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Witness: Larry W. Loos
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-0355
Date Testimony Prepared: December 8, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

REBUTTAL TESTIMONY

OF

LARRY W. LOOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2010

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF

LARRY W. LOOS

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2010-0355

Page

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INTRODUCTION

Q: Please state your name and business address.

A: Larry W. Loos, 11401 Lamar, Overland Park, KS, 66211.

Q: Are you the same Larry W. Loos who prefiled Direct Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your rebuttal testimony?

A: I will respond to the issue of the allocation of off-system sales margins raised in the Staff Report and in the testimony of Mr. Greg Meyer on behalf of certain industrial customers. In this regard, I sponsor Schedule LWL2010-13.

Q: How does Staff recommend allocating off-system sales margins?

A: Though not entirely clear, at Page 187 of the Staff Report, Staff suggests allocating off-system sales based on annual sales. Staff does not make a definitive recommendation regarding the allocation of off-system sales revenues, much less off-system sales margin.

Q: How does Mr. Meyer recommend allocating off-system sales margins?

A: At Page 13 of his direct testimony, Mr. Meyer recommends allocating off-system sales margins based on the energy allocator.

Q: Do you agree with Staff and Mr. Meyer's recommendation?

A: No, I do not. As I discuss in detail beginning at Page 38 of my direct testimony, I recommend the Commission reject an energy allocation of off-system sales margin. I

recommend allocating off-system sales margins based on the allocation of the fixed costs associated with the generating resources used to generate energy sold off-system.[1]

OFF-SYSTEM SALES VS. SALES REVENUES VS. SALES MARGINS

Q: In your prior response, you indicate in response to the question of the allocation of off-system sales margin that Staff suggests allocating off-system sales based on energy. Do you mean to imply that off-system sales margin represents the same thing as off-system sales?

A: No, I do not. However, both Staff and Mr. Meyer would ignore this distinction. Off-system sales (more properly off-system sales revenues) represent the dollar amount KCP&L realizes from the sale of energy in bulk power supply markets outside of KCP&L's control area. Off-system sales margin represents the contribution to fixed costs provided by off-system sales. Off-system sales margin is equal to off-system sales revenues less the incremental (out-of-pocket) costs incurred in generating (and/or purchasing) the energy sold off-system.

The allocation (credit) of variable costs associated with off-system sales is not really a material issue. The real issue is the allocation of the revenues in excess of the out-of-pocket cost of making off-system sales (off-system sales margin). Mr. Meyer recommends allocating that margin based on sales. Apparently Staff does as well. Since this margin represents a contribution to power supply fixed costs, I recommend allocating off-system sales margin based on the 4CP capacity allocation factor.

[1] Since in this case I recommend allocating fixed power supply costs based on capacity, I will subsequently refer to this as a capacity (4CP) allocation.

Q: Staff states at page 187 of its Report that the "costs of making these sales (off-system) are generally variable in nature." Do you agree with Staff's assertion that the costs of making these sales are generally variable?

A: Yes, I do. However, the fact that the cost of making such off-system sales tends to vary with the level of off-system sales does not mean that off-system sales revenues (much less off-system sales margins) can be considered variable.

Staff, Mr. Meyer, and I all seem to agree to allocate variable costs (power supply) in proportion to energy sales. While we may not agree on the level of variable costs associated with off-system sales, the implication of any difference is relatively minor. The costs associated with generating energy sold off-system are included in total variable costs. A proper allocation should result in each jurisdiction receiving a credit for the variable costs allocated to that jurisdiction that are actually used to generate energy not used by that jurisdiction but sold off-system. Staff and Mr. Meyer choose to make this credit by allocating the costs of generating the energy sold off-system based on energy sold in each jurisdiction.

I use a more precise method. Before allocating variable costs, I remove the out-of-pocket costs associated with the energy sold off-system from total variable costs. As a result, costs associated with generating energy sold off-system are not included in the variable costs allocated to jurisdictions.

The issue is Staff's and Mr. Meyer's further recommendation to reduce variable costs allocated to jurisdictions by the margin associated with off-system sales. However, this margin is not related to variable cost. It represents a contribution to fixed costs and should be allocated accordingly.

Q: Have you prepared a schedule that demonstrates this difference?

A: Yes, I have. Schedule LWL2010-13 shows the difference between the energy allocation recommended by Staff and Mr. Meyer, with the allocation of margin that I recommend based on capacity. The amounts I show in Schedule LWL2010-13 are the same that I use in my other schedules. However, I have changed the format to demonstrate the difference between the allocation methods.

