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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CAREY G. FEATHERSTONE

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2006-0314

Jefferson City, Missouri
October 2006

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

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 Surrebuttal Testimony in question and answer form, consisting of 23 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 6th day of October 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

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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 and rebuttal 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 and rebuttal on September 8, 2006, on off-system sales.

Q. What is the purpose of your surrebuttal and cross-surrebuttal testimony?

A. The purpose of this surrebuttal and cross-surrebuttal testimony is to address the rebuttal testimony filed by KCPL witness Don A. Frerking, Senior Regulatory Analyst, relating to the Company's proposal to allocate off-system sales revenues, referred to by KCPL as "unused energy" allocator, and the rebuttal testimony of other witnesses responding to this issue. The result of this allocation method is to allocate a disproportionate share of off-system sales margin to the state of Kansas.

Q. Is anyone else on Staff going to provide surrebuttal testimony on this issue?

A. Yes. Staff witnesses Erin L. Maloney, of the Commission's Energy Department, provides surrebuttal 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 surrebuttal testimony off-system sales and briefly addresses the unused energy allocation factor.

EXECUTIVE SUMMARY

Q. Please summarize your surrebuttal testimony?

A. KCPL is proposing to allocate profits made from off-system sales in this case in a new and novel way, benefiting Kansas retail customers at the expense of the Company's Missouri retail customers. This never-before-used allocation approach is unfair and inappropriate and results in Missouri losing over $4 million in revenues annually to the benefit of KCPL's Kansas' operations. KCPL has not provided the necessary justification or supported the need to make this unique and unprecedented change to the allocation of off-system sales in either its direct or rebuttal filings. This proposal is not equitable and shifts to Kansas revenues that otherwise would be allocated to Missouri.

Originally, KCPL supported an unused energy allocator that transferred approximately $8 million of Missouri's off-system sales to Kansas but the Company discovered an error in its approach and revised this allocator from the original 46.97% to the revised 51.55%. This change in the unused energy allocator caused a significant reduction to the amount of off-system sales that KCPL proposed to allocate away from Missouri. However, even though the Company made a correction to its calculation regarding the off-system sales allocations (described in Mr. Frerking's rebuttal testimony at page 1), the dollar difference between

Staff's and the Company's methodologies is still material. The reasons why Staff continues to be opposed to the Company's highly unique, nontraditional approach to allocate off-system sales are identified in my rebuttal testimony.

Using KCPL's corrected 51.55% unused energy allocator compared to the energy allocator of 56.68% used by Staff, the dollar value of the difference decreases to $4.4 million, or a $3.6 million reduction from the original level of $8.0 million.

KCPL'S UNUSED ENERGY

Q. Please identify how the Company allocates off-system sales in this case.

A. KCPL has proposed an unprecedented and not fully developed methodology to attempt to allocate the off-system sales (revenues and costs) margins to the respective jurisdictions in which it operates. KCPL witness Frerking describes the unique method used by the Company in its February 1, 2006, direct filing at pages 7 and 8 of his direct testimony. He changed the methodology in his rebuttal testimony, described at pages 1 through 2.

Q. Has KCPL made a correction to its original calculation of unused energy allocator?

A. Yes. In Mr. Frerking's rebuttal testimony (page 1), he states:

> I would like to correct an error in the calculation of the "Unused Energy" allocator, which KCPL is proposing to use as the basis for allocating off-system sales "margins". The "Available Energy" component of the calculation was incorrectly calculated by utilizing the average coincident peak ("CP") loads. The correct megawatts ("MW") for calculation of the "Available Energy" should have been based on the total "Available Capacity" as allocated using the jurisdictional Demand allocation factors.

To contrast this corrected method with KCPL's original calculation, Mr. Frerking stated at page 7, of his direct testimony, how the Company allocated off-system sales in its February 1, 2006, filing.

> . . . 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 impact of KCPL's correction of the Unused Energy Allocator factor?

A. Mr. Frerking identifies both the original and corrected unused energy allocator at page 2 of his rebuttal testimony. He also attached Schedule DAF-6 to his rebuttal that provides more detail regarding the unused energy allocator. The correction and the original unused energy allocators proposed by KCPL appear as follows:

Unused Energy Allocator

Jurisdiction	**Corrected Rebuttal Level**	**Original Direct Level**
Missouri	51.55%	46.97%
Kansas	47.61%	52.25%
FERC	0.85%	0.79%
Total	100%	100%

KCPL's corrected unused energy allocator increased 4.58% to the state of Missouri from the original calculation. This is a significant change and represents approximately half of the difference between KCPL's original filed position to its revised position.

