Exhibit No.:	
Issue:	Class Cost of Service
Witness:	Paul M. Normand
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2010-0356
Date Testimony Prepared:	December 17, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

REBUTTAL TESTIMONY

OF

PAUL M. NORMAND

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
December 2010

LIST OF TABLES

LIST OF FIGURES

LIST OF ATTACHMENTS

REBUTTAL TESTIMONY

OF

PAUL M. NORMAND

Case No. ER-2010-0356

Q. Please state your name, address and position.

A. My name is Paul M. Normand. I am a management consultant and president with the firm of Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201, Reading, PA 19609. I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or the "Company").

Q: Are you the same Paul M. Normand who prefiled Direct Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your rebuttal testimony?

A: To provide rebuttal comments to the direct testimony filed by other parties in this case concerning GMO's MPS and L&P class cost of service ("CCOS") studies.

Q: Have you reviewed the testimony filed by other parties concerning the Company's CCOS study?

A: Yes, I have.

Q: Please describe that testimony?

A: Testimony related to GMO's CCOS study was filed by the Staff of the Missouri Public Service Commission of the State of Missouri ("Staff" or "Commission"). Staff also prepared a separate CCOS study report which was part of Staff witness Michael S. Scheperle's direct testimony.

Q: Did any party other than the Company and Staff prepare and file a CCOS in this case?

A: Yes. One additional witness prepared testimony and cost of service details which I will be commenting on in this rebuttal testimony—Mr. Maurice Brubaker representing large energy users served by GMO's MPS and LP operations.

Q: Could you briefly show a comparison of the various CCOS presented in this filing?

A: The following (Table 1) class cost of service rates of return for the provided studies:

Table 1

GMO CCOS ROR (%) Result Summaries

	- - - - - MPS - - - - -		- - - - - L&P - - - - -	
	KCP&L	Brubaker's Industrial	KCP&L	Brubaker's Industrial
Total Retail Jurisdiction	5.82	5.82	5.77	5.77
Residential	6.13	5.52	6.56	4.53
Small Gen. Service	7.95	7.64	13.51	11.88
Large Gen. Service	5.00	5.70	7.17	7.24
Large Power	4.01	5.81	3.75	6.11
Total Lighting	3.59	3.42	-0.67	3.33

Note: MPSC Staff utilized a different method to perform their study ROR not directly available.

Q: What is the purpose of the CCOS study?

A: The purpose of a CCOS study is to directly assign costs based on Company records or allocate each relevant and identifiable component of cost on an appropriate basis in order to determine the proper cost to serve the Company's customer classes under study.

Q: How is this analysis used to determine customer rates?

A: The results of the CCOS study are used to provide guidance in applying any overall rate change to the Company's individual customer classes. Once the overall rate change is assigned to the individual classes, the CCOS study can be used to examine individual rate designs and make changes to the rate components of customer charge, demand charge, and energy charge.

Q: Is there a fundamental difference between the Staff's CCOS study approach and the Company's CCOS study?

A: Staff's overall approach to recognizing the importance of distinguishing various generation fixed and variable costs by type of generation based on the Base, Intermediate, and Peaking (BIP) method is consistent with the cost of service study that I presented. By using the BIP method, Staff has also recognized the importance of production class allocation by matching the use and benefit of almost 70% of GMO's costs of service. By layering these fixed and variable costs and synchronizing their respective class allocation factors, a much more robust cost responsibility assignment is achieved. (See Staff Report, pages 12-16.) Contrary to Mr. Brubaker's assertion, this approach to production allocation is well recognized in the industry, and I have used this approach as well as similar methods for over 30 years. Admittedly, the method does require more data and preparation than the more simplistic 4 CP method; however the additional effort is warranted to properly allocate major base load production plants to customer classes. I should also note that I have never advocated the use of a 4 CP production allocator. Attachment 1 is a description of the various production allocation factors taken from the NARUC Cost Allocation Manual (1992).

My disagreement with respect to Staff's production approach is primarily in the second step with respect to the cost allocations to customer classes once the identification by type of generation was identified as follows:

Table 2

Production Plant	**Staff**	**GMO**
Base Units	Annual Energy	Base Energy
Comment: Staff's approach double dips by using total annual energy.		
Intermediate Units	N/A	N/A
Peaking Units	4 NCP Less Base & Immediate	4 CP Less Base & Intermediate (N/A)
Comment: Staff magnifies the class allocations by basing their allocator on NCP levels versus a 4 CP level.		

Q: Why do you disagree with Staff's production class allocation approach in their CCOS?

