirement in Missouri through its allocation methods. The Report And Order in Case No. EO-2005-0329 states with respect to off-system sales

> Under the terms of the Stipulation, KCPL agrees that off-system energy and capacity sales revenues and related costs will continue to be treated "above the line" for ratemaking purposes. **KCPL will not propose any adjustment that would remove any portion of its off-system sales from its revenue requirement determination in any rate case.** KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process. During the hearing, KCPL also stipulated that it would agree to this ratemaking treatment for off-system sales as long as the Iatan 2 costs were included in KCPL's rate base. (Tr. 1037-38).[4]
>
> [emphasis added; page 18-19, Report and Order in Case No. EO-2005-0329]

Clearly, the proposal to remove off-system sales through KCPL's never-before-used allocation method is not in keeping with the agreement it made in the Experimental Regulatory Plan Stipulation and Agreement. Indeed, the very first case KCPL filed as

part of the Experimental Regulatory Plan Stipulation and Agreement, the Company is attempting to remove a portion of the off-system sales that should be included in the Missouri revenue requirement determination.

Conclusion

Q. Should the Commission adopt KCPL's allocation off-system sale proposal?

A. No. The Commission should reject KCPL's never-before proposed "Unused Energy" allocator which adjusts off-system sales profits from Missouri to other jurisdictions served by the Company. If the Commission allows KCPL to use the "Unused Energy" allocator to allocate off-system sales to Kansas, it will be to the detriment of KCPL's Missouri retail customers. Absent this never before used allocation method, approximately $8 million of additional off-system sales margins would be properly included as part of KCPL's Missouri operations. KCPL is attempting to shift these off-system sales revenues to its Kansas retail and FERC wholesale jurisdictions thereby increasing rates to Missouri retail.

Q. Does this conclude your rebuttal testimony?

A. Yes.