Q. How did Staff allocate the off-system sales among the state retail jurisdictions and FERC wholesale jurisdiction?

A. Staff used the energy allocator of 56.68% determined by Staff witness Maloney. The following comparison between KCPL's original position and corrected version and the Staff's position using the energy allocator:

Missouri	**Corrected**	**Original**
Unused Energy Allocator	KCPL 51.55%	KCPL 46.97%
	Staff Original	**Staff Original**
Energy Allocator	Staff 56.68%	Staff 56.68%
Difference	5.13%	9.71%

Q. What is the dollar value difference between the two methods?

A. Under KCPL's original 46.97% level, the dollar value of the difference compared to the energy allocator used by Staff of 56.68% was almost $8 million. Using KCPL's corrected 51.55% unused energy allocator compared to the energy allocator of 56.68% used by Staff, the dollar value difference decreases to $4.4 million, or a $3.6 million reduction.

Q. Does KCPL's correction change the rebuttal testimony you filed on September 8, 2006, regarding off-system sales?

A. No, it does not. Despite the Company changing its calculation regarding the off-system sales allocations, the same arguments against the use of KCPL's unused energy allocator apply.

Q. Mr. Frerking refers to off-system sales margins through out his rebuttal testimony. What are off-system sales margins?

A. Off-system sales revenues less fuel and purchased power costs results in the off-system sales margin that has been included in all Missouri electric rate cases that I am aware. In fact, the first time I worked in the fuel area at a public utility was the 1982 KCPL rate case, Case No. ER-82-66. In that case, both the Company and Staff calculated an off-system sales margin using off-system sales revenues less fuel and purchased power costs. The off-system sales margins were much smaller compared today, but the concept of how the margins are calculated remain the same.

Q. KCPL witness Mr. Frerking appears to question why Staff did not explain its basis for using the energy allocator in its direct testimony (KCPL witness Frerking rebuttal, page 9). Did Staff explain its rationale for using the energy allocator in this case?

A. Staff witness Maloney addressed the energy allocator in her direct testimony filed on August 8, 2006. She identified how the energy allocator was developed and what it was used for.

Staff believed that the energy allocator was used universally by parties to rate cases including utilities to allocate energy related fuel, purchased power and off-system sales. As a matter of course, I do not recall having been involved in an electric rate case where the energy allocator was not used to allocate these items, including off-system sales.

Q. What is the basis for using the energy allocator for the energy related fuel, purchased power and off-system sales?

A. The energy allocator is derived using the energy loads (with line losses) in megawatt hours for each state retail jurisdiction and FERC wholesale jurisdiction. The loads of each of these jurisdictions is compared to the total system load in megawatt hours to derive a percentage of the total. In this case, Staff witness Maloney derived a 56.68% energy

allocator, which was applied to the energy related costs (fuel and purchased power) and firm and non-firm off-system sales.

The energy allocator provides a basis to assign the variable component of fuel and purchased power to the state retail jurisdictions and FERC wholesale jurisdiction, as well as the variable component of energy costs (both fuel and purchased power) for the energy side of the firm off-system capacity sales and the non-firm off-system sales.

Q. Should KCPL have been surprised that an energy allocator was used by Staff to allocate off-system sales in this case?

A. No. KCPL itself has used an energy allocator to allocate these revenues and costs for off-system sales to the various jurisdictions in the past. KCPL was aware of the use of this approach to allocate firm and non-firm energy components of off-system sales. In Mr. Frerking's September 29, 2006, deposition, he suggested that not all parties feel the need to justify everything in their cases if the position is something that has been done in the past [deposition page 52, line 18].

In fact, the energy allocator has been used in all electric rate cases I am aware of for the last several years, and is a very common allocation method for fuel and fuel related costs.

KCPL used an energy allocator to allocate its energy costs (fuel and purchased power) in this case. The Company also used the energy allocator for the energy side of the capacity sales (firm off-system sales). KCPL has historically used the energy allocator to allocate non-firm off-system sales.