A: The structure of Staff's approach was essentially quite similar to what I proposed for GMO operations using the BIP; however the choice of annual energy for base unit allocations and non-coincident peak or NCP data for the class allocation of peaking units incorrectly skews the results somewhat from my study.

Q: Please explain.

A: As mentioned in the comments of Table 2, using annual energy requirements presents a higher level of energy delivery than is typically produced by base units. This can be noted by observing Figures 3 and 6 where several months of the year are well above a base portion of energy delivery commonly associated with base units. The use of annual energy results in a double dip allocation of base units to lower load factor classes. This can also be noted by reviewing the data from each study as follows:

	MPS	L&P
Energy 1 (Annual Average)	722,408	263,656
Dem 1A (Base Average)	655,410	223,058

In addition, the use of NCP data serves to incorrectly increase the cost allocation to the Residential class for what are total integrated system costs. This is because utilities dispatch generating capacity to match hourly peaks. NCP methods are traditionally utilized for allocation of distribution plant where it is desirable to recognize the higher undiversified demands imposed on facilities located closer to customers. However, class peaks by themselves have little to do with hourly generating resource requirements.

Q: And what is the outcome of this difference with respect to the results of Staff study?

A: As mentioned in the comment of Table 1, Staff did not produce a rate of return as part of their study so direct comparison with the other studies is not directly available. Staff chose to represent the classes with respect to their revenue deficiencies. Accordingly, the Staff study shows deficiencies by class. While these amounts cannot be directly compared to the values in Table 1, they do provide a sense that the NCP allocations used within the BIP structure along with the annual energy allocator for base units have tended to shift costs from the large, energy users to the residential customers.

Q: Have you reviewed the direct testimony of Mr. Brubaker?

A: Yes, I have.

Q: Are there any fundamental differences between Mr. Brubaker's CCOS study approach and the Company's CCOS study?

A: Yes, Mr. Brubaker provides a modified version of my study, and he chose to limit his presentation to the major classes. Since his study does not break down costs by season or by any further detail than Class level, the study provides very limited insight into any credible rate design proposal. Mr. Brubaker also proposes different production and transmission allocation methods.

Q: Do you agree with his recommended use of a 4 CP allocation from production and transmission facilities?

A: No, I do not. The recommendation to use a 4 CP, 4 NCP, or Average and Excess (A&E) allocation has very limited use in the allocation process especially for production facilities. Unless all customers exhibit the same usage characteristics or all production facilities exist as only peaking types with the same cost structures, advocating a 4 CP or 4 NCP class allocation produces rather large cost allocation shifting and inequities. Attempts to classify these costs as fixed and ignoring the hourly energy capabilities completely mask their very cost justification which is to produce energy and is an integral part of the planning process.

Q: Why is it important that production allocation methods such as the BIP be reasonable?

A: The use of a production stacking approach such as the BIP to the class allocation for the largest portion (approximately 67%) of a utility's costs is by far the most representative procedure that mirrors both the planning as well as the operation of any utility's production facilities.

Utilities must provide energy for all hours of the year (Figure 1 – MPS and Figure 4 – L&P) based on a load duration curve which is simply the combined hourly usage of all customers. To accomplish this, the overall resource planning effort is quite complex and considers a myriad of costs and engineering factors associated with planning.

The BIP method allows for a more complete recognition of the dual nature of generating resources and provides a more structured and precise way to model the costs and develop appropriate class allocators for production plant.

As Figures 2 – MPS and 5 – L&P show, the annual load duration curve is segmented by horizontal partitions (dashed lines) to identify various energy threshold requirements that will be provided by each GMO operation from their available generation resources. Figures 2 – MPS and 5 – L&P also show the class allocations that I have recommended as appropriate for the corresponding production facilities. Figures 3 – MPS and 6 – L&P present a separate representation of Figures 1 through 4 which represents MPS and L&P's monthly coincident peaks with the four (4 CP) and twelve (12 CP) identified as dashed lines. A review of these figures clearly demonstrates that a simple 4 CP or 4 NCP approach is totally inappropriate for either production or transmission cost allocation to customer classes.

Finally, the BIP method introduces reasonable and sufficient detail into the production cost causation to allow a detailed examination of seasonal costs and any resulting seasonal pricing evaluations. More importantly, the BIP procedure synchronizes the different fixed and variable costs associated with the GMO production resources in achieving a more equitable class allocation.

