Exhibit No.:	
Issue:	Jurisdictional Cost Allocation
Witness:	Larry W. Loos
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2009-0089
Date Testimony Prepared:	March 11, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

REBUTTAL TESTIMONY

OF

LARRY W. LOOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2009

REBUTTAL TESTIMONY

OF

LARRY W. LOOS

Case No. ER-2009-0089

Q: Are you the same Larry W. Loos who submitted Direct Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L" or "the Company") on September 5, 2008?

A: Yes, I am.

Q: What is the purpose of your Rebuttal Testimony?

A: I will respond to those sections of the February 11, 2009 Missouri Public Commission Staff ("Staff") Report and Accounting Schedules which address jurisdictional allocations. These sections include Section VI F (Bulk Power Sales) and Section X (Jurisdictional Allocations) of the Staff Report and Schedules 3 and 9 of the Staff Accounting Schedules.

In addition, I will respond to the prepared direct testimony of Mr. Jatinder Kumar submitted on behalf of the United States Department of Energy, the National Nuclear Security Administration, and the Federal Executive Agencies regarding KCP&L's proposed allocation of costs among jurisdictions. Mr. Kumar addresses allocation issues on Page 46 (Line 9) through Page 48 (Line 3) of his prepared direct testimony.

STAFF REPORT AND ACCOUNTING SCHEDULES

Q: How does Staff propose to allocate costs among jurisdictions?

A: With regard to costs related to power supply, Staff recommends allocating:

1) 100 percent of fixed costs solely on the basis of coincident peak demands during the months of June through September, and

2) 100 percent of variable costs solely on the basis of energy deliveries during the months of June through September.

3) Staff recommends allocating off-system sales margins on the basis of energy sales.

4) With regard to transmission related costs, consistent with its recommended allocation of fixed power supply costs, Staff recommends allocating 100 percent of transmission costs on the basis of coincident peak demands during the months of June through September. I agree that transmission related costs should be allocated in the same manner as the allocation of power supply fixed costs.

STAFF ALLOCATION OF VARIABLE COSTS

Q: What is Staff's rational for allocating power supply related variable costs solely on the basis of energy deliveries during the months of June through September?

A: In its Report, Staff does not provide any rational for its departure from the nearly universally accepted standard of allocating variable costs on the basis of annual sales. The only statement that Staff makes which might support this allocation is on Page 141 of its February 11 Report where Staff states that "Staff utilized a 4CP method in its determination of demand and energy allocation factors, the same method utilized in the two most recent Rate Cases involving KCP&L (ER-2006-0314 and ER-2007-0291)."

Q: In either of these two cases were power supply variable costs allocated based solely on deliveries during the months of June through September?

A: Based on information that I reviewed, I find no suggestion that variable costs were allocated solely on the basis of deliveries during the months of June through September. Further, I find no suggestion that any party recommended such an allocation. In fact, on Page 15 of Staff's Cost-of-Service Report in Case No. ER-2007-0291, Staff states that "the energy allocation factor for an individual jurisdiction is the ratio of the adjusted annual kilowatt-hour (kWh) usage in the particular jurisdiction to the total adjusted kWh usage in all jurisdictions." Staff offers no explanation in its February 11, 2009 Report of why it has changed position on this issue.

Company witness John Weisensee informs me that indeed, all parties recommended and the Commission adopted an allocation of variable costs on the basis of annual deliveries in these two prior cases.

Q: Do you consider an allocation of power supply variable costs on the basis of June through September sales reasonable?

A: Such an allocation might be reasonable, provided that application of the allocation factor is limited to variable costs incurred during the months of June through September and deliveries during the balance of the year are used to allocate variable costs incurred during the remaining 8 months. Staff however, would allocate variable costs incurred over 12 months solely on the basis of deliveries during the four summer months. Staff's proposed allocation is fatally inconsistent and in this case represents a clear wind-fall to Missouri customers.

Q: How much is this wind-fall?

A: Mr. Weisensee informs me that Staff's proposed allocation results in shifting $1.6 million away from Missouri customers. If the Commission accepts Staff's recommendation in

this regard, the Commission will require KCP&L shareholders to subsidize Missouri customers by this $1.5 million per year.

Q: Have you had any communication with Staff regarding their use of energy deliveries for only four months of the test period?

A: I have not, but I understand the Company has discussed this matter with Staff and that Staff is going to revise their allocation to include all 12 months of the test period. Assuming this change is made there will no longer be an issue related to the variable cost allocation factor.