The energy allocator has been used by KCPL in the surveillance reporting process since 1987. KCPL and other utilities had been providing surveillance reports to the Commission for a number of years when KCPL and various parties to the Wolf Creek Nuclear

Generating Station (Wolf Creek) rate increase case subsequently in 1987 entered into a Stipulation and Agreement, which among other things, provided that KCPL would cease submitting to the Staff monthly surveillance reports and instead provide semiannual cost of service reports. The surveillance reporting process which was agreed to utilized the Wolf Creek Report and Order as the basis for the report in that the Stipulation and Agreement stated that "[t]he cost of service reports shall be based upon the Commission's Report and Order in the most recent rate or complaint case respecting KCPL." Re Kansas City Power & Light Co., Case Nos. EO-85-185 and EO-85-224, Order Approving Joint Recommendation (November 23, 1987).

In a June 29, 1988, letter (attached as Schedule 1) to counsel for Staff, Public Counsel and counsel for parties that had executed nondisclosure agreements, counsel for KCPL sent KCPL's semiannual cost of service report for the 12 months ended December 31, 1987, and "a listing of certain associated assumptions and adjustment." The very last assumption shown is as follows: "Allocation factors will be updated annually utilizing the 4cp methodology reflected in the EO-85-185 rate order." In 1992 in Case No. EO-93-143, the Joint Recommendation was modified to permit KCPL to provide a single annual cost of service report instead of the two semiannual reports previously agreed to.

While the surveillance reporting process continues today, KCPL made two unilateral changes in the way it allocated investment and costs and off-system sales in the 2005 surveillance report submitted in April of this year.

Q. What changes did KCPL make to the surveillance reporting process?

A. In the 2005 surveillance report, for the first time since 1987, KCPL changed from using the energy allocator for non-firm off-system sales to the Company's new and

novel unused energy allocator, which is being proposed by KCPL in this case. The other change made by the Company in the 2005 surveillance report relating to allocations is that KCPL switched from using a 4 CP method of allocating costs among the various jurisdictions to a 12 CP method, the method it is proposing to use in this case, even though it proposed to use a 4 CP method in the Wolf Creek case. In fact, the Commission approved the use of the 4 CP method in that case, which is why it was used from the period 1987 through 2004 for the surveillance reports.

Q. Did KCPL notify Staff of changes it made to surveillance reporting?

A. No. At no time did the Company discuss or even notify Staff of either of the changes to the methodology for jurisdictional allocations or the method historically used to allocate off-system sales among the jurisdictions. KCPL acknowledged that the Company did not discuss nor notify Staff of the changes it made to the long-standing surveillance reporting process for 2005 results in a deposition taken of Mr. Frerking on September 29, 2006, [deposition page 112, line 16].

Q. What was the basis of the surveillance reporting?

A. The basis of the reporting of the surveillance process was the Commission Report and Order for Wolf Creek. In that case, the Commission ordered the use of the 4 CP method to allocate investment and costs to the two state retail jurisdictions and FERC wholesale jurisdiction. In addition, the energy alloctor was used in that case and ultimately used in every surveillance reporting period until KCPL submitted its 2005 surveillance report.

Q. What is the effect of the changes made by KCPL for surveillance reporting regarding jurisdictional allocations and off-system sales allocations?

A. The effect of changing methods on how KCPL allocated the 2005 results among Missouri, Kansas and FERC wholesale customers was to understate the Company's earnings for that year for its Missouri retail jurisdiction. KCPL provided the results in its surveillance reporting for 2005 as earning a rate of return on equity of ** _____ ** on a Missouri basis [Schedule 1, page 3 of 36, to the 2005 Surveillance Report for Missouri]. In reality, the Company earned higher profits for 2005 if the traditional and well established allocation methods ordered by the Commission in the 1985 Wolf Creek rate case would have been continued for that year, just as they were in all previous reporting periods. The reason why KCPL's 2005 reported earnings were understated is because the switch from the 4 CP to the 12 CP method of allocations results in more costs allocated to Missouri. These increased costs cause the 2005 reported to be understated.

Q. How do the 2005 surveillance results compare with previous years KCPL earnings?

A. Previous KCPL earnings are higher than the results reported through the surveillance process for 2005. The results for KCPL Missouri utility operations for 2001 through 2004 appear as follows:

Year	Return on Equity
2004	** _____ **
2003	** _____ **
2002	** _____ **
2001	** _____ **

[source: 2005 Missouri Surveillance Report, Exhibit A - 2005, page 1 of 2]

Q. Is the energy allocator used by other utilities operating in Missouri?

A. Yes. It is used by The Empire District Electric Company (Empire) and Aquila Networks MPS and L&P (the former St. Joseph Light & Power Company) in their rate cases currently pending before the Commission, Case Nos. ER-2006-0215 and ER-2007-0004, respectively. They have used the energy allocator historically.