In Lines 1 through 6 of Schedule LWL2010-13, I show an energy allocation of off-system sales margins as recommended by Staff and Mr. Meyer. This allocation can be shown as a credit to variable power supply costs of total revenues associated with off-system sales. The net variable cost so determined is then allocated based on energy sales. As I show in Line 2, the power supply gross revenue requirement amounts to $216,327 per MW, plus $12.58 per MWH based on total sales of 22,375,733 MWH. This sales level includes 6,254,865 MWH sold off-system. Reducing total variable cost by total revenues from off-system sales, unit variable cost allocated to jurisdictions amounts to $4.72 per MWH.

In Line 5, I show the allocation of power supply cost to the Missouri jurisdiction by multiplying the unit cost I develop in Line 4 by the units of service associated with service to Missouri jurisdictional customers. Note that the amount I show allocated to the Missouri jurisdiction is identical to the amount I show in Schedule LWL2010-5, Sheet 2 of my Direct Testimony.

In Lines 7 through 12 of Schedule LWL2010-13, I show my recommended allocation of off-system sales margins. As shown, I reduce total power supply variable cost ($281,378,082) by the out-of-pocket cost associated with making the off-system

sales ($100,891,638). I reduce fixed power supply costs by the off-system sales margin ($104,451,915). The net variable cost so determined is then allocated based on energy sales. As I show in Column H, total variable costs amount to $12.58 per MWH, whereas the cost associated with producing the energy sold off system amounts to $16.13 per MWH. The net variable cost applicable to native load amounts to $11.20 per MWH.

Multiplying the unit costs that I show in Line 10 by the units of service associated with the Missouri jurisdiction, I find total allocated costs applicable to Missouri of $446,971,473, which is identical to the amount I show in Schedule LWL2010-7.

Q: Do you have any further observations concerning Schedule LWL2010-13?

A: Yes, I do. Staff and Mr. Meyer propose to credit variable costs for costs that are not there. They propose to credit variable cost for the variable costs associated with making off-system sales. Variable costs associated with making off-system sales are indeed included in total variable power supply costs. However, they go one-step further and propose to credit variable costs for the fixed cost contribution of off-system sales. This is a classic mixing of apples and oranges. They would subtract oranges (margin associated with off-system sales) from apples (variable costs associated with service to native load customers).

The Staff/Meyer proposal does not lead to a sound conclusion, as demonstrated by the resulting unit variable costs applicable to native load customers. As I show in Column H, Line 4, by reducing variable cost by total off-system sales revenues, the resulting variable cost amounts to $4.72 per MWH. This amount is only slightly higher than the average fuel cost of generation from the Wolf Creek nuclear unit ($4.57 per MWH as shown in Schedule LWL2010-2, Sheet 1). They would allocate the benefit of

the higher fixed cost generating units (variable cost of $4.72 per MWH) to the higher load factor jurisdiction while saddling the lower load factor jurisdiction with a disproportionate share of the fixed cost of the generation benefiting the higher load factor jurisdiction.

ALLOCATIONS USED BY OTHER MISSOURI UTILITIES

Q: At Page 187 of the Staff Report, Staff states that "traditionally, off-system sales have been allocated using the energy allocation factor since these costs of making these sales are generally variable in nature." Do you agree?

A: Although I don't necessarily agree that off-system sales have traditionally been allocated using an energy allocation factor, I do agree that the costs of making off-system sales tend to vary. Further, and more importantly, the costs of making off-system sales are included in variable power supply costs.

Q: Staff also notes on Page 187 that energy has been used to allocate off-system sales revenues for the Empire District Electric Company and Aquila's MPS electric operations for many rate cases. Is this relevant to KCP&L's situation?

A: No. The fact that an energy allocation has been used for Empire and MPS does not mean that it is reasonable for KCP&L. The magnitude of KCP&L's off-system sales far exceeds that of either Empire or MPS. Moreover, the fact that an energy allocation is used in a class cost of service does not mean that it should be used in a jurisdictional allocation.

A class cost of service study represents a guide to develop cost-based rates. It represents a split of the total jurisdictional revenue requirement among the customer

classes served in that jurisdiction. The implications of the allocation are thus limited to the implications between the various customer classes. If different jurisdictions use different allocation bases in class cost of service studies, the implications are limited to customers within each jurisdiction.