Q: Have you had any communication with Staff regarding their use of energy deliveries for only four months of the test period?

A: I have not, but understand the Company has discussed this matter with Staff and that Staff is going to revise their allocation to include all 12 months of the test period. Assuming this change is made there will no longer be an issue related to the variable cost allocation factor.

Q: Does this complete your testimony regarding Staff's allocation of variable costs?

A: Yes, it does

STAFF ALLOCATION OF FIXED COSTS

Q: What is Staff's rational for allocating power supply related fixed costs solely on the basis of coincident peak demands?

A: Staff's rational appears on Page 141 of the Staff Report where Staff states: "since generation units and transmission lines are planned, designed, and constructed to meet a utility's anticipated system peak demands plus required reserves, the contribution of each of the four individual jurisdictions coincident to these system peak demands is the

appropriate basis on which to allocate the costs of these facilities." Staff continues that this method was utilized in the two most recent rate cases involving KCP&L.

Q: Do you agree that utilities plan, design, and construct generating units to meet a utility's anticipated system peak demand?

A: I agree that utilities plan on having sufficient resources (whether owned generation or purchases) to meet anticipated system peak demands plus required reserves. I said as much in my prepared direct testimony.[1]

I disagree, however, with Staff's position that KCP&L considered nothing other than anticipated system peak demands in its determination of what type of generating resources it should design and construct. As I stated in my direct testimony, the mix of generation, the type of generating unit to add, depends on the capacity factor that the planned unit will operate.[2]

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[1] Page 14, Line 11: "The classification of 100 percent of fixed power supply costs to capacity and allocation on the basis of coincidental peak allocators (whether 1CP, 4CP, or 12CP), is based on the assumption that the sole determinant of the fixed costs of electric generation is the capacity of the generating stations used to serve customers."

Page 14, Line 21: "The capacity to meet customers' maximum demands (plus allowance for reserves) drive (determines) the combined capacity of all power supply resources (generation and purchases) needed."

Page 18, Line 7: "Coincident peak demand drives the total capacity required regardless of the cost characteristics of the generating resources."

[2] Page 14, Line 15: "Electric utilities, such as KCPL, require a mix of generating resources to meet customer's power and energy requirements economically and reliably … Each type of generating station has different fixed and variable cost characteristics."

Page 14, Line 23: "The mix of generating station capacity depends not on the total capacity required but how most economically to meet customers' annual energy requirements."

Page 18, Line 9: "Capacity factor drives the mix of generating resources … which mill minimize total cost by:

1) Trading off higher fixed costs against lower variable cost for generating resources operated at high capacity factor, and

2) Trading off lower fixed cost against higher variable cost for generating resources operated at lower capacity factor."

Q: In your direct testimony (Page 7, Line 3), you indicate there is a difference between fixed cost and demand cost. Does Staff recognize any difference?

A: Apparently not. I see no distinction in the Staff report which suggests that Staff recognizes a difference. Unlike variable costs which tend to fluctuate in response to increases or decreases in electricity output,[3] fixed costs do not tend to vary. Variable costs are nearly universally considered energy related and allocated on some basis which recognizes jurisdictional responsibility for the associated energy output[4]. Energy costs on the other hand represent variable costs plus certain fixed costs related to (associated with) the production of energy. Capacity costs represent fixed costs less certain fixed costs related to the production of energy.

Staff assumes that KCP&L incurs no fixed costs related to energy production. I disagree.

Q: Do the fixed costs you claim are related to energy production vary with output like variable costs?

A: No, they do not change in response to changes in output. They do however represent costs which are incurred and are related to the production of energy. More precisely, they are fixed costs incurred in order to produce energy more economically. Fixed costs related to a particular piece of equipment generally do not change as long as that piece of equipment remains in service. However the design and selection of equipment is based on consideration of how that equipment will be used. For example, equipment designed

[3] While variable costs tend to increase and decrease in response to increases and decreases in output, changes are not necessarily linear. Changes in cost are a function not only of the change in output level but of the generating units and their loading to changes in output level at a point in time.

[4] As I previously discussed, in this case, Staff has departed from this nearly universally accepted allocation basis.

to operate at high capacity factor to meet customers' energy needs will typically have higher fixed costs and lower variable cost than equipment designed to operate at low capacity factor to meet customers' peak period requirements.