Q. At page 9, line 10, of his rebuttal testimony, Mr. Frerking attempts to explain the difference between "margins" and "total revenues" on non-firm off-system energy sales. Should there be a distinction between these two components of this item?

A. No, not for allocation purposes. KCPL is attempting to make the distinction to justify its use of its novel, newly developed unused energy allocator. In reality, the only distinction relating to the margin and off-system sale revenues is that the margin, or contribution, is the result of off-system sales after considering the variable cost component needed to generate these revenues. The margin is derived in the following matter using a simple example:

Non-firm off-system sales revenues	$1,000,000
Less: Fuel and purchased power costs	400,000
Margin for non-firm off-system sales	$ 600,000

In this example, the non-firm off-system sales margin is $600,000 of $1,000,000 of total sales. The fuel and purchased power costs are the "cost" components of the non-firm off-system sales referred to by Mr. Frerking (page 9, line 11, of his rebuttal).

All of the components (revenues, costs and the resulting margins) have historically been allocated among the various jurisdictions using the traditional energy allocator. The energy allocator was, and continues to be used largely because this allocator is used for the variable component of costs to produce the energy (fuel and purchased costs) needed to make

the off-system sales. Clearly, the variable costs for these revenues have been allocated using the energy allocator, and it is the only allocator I am aware of that has been used for many years. Off-system sales revenues have also been allocated to the various jurisdictions using the energy allocator. In fact, KCPL acknowledges this in Mr. Frerking's rebuttal testimony at page 9, line 6, wherein he states that "I suspect, however, that Staff used the Energy allocator, because that is historically how 'total revenues' on off-system energy sales have been allocated."

Since the only costs considered to derive the margins for non-firm off-system sales are the variable components of costs, (the fuel and purchased power costs), the margins, which is nothing more than the result of revenues less costs, are properly allocated on the same basis as revenues, fuel and purchased power costs.

Q. Mr. Frerking indicates at page 9, line 17, that he suspects "many other utilities have historically only reported the 'total revenues' on non-firm off-system energy sales" as an explanation for his belief why "cost" and "margin" components of the "total revenues" on non-firm off-system energy sales have not been allocated separately. Do you agree with this assessment?

A. No. While some utilities may identify off-system sales in the manner described by Mr. Frerking, utilities I am frequently involved with identify the off-system sales transactions the way KCPL does; i.e., off-system sales revenues are booked to a revenue account (Account 447-- Bulk Power Sales) and related fuel and purchased power costs (the cost component of off-system sales) are charged to the appropriate cost account such as FERC Accounts 501, 547 and 555. These are the fuel and purchased power expense accounts.

While Mr. Frerking suggests that the reason utilities have not allocated the cost component and margins separately is because they only report total "revenues," my experience indicates such is not the case. As stated above, companies separately identify these components of the off-system sales revenues from the fuel and purchased power costs. The reason the revenues, costs to generate the sales transaction and ultimately the off-system sales margins are allocated using the same allocator (the energy allocator) is that it is the proper method to allocate the variable costs of fuel and purchased power. This method has traditionally been used by these utilities.

Empire and Aquila both separate the revenue from the fuel and purchased power cost component and have used the energy allocator to assign the revenues and costs to the various jurisdictions. In other words, the margins are allocated based on the energy allocator approach.

Q. At page 10, line 2, of his rebuttal testimony, Mr. Frerking states "off-system sales volumes were very limited by today's standards and the pricing of non-firm off-system sales was done on a "cost plus a small margin" basis rather than on the "market price" basis today." Have off-system sales been profitable to utilities in the past?

A. While I would agree with Mr. Frerking that off-system sales in the past were not as profitable to companies as they are, and can be, today, even in the past these sales made contributions to the operations. Mr. Frerking made the point further at page 10, lines 5-10, of his rebuttal testimony that:

> . . . historically, the "cost" component comprised a much larger percentage than the "margin" component of the "total revenues" on non-firm off-system energy sales. Thus, because it is appropriate to allocate the "cost" component based on an Energy allocator, it was reasonably appropriate, though not theoretically appropriate, to allocate "total revenues" on non-firm off-system energy sales based on an Energy allocator.