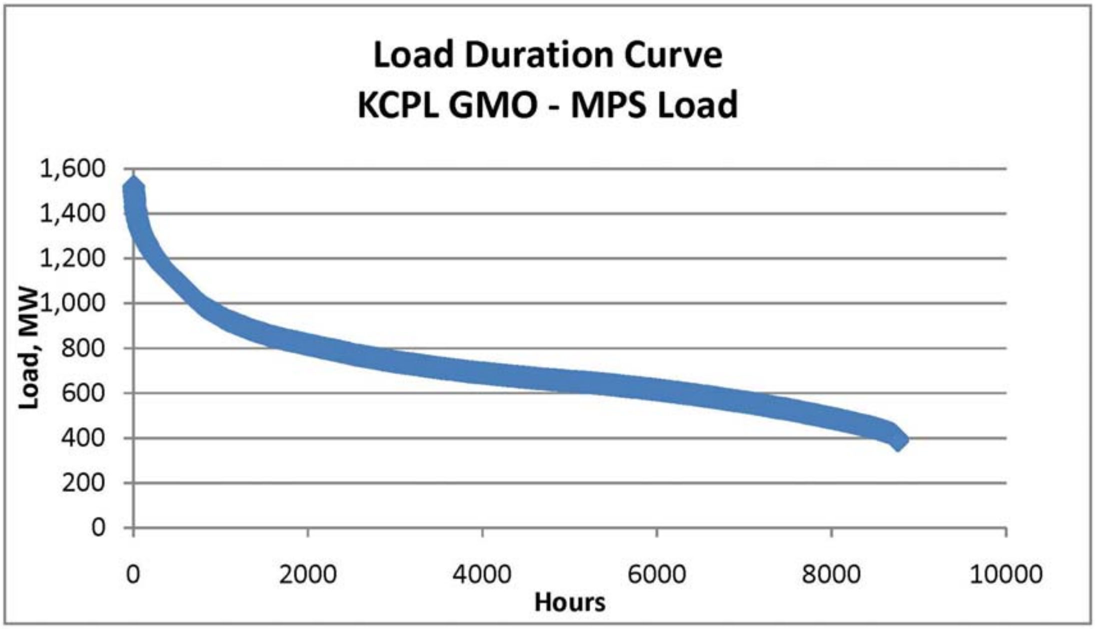

Figure 1

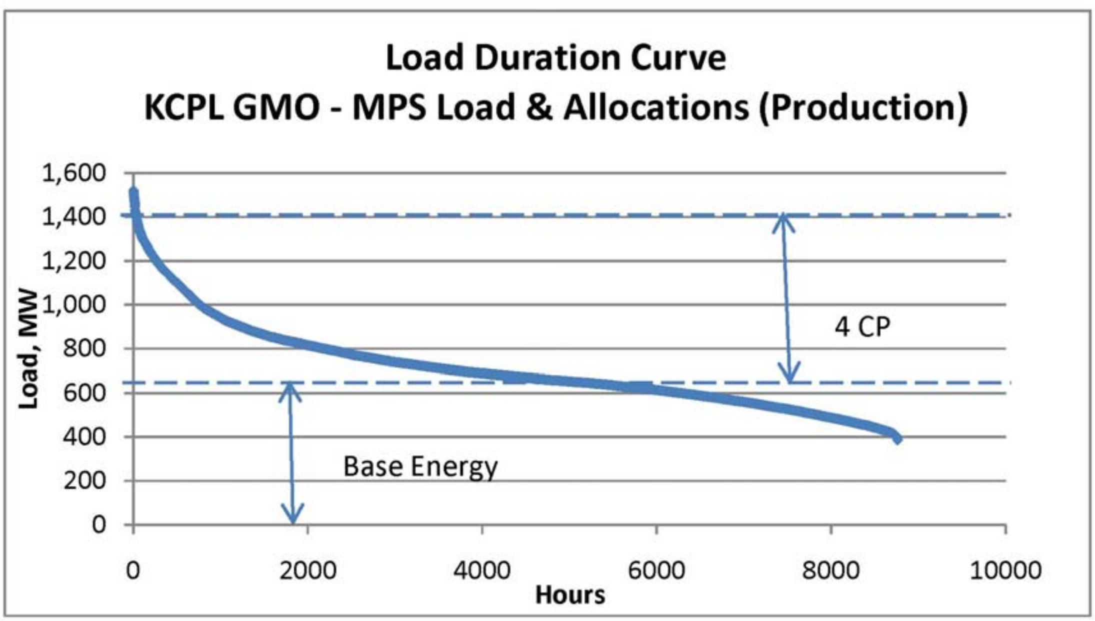

Figure 2