Staff would ignore this distinction. Staff recommends an allocation that assumes KCP&L incurred the entire $2,340 per kW cost of the Wolf Creek Nuclear Generating Station in order to satisfy customer demand during the four coincidental peak demands during summer months. Staff apparently believes that KCP&L incurred none of this $2,340 per kW cost in order to generate electricity at a cost of $0.45 per MWH over the remaining 8,756 hours of the year. This $0.45 per MWH cost is about 70 percent lower than KCP&L's average cost of generation from resources other than nuclear and wind. While customers realize a benefit in the form of energy generated at a cost that is 70 percent less, KCP&L incurred a cost about 7 times the cost of the lower cost generating resources to realize this benefit.

To the extent KCP&L incurred some portion of this $2,340 per kW cost to generate lower cost energy as opposed solely to meeting system maximum demand, the additional cost is energy related and should be allocated accordingly.

Q: Did you recommend allocating some portion of this additional cost on the basis of energy sales?

A: No, I do <u>not in this case</u>. I do however recommend that in future cases the Commission consider approaches which explicitly consider the fact that a portion of this $2,340 per kW cost was incurred to generate energy more economically.

In this case, I do recommend that the fixed cost associated with coal-fired steam generating plant environmental compliance be classified as energy related and allocated

on the basis of annual sales. KCP&L incurred these fixed costs so customers can benefit from the lower variable (fuel) cost associated with coal-fired generation. In this case, in order to avoid disruptive impacts, I limited my recommendation to the cost of pollution control equipment (about $200 per KW). Staff apparently believes that KCP&L incurred these environmental costs solely in order to meet customers' peak period requirements.[5]

Q: Does Staff suggest any consideration be given in this case to the cost of pollution control equipment, or in future cases with additional costs incurred to provide customers with lower cost energy?

A: Staff makes no recommendation in its Report regarding the cost of pollution control equipment or the premium paid for power generation equipment to generate electricity more economically.

Q: In your direct testimony, you recommended allocating a portion of boiler maintenance expense on the basis of energy sales. Does the Staff make a similar recommendation?

A: No, the Staff Report is silent on this issue. Examination of the Staff Accounting Schedules shows that Staff proposes to allocate 100 percent of Boiler Maintenance Expense on the basis of coincidental peak demands.

Q: Does your recommendation regarding the allocation of boiler maintenance represent an example of additional cost incurred in order to generate electricity more economically?

A: No, it does not. I recommend allocating the non-labor portion of boiler maintenance expense on the basis of energy because it is an example of a variable cost.

[5] If Staff does not believe that KCPL incurred these environmental costs in order to meet customers' peak period requirements, then Staff would not have allocated these costs on the basis of peak period requirements.

Q: Does boiler maintenance expense vary directly with generator output?

A: No, while boiler maintenance requirements are determined based in large part on generation, the expense does not vary in the short term in direct response to changes in output. None the less, as generation increases boiler maintenance expenses tend to increase. Thus, these expenses are related to customer energy requirements and should be allocated accordingly.

Staff proposes that boiler maintenance expenses be treated as a fixed cost and allocated on the basis of coincidental peak demands. However, the non-labor portion of boiler maintenance does not meet the definition of fixed cost that the Staff offers on page 145 of its report. Staff defines fixed costs as costs that "do not vary with electricity output." While boiler maintenance does not vary like fuel cost, maintenance does none the less vary with output. The non-labor component of boiler maintenance expense represents a variable cost and as such should be classified as energy related and allocated on the basis of sales.

STAFF ALLOCATION OF OFF-SYSTEM SALES MARGIN

Q: In your direct testimony, do you recommend classifying off-system sales margin as capacity related and allocating this margin on the basis of coincidental peak demands?

A: Not entirely. I recommend allocating off-system sales margin in the same manner as the allocation of the fixed power supply costs of those resources used to generate the energy sold off-system. 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.

Q: Does Staff propose to allocate off-system sales margins on the basis of coincidental peak demands?

A: No, 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.

Q: Does Staff offer any justification regarding their proposed treatment?

A: I find nothing in Staff's Report to justify its proposed treatment.

Q: Do these off-system sales margins represent a variable cost?

A: No, the sales margins represent revenues less the variable cost incurred in making those sales. These sales margins represent a contribution (offset) to the fixed cost associated with those resources used to generate the energy sold off system. If power supply related fixed costs are allocated on the basis of coincidental peak demands and off-system sales margins are allocated on an energy basis, Missouri customers are receiving a direct subsidy. Subsidizing Missouri customers in this manner is grossly unfair and inequitable.