The costs to produce these sales may have been larger resulting in smaller margins compared to the market pricing today, but this has very little to do with the way in which these margins should be assigned to the various jurisdictions. In fact, the reason why the energy allocator was used to assign non-firm off-system sales to the various jurisdictions in the past, and still is by electric utilities other than KCPL, was that it was, and it still is, the correct methodology. As previously addressed, the fuel and purchased power cost components of non-firm off-system sales are the only costs that are identified for these revenues. Since fuel and purchased power costs are a variable component to these sales, the only allocator that should be used is the energy allocator.

Q. At page 10, line 16, of his rebuttal testimony, Mr. Frerking states that KCPL "allocated the "cost" component of "total revenues" on non-firm off-system energy sales based on the Energy allocator." Is that the way KCPL's off-system sales have been allocated in the current rate case?

A. No. KCPL included non-firm off-system sales in the current case by allocating only the margin to the various jurisdictions based on the unused energy allocator. KCPL did not develop its non-firm off-system sales using the allocation of cost components using the energy allocator. It determined the level of off-system sales margins it believed appropriate and allocated based on its unused energy allocator. As stated earlier, the non-firm off-system sales margin is the result of the off-system sales revenues less related fuel and purchased power costs needed to make those sales. If KCPL allocated the non-firm off-system sales

margin using the unused energy allocator then it has, in essence, allocated the fuel and purchased power related costs using the same unused energy allocator.

Q. Did KCPL use the energy allocator for any aspect of off-system sales?

A. Yes. For the energy side of the firm capacity sales, KCPL allocated the cost component (fuel and purchased power costs) using the energy allocator. For the capacity side of the capacity sales, KCPL used its demand factor to allocate among the various jurisdictions those revenues. I discussed the inconsistency of KCPL allocating the non-firm off-system sales using the unused energy allocator while it is using the energy allocator to allocate the energy side of the firm off-system capacity sales in my rebuttal testimony at page 14.

Q. Mr. Frerking indicates at page 11, line 6, of his rebuttal testimony "that margins or profits on sales are allocated or distributed based on the ownership percentage of the fixed assets of the business, not on the allocation of variable expenses." Please comment.

A. Mr. Frerking is making a case for the use of the demand allocation method to assign off-system sales even though he states further on page 11, line 20, of his rebuttal testimony that use of the demand allocator "is not appropriate to simply allocate the 'margin' component based on the Demand allocator…" The Demand allocator is used to identify the amount of fixed costs such as production and transmission plant and related costs that should be assigned to each retail jurisdiction and FERC wholesale jurisdiction. This assignment of these costs to the respective jurisdictions places the "ownership percentage of the fixed assets of the business" as described by Mr. Frerking (page 11, line 7). KCPL's position is that the unused energy allocator takes its root from the demand allocator resulting from each state's available capacity. Mr. Frerking states at page 11, line 14, of his rebuttal testimony that:

> The Demand allocation of the plant and other fixed costs to the jurisdictions essentially defines the "Available Capacity" (the MW capacity of the generating units and purchased power contracts) that the jurisdictions have paid for. It, thus, also defines each jurisdiction's rights to call on a level of MWH output or "Available Energy" that corresponds with the jurisdiction's allocated "Available Capacity." . . .

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

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

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

In a deposition held on September 29, 2006, Mr. Frerking acknowledged there is no dedicated plant to support non-firm off-system sales and no corresponding demand charges paid for these sales [Fereking deposition, page 102, lines 9-22].

Q. How are the fixed costs allocated in a rate case?

A. The generating assets that produce the allocator in its case is 53.82% based on the 12 CP methodology. At the electricity which permit KCPL to make off-system sales

transactions have been allocated by the Staff using Staff's demand allocator of 53.46% based on the 4 CP methodology. KCPL's demand same time, KCPL is proposing to allocate non-firm off-system sales using its "corrected" unused energy allocator of 51.55%. Thus, if KCPL's proposal to allocate non-firm off-system sales is adopted by the Commission, either using Staff or KCPL's demand allocator, the Missouri retail jurisdiction would be required to pay for a higher portion of the plant costs relating to facilities required to generate these non-firm off-system sales and the Missouri retail jurisdiction would receive a lower portion of the benefit of these very sales. Put another way, the Kansas jurisdiction would, under KCPL's proposal, receive 47.61% of the non-firm off-system sales yet be required to pay for only 45.30% of the plant necessary to generate these sales.