By contrast, a jurisdictional allocation represents a determination of the revenue requirement associated with serving each jurisdiction. If different allocation bases are used by various jurisdictions, the company (as is the case with KCP&L) may not be provided a reasonable opportunity to earn the rate of return allowed by the Commission. The implications of different allocation bases in class cost of service do not usually represent a material barrier to the utility earning the rate of return found reasonable. In KCP&L's case, using different allocation bases in the jurisdictional allocation does prevent KCP&L from earning its rate of return.

Q: At Page 15 of his Direct Testimony, Mr. Meyer cites a recent Commission decision in AmerenUE's Case No. ER-2010-0036, where the Commission adopted an energy based allocation of "off-system sales to customer classes." Do you consider this relevant?

A: No, I do not. The AmerenUE situation does not appear comparable to KCP&L's in this case. For example:

1) The finding by the Commission apparently relates to class cost of service, whereas in this case it relates to the jurisdictional allocation.

2) The finding by the Commission apparently relates to the allocation of off-system sales revenues, not to the allocation of off-system sales margins which is the issue in this case.

Further, it appears that the evidence presented in the AmerenUE case was limited to an energy allocation versus a capacity allocation of off-system sales revenues (variable cost plus margin). In the instant case, the evidence I present relates to the allocation of off-system sales margins.

IMPLICATIONS ON CLASS COST OF SERVICE

Q: What are the implications of using energy to allocate off-system sales margins on class cost of service?

A: Based on the results I show in Schedule LWL2010-13, relative to a capacity allocation (4CP) of off-system sales margins, an energy based allocation will decrease power supply costs allocated to a 70 percent annual load factor class (such as large industrial) by nearly 4 percent (0.16 cents per kWh). Conversely, an energy allocation will increase power supply costs applicable to a 30 percent annual load factor class (such as residential) by a little over 6 percent (0.50 cents per kWh). This means, all other factors being equal, that residential customers would have rates 0.50 cents per kWh higher, while industrial customers would get a reduction of 0.16 cents.

Q: Does that conclude your 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 Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Docket No. ER-2010-0355

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

Larry W. Loos

Subscribed and sworn before me this 2nd day of December, 2010.

Notary Public

My commission expires: 12/15/10

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

Kansas City Power Light Company
Unit Power Supply Revenue Requirements
2008 Adjusted

Line No.	[A] Function/Plant	[B] Adjusted Power Supply Revenue Requirement Total	[C] Fixed	[D] Variable	[E] Units of Service Capacity	[F] Energy	[G] Unit Power Supply Revenue Requirement Fixed	[H] Variable
		$	$	$	MW	MWH	$/MW	$/MWH
1	Energy Allocation of Off-System Sales Margins							
2	Gross Revenue Requirements	1,032,827,902	751,449,820	281,378,082	3,474	22,375,733	216,327	12.58
3	Off-System Sales	205,343,553		205,343,553	-	6,254,865		32.83
4	Net Revenue Requirements	827,484,349	751,449,820	76,034,529	3,474	16,120,868	216,327	4.72
5	Allocation to Missouri Jurisdiction	442,975,739	399,630,926	43,344,812	1,847	9,189,983	216,327	4.72
6	Allocation to Kansas and FERC	384,508,610	351,818,894	32,689,717	1,626	6,930,886	216,327	4.72
7	Capacity Allocation of Off-System Sales Margins							
8	Gross Revenue Requirements	1,032,827,902	751,449,820	281,378,082	3,474	22,375,733	216,327	12.58
9	Off-System Sales	205,343,553	104,451,915	100,891,638	-	6,254,865		16.13
10	Net Revenue Requirements	827,484,349	646,997,905	180,486,444	3,474	16,120,868	186,258	11.20
11	Allocation to Missouri Jurisdiction	446,971,473	344,082,020	102,889,453	1,847	9,189,983	186,258	11.20
12	Allocation to Kansas and FERC	380,512,876	302,915,885	77,596,991	1,626	6,930,886	186,258	11.20

13 Reference
14 Columns B, C, and D:
15 Lines 2 through 4 and 8 through 10: Schedule LWL2010-4, Sheet 2
16 Lines 5 and 11: Column E * G and Column F * H
17 Lines 6 and 12: Line 4 minus 5 and Line 10 minus 11
18 Column E: 4CP - Schedule LWL2010-5, Sheet 2
19 Column F:
20 Schedule LWL2010-5, Sheet 2, Line 34
21 Lines 3 and 9: Workpapers
22 Columns G and H:
23 Column C / E and Column D / F
24 Line 5 = Line 4
25 Line 11 = Line 10