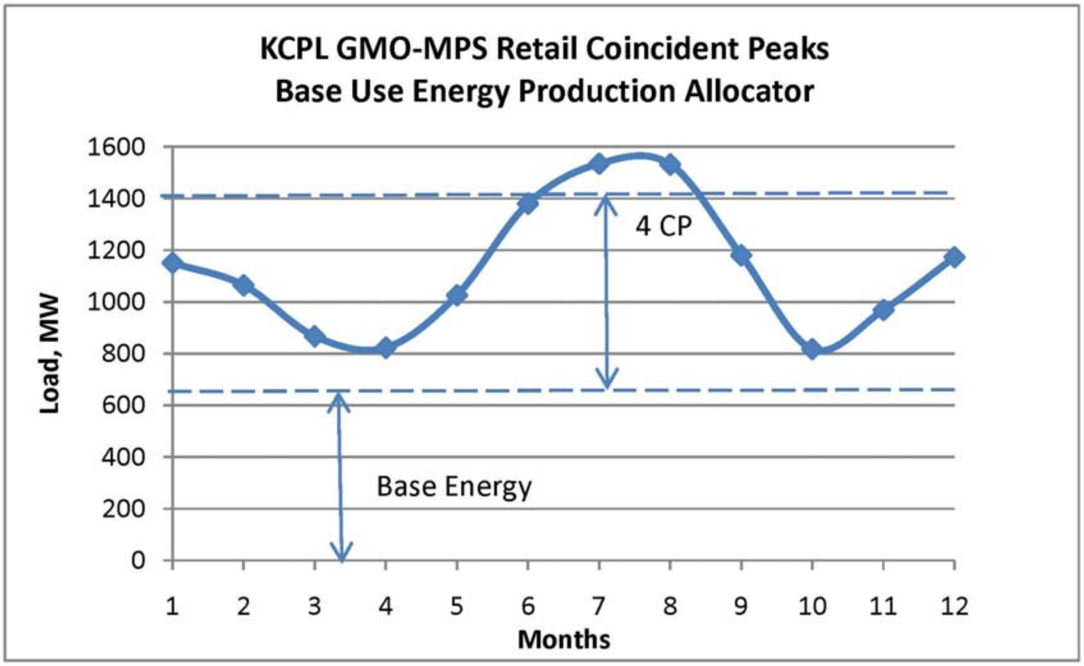

Figure 3

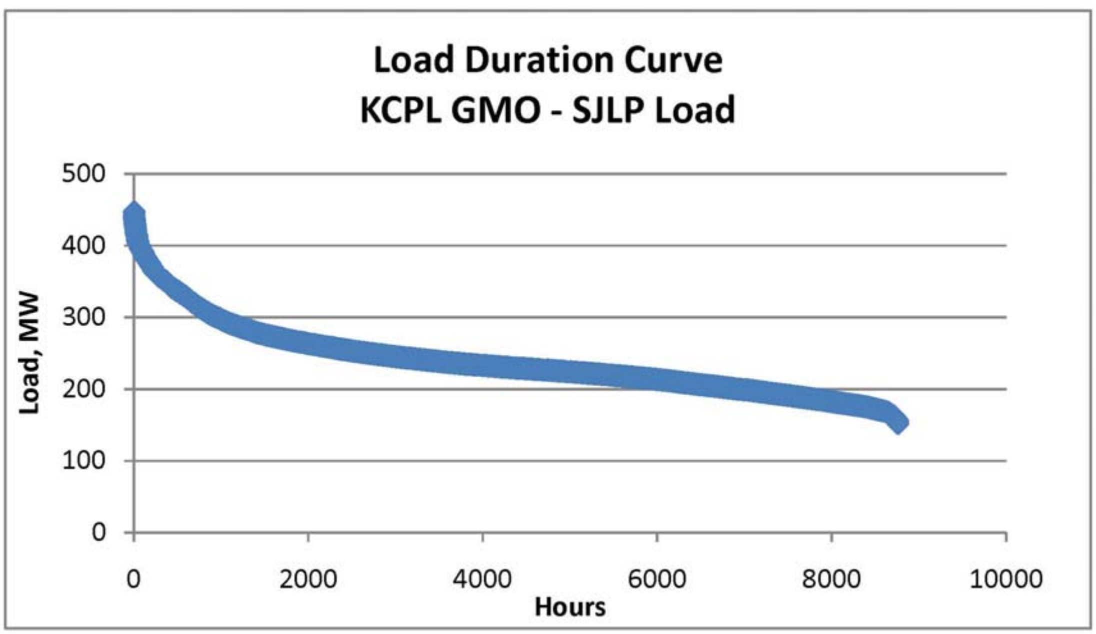

Figure 4