Q. How does KCPL explain the reason why the demand allocator should not be used to allocate non-firm off-system sales?

A. Mr. Frerking addresses this point at page 11, line 22, of his rebuttal testimony wherein he states:

> . . . non-firm off-system energy is available for sale, because the jurisdictions have not used all of their "Available Energy.... If the jurisdictions did use all of their "Available Energy" there would be no energy available to sell off-system. Because of this fact the relevant factor is not just the "Available Capacity" that the jurisdictions have paid for through the Demand allocation methodology, but rather the "Available Energy" that the jurisdictions have paid for but not used or, in other words, the "Unused Energy.

Q. Please comment.

A. The methodology described above by Mr. Frerking regarding why the demand allocator cannot be used for non-firm off-system sales indicates a belief that each state has a right "to call on a level of MWH [megawatt hour] output or "Available Capacity" [Frerking rebuttal, page 11, line 17]. This concept considers that each state has, or is, paying for certain

capacity through the demand allocation. Further, each state has at most times of the year during non-peak periods, excess capacity that can be used to transact off-system sales, either firm or non-firm. This approach attempts to identify each state's excess capacity to determine its "Available Capacity" that does, from KCPL's point of view, result in unused energy.

However, what this methodology fails to recognize is that the two major jurisdictions are not the same in the way they each place demands on KCPL's electrical system. As noted in my rebuttal testimony, KCPL's Missouri operations have a better efficiency and utilization of the Company's existing facilities than does Kansas. This is designated as each state's load factor.

Apparently KCPL believes that since Kansas has a poorer load factor that state's customers have more of its Available Capacity that results in greater "unused energy." This "freed-up" capacity is available to make off-system sales. What this concept fails to consider is that the better load factor state, Missouri, will have more opportunities to engage in off-system sales with its lower than average system fuel costs that results from a better utilization of the existing fleet of generating units.

Mr. Frerking describes the calculation of unused energy at page 12, line 7, of his rebuttal testimony wherein he states:

> The "Unused Energy" is calculated by subtracting a jurisdiction's actual "Energy Used" from its "Available Energy." The "Unused Energy" is essentially a measure of the portion the portion the fixed costs that the jurisdictions have paid for but not used, and is also a measure of the energy available to make off-system energy sales.

Q. What is the level of unused energy determined by KCPL?

A. Mr. Frerking provides how the unused energy allocator was calculated in an attachment to his rebuttal testimony, Schedule DAF-6. This schedule identifies the unused energy allocator for each jurisdiction KCPL operates in as follows:

Missouri	11,732,469 Mwh	51.55%
Kansas	10,835,019	47.61%
FERC	192,595	0.85%
Total	22,760,083 Mwh	100%

Q. Is there another failure in KCPL's Available Capacity concept?

A. Yes. As Department of Energy (DOE) witness James R. Dittmer points out in his rebuttal testimony (pages 7 and 8) regarding this issue, the unused energy as calculated by "Available Capacity" is comprised of much excess capacity during off-peak season that simply will not be economical to utilize to generate electricity at a price the market is willing to pay. Much of the excess capacity available during the off-peak season would be combustion turbines. While these peaking units have low capital costs, they have very high fuel costs to operate the unit. Since fuel is the only cost component beside purchased power costs that is identified for off-system sales, these high fuel costs would not allow many sales transaction to occur. Kansas, with its heavy concentration of residential load causing the poor load factor, would have a need for more peaking units than Missouri. Yet, much of the time of the year, these peaking units would not be economic to generate electricity that a buyer would be willing to pay-- and thus, the Available Capacity would remain idle.

In essence, while Kansas may have higher Available Capacity, resulting in "unused energy" as determined by KCPL, much of this capacity would not have much of a likelihood to be used to generate off-system sales.

Q. What causes this idle capacity?

A. Large mid-western electric utilities must plan their system resources to meet the summer peaking season. These electric companies must have sufficient generating

equipment in place to meet these system requirements. During non-peak times of the year, there will be excess capacity which allows utilities like KCPL to make off-system sales, both on a firm and non-firm basis. However, that portion of the available capacity that is peaking capacity will be too expensive to produce energy other than during times of an emergency on the electric system. While there will be excess capacity, what KCPL calls Available Capacity, the reality is that much fewer units of electricity are going to be actually sold in relation to what available capacity exists.