Q: Does this complete your rebuttal testimony relating to the Staff Report and Accounting Schedules?

A: Yes, it does.

JATINDER KUMAR TESTIMONY

Q: Do you have any general observations regarding Mr. Kumar's KCP&L jurisdictional allocation testimony?

A: Yes, I do. Mr. Kumar's testimony and recommendations are without merit. The issue he raises is not an issue because the jurisdictional allocation prepared and sponsored by Mr. Weisensee is prepared precisely in the manner Mr. Kumar believes proper.

Not withstanding the fact that Mr. Weisensee references my testimony with regard to the jurisdictional allocation factors he relies on, Mr. Kumar apparently did not read my testimony or chose to ignore it. Had he examined my testimony, he should have recognized that Mr. Weisensee correctly applies my recommendations.

If Mr. Kumar has a problem with what I directed Mr. Weisensee to do, Mr. Kumar should have addressed the merits of my recommendation.

Q: Mr. Kumar states (Page 46) that he has not seen the Company's approach during the 30 years he has been involved in cost allocations. He continues that "generally, Production Plant is allocated based on demand allocation factor and each account of the related O&M Expenses are allocated based on the selected factors." Do you agree?

A: Yes, I do. Contrary to Mr. Kumar's assertions, this is precisely what Mr. Weisensee has done.

Q: Mr. Kumar continues by stating, "the non Fuel Production O&M Expense is allocated based on the Production Plant allocation and not the other way around as the Company has done." Has the Company allocated Production Plant on the basis of non Fuel Production O&M Expense?

A: No, the Company has allocated non fuel Steam Production Plant O&M (except for the non labor portion of Account 512 - Boiler Maintenance) on the basis of the allocation of Steam Production Plant. The fact that in Mr. Weisensee's Schedule JPW-1, he uses an

allocation factor named "STM PLT/O&M" does not diminish the fact that Mr. Weisensee developed the 54.4680[6] percent Missouri jurisdictional responsibility he applies to Steam Production Plant (Schedule 5), Steam Plant Depreciation Expense (Schedule 11), and Steam Plant non fuel O&M Expense (with the exception of non fuel Boiler Maintenance) based on his allocation of steam plant.

Q: Why does the STM PLT/O&M allocation factor differ from the D-1 and D-2 allocation factors?

A: The STM PLT/O&M allocation factor recognizes that 28.61 percent of KCP&L's Steam Plant relates to plant required to meet environmental requirements. As I stated in my direct testimony, 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: Mr. Kumar states that there is also a problem with the factor Mr. Weisensee uses to allocate Accumulated Depreciation relating to steam plant? Is there a problem with Mr. Weisensee's "STM DEPR RES" allocation factor?

A: No, there is not. Mr. Weisensee's "STM DEPR RES" allocation factor of 53.9959[7] percent recognizes that 13.34 percent of KCP&L's steam plant depreciation reserve relates to environmental plant.

Q: Do you agree with Mr. Kumar's allegation that KCP&L erroneously allocated steam production plant?

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[6]

Capacity Related (Non Environmental)	71.39%	*	53.5835% =	38.2533%
Energy Related (Environmental)	28.61%	*	56.6750% =	16.2147%
Total	100.00%			54.4680%

[7]

Capacity Related (Non Environmental)	86.66%	*	53.5835% =	46.4356%
Energy Related (Environmental)	13.34%	*	56.6750% =	7.5603%
Total	100.00%			53.9959%

A: No, I do not. Mr. Weisensee allocated steam plant, reserve, depreciation, and O&M in exactly the manner I recommended. In my direct testimony, I fully and completely explain the basis upon which my recommendation is made. I see nothing in Mr. Kumar's direct testimony challenging my recommendations.

Q: Does that conclude your prepared rebuttal testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

AFFIDAVIT OF LARRY W. LOOS

STATE OF ARIZONA)
) **ss**
COUNTY OF PINAL)

Larry W. Loos, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled, "Rebuttal Testimony of Larry W. Loos"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.

Larry W. Loos

Subscribed and sworn before me this 4th day of March 2009.

Notary Public

My commission expires: 12/5/10

JASON C. MARSH
NOTARY PUBLIC - ARIZONA
PINAL COUNTY
My Commission Expires
December 15, 2010