Q. Do companies with the lower fuel costs have more opportunities to engage in the off-system sales market?

A. Yes. The companies with the lowest overall fuel costs to generate will compete for the off-system sales market. To put another way, the real opportunities for off-system sales are those opportunities that exist in the jurisdiction with the lowest fuel costs. With respect to the operations of KCPL, the lowest fuel costs are in Missouri. KCPL's unused energy (Available Capacity) is a theoretical construct. It is not based in reality.

Q. What do you mean that the unused energy concept is not based in reality?

A. The difference between KCPL and Staff on this issue is that the unused energy argument, while it exists in theory, does not identify the reality of how off-system sales actually occur and are transacted. Off-system sales are made by those entities that can deliver the electricity at the lowest possible costs. As indicated above, and in particular in my rebuttal testimony, KCPL’s Missouri system, with the better load factor, will make more off-system sales because of the lower average fuel costs than would its Kansas system.

KCPL's unused energy methodology will not produce more off-system sales because much of the Available Capacity will not be economical to buyers who are seeking the lowest

cost energy. Kansas, because of its lower load factor resulting in higher fuel costs, will not have the same opportunities to make off-system sales off its "share" of KCPL's fleet of generating units as will Missouri because of its higher load factor resulting in lower fuel costs.

Q. You indicate that Missouri has a better load factor than Kansas. Please explain.

A. Yes. KCPL's Missouri retail electric load has historically been significantly greater than its Kansas retail electric load. In 2005, the Missouri load factor was 56% and the Kansas load factor was 47%. The load factor is calculated by dividing the average hourly load by the maximum hourly load for the given year. For 2005, the average hourly load for Missouri was 1,038.5 megawatts with the maximum hourly load (annual peak load) of 1,856.1 megawatts, resulting in the 56% load factor above [KCPL response to Data Request 513].

Q. Is the 2005 Missouri load factor of 56% consistent with previous years?

A. Yes. The following represents the last several years of Missouri load factors compared to the Kansas jurisdiction and the wholesale FERC jurisdiction:

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

[source: KCPL response to Data Request 513]

KCPL's Missouri retail jurisdiction has consistently had a better load factor than does the other major jurisdiction. The above load factors are very similar for each state dating back to 1987, the earliest information KCPL supplied in response to Data Request 513. During this time, Missouri has been in the mid- to lower 50% range while Kansas has always had a load factor ranging from a low of 37% in 1986 to a high of 47% in 2002 and 2005.

While FERC has a comparable load factor compared to the Missouri retail jurisdiction, FERC is a very small part of KCPL's total operations.

Q. What is load factor?

A. This was identified in my rebuttal testimony (page 9). 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.

Q. How is load factor determined?

A. KCPL defined the calculation of load factor in its response to Data Request No. 513 as "dividing the average hourly load by the maximum hourly load for the given year." The average hourly load for a given year was defined as "equal to the Energy with

losses for the years divided by the hours in the years." The maximum hourly load was defined as "the annual peak hourly load for the jurisdiction."

CONCLUSION

Q. Does Staff agree that the unused energy allocator is the way non-firm off-system sales should be allocated among the KCPL jurisdictions?

A. No. Staff continues to believe that this method is not an appropriate way to assign the non-firm off-system sales. Staff supports the continued and long-standing use of the energy allocator, consistent with the way KCPL allocated non-firm off-system sales in the past and consistent with the way the Company allocates the energy portion of the firm capacity sales in this case.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

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June 29, 1988

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RE: Semiannual Cost of Service Run

Gentlemen:

Pursuant to the November 6, 1987, Joint Recommendation in Case Nos. EO-85-185 and EO-85-224, please find enclosed KCPL's semiannual cost of service report for the twelve months ended December 31, 1987, which includes a listing of certain associated assumptions and adjustments.

This report is based on the reported year-end book amounts for rate base, income and expenses, as adjusted to reflect the decisions of the Commission in Case Nos. EO-85-185 and EO-85-224, excluding, however, annualizations or normalizations.

My records indicate that the above parties are the only ones who have executed nondisclosure agreements to receive this report (excepting the Staff and Public Counsel, who are subject to Section 386.480, RSMo 1986). This report is confidential and must be treated as required by the provisions of the nondisclosure agreements or applicable statute.

I was not informed whether Stuart, Paul and Willard wished their respective consultants to receive a copy of this report; anticipating that this might be the case, I have enclosed two additional copies of the report in Paul's package, and one additional copy each in Stuart's and Willard's package for distribution to consultants which have executed nondisclosure agreements. I request that if the reports are given to the consultants, that a copy of this letter also be provided to remind them that the report is covered by the nondisclosure agreements they previously signed.

Mark G. English

cc: Other Parties of Record (w/o attach),
Case Nos. EO-86-161 and EO-85-185;
Robert C. Johnson
William Clark Kelly
Carroll C. Kennett
Martin J. Bregman
William Barvick

Semi-Annual Cost of Service Assumptions

GENERAL

1. Test year 1987

2. EO-85-185 Order

PLANT

1. Include the previously ordered Iatan related plant adjustments

   a. Common or future use plant

   b. Construction power

   c. AFDC related and not related to AEC

   d. Reflect saving to MO rate payer for CWIP in rate base (Missouri jurisdictional adjustment, only)

2. Include Hawthorn 1-4 as if it were never retired.

3. Reflect the Wolf Creek Missouri jurisdictional disallowances

ACCUMULATED DEPRECIATION

1. Reflect the Iatan plant adjustments

2. Include Hawthorn 1-4 amounts

3. Reflect the Wolf Creek plant adjustment

4. Reflect Missouri's depreciation rates per Order EO-85-224

WORKING CAPITAL

1. Materials & Supplies (Other than Fuel)

   a. Include balance at 12/31/87 (Variance from EO-85-185)

   b. Reflect the Wolf Creek disallowance

2. Fossil Fuel

   a. Include balance at 12/31/87 (Variance from EO-85-185)

3. Nuclear Fuel

   a. Include balance at 12/31/87 (Variance from EO-85-185)

4. Prepayments

   a. Include balance at 12/31/87 (Variance from EO-85-185)

5. Cash Working Capital

   a. Utilize leads/lags from EO-85-185

DEFERRED INCOME TAXES-RATE BASE OFFSET

1. Adjust for the impact of Wolf Creek plant adjustments

2. Adjust to the Missouri depreciation rates per Order EO-85-224

3. Include Hawthorn 1-4 deferred taxes as if it were never retired

REVENUES

1. Remove gross receipt taxes

2. Adjust ARMCO revenues to remove other jurisdictions

INTERCHANGE

1. Reflect the 5-year amortization of the 1984 capacity sales to Independence and Missouri Public Service Company as ordered in EO-85-185

PRODUCTION EXPENSE

1. Include the amortization of the Hawthorn 5, Montrose 1, and LaCygne 1 outages in 1982 per prior Commission Order

2. Include the 5-year amortization/normalizations for Wolf Creek operation and maintenance (training consultants and MATSCO testing) as ordered in EO-85-185

3. Restate decommissioning expense to the level ordered in EO-85-185

4. Reflect the effect of Missouri depreciation rate change on unit trains included in fuel expense

5. Remove the book amortization of Iatan unrecorded plant

SALES AND CUSTOMER INFORMATION

1. Eliminate Account 916 as per staff and company agreement in the EO-85-185 Docket

2. Remove EEI advertising

ADMINISTRATIVE AND GENERAL

1. Remove nuclear replacement power insurance premiums per Order EO-85-185

2. Eliminate EEI general dues per Order EO-85-185

DEPRECIATION EXPENSE

1. Adjust book depreciation expense to reflect Missouri's rates per Order EO-85-224

2. Adjust book depreciation expense to reflect adjustments made to plant-in-service

TAXES OTHER THAN INCOME TAXES

1. Eliminate gross receipt taxes

2. Reflect the change in KCMO Earnings Tax caused by the changes in currently payable income tax calculations

INCOME TAXES

1. Utilize the 1988 Federal Income tax rate of 34% in income tax calculations

2. Adjust tax depreciation to reflect Missouri depreciation rates

3. Adjust tax depreciation, ITC amortization & deferred tax amortizations for the Missouri Wolf Creek disallowance

4. Adjust deferred tax provision and amortization to reflect Missouri effective tax rates.

OTHER

1. Allocation factors will be updated annually utilizing the 4cp methodology reflected in the EO-85-185 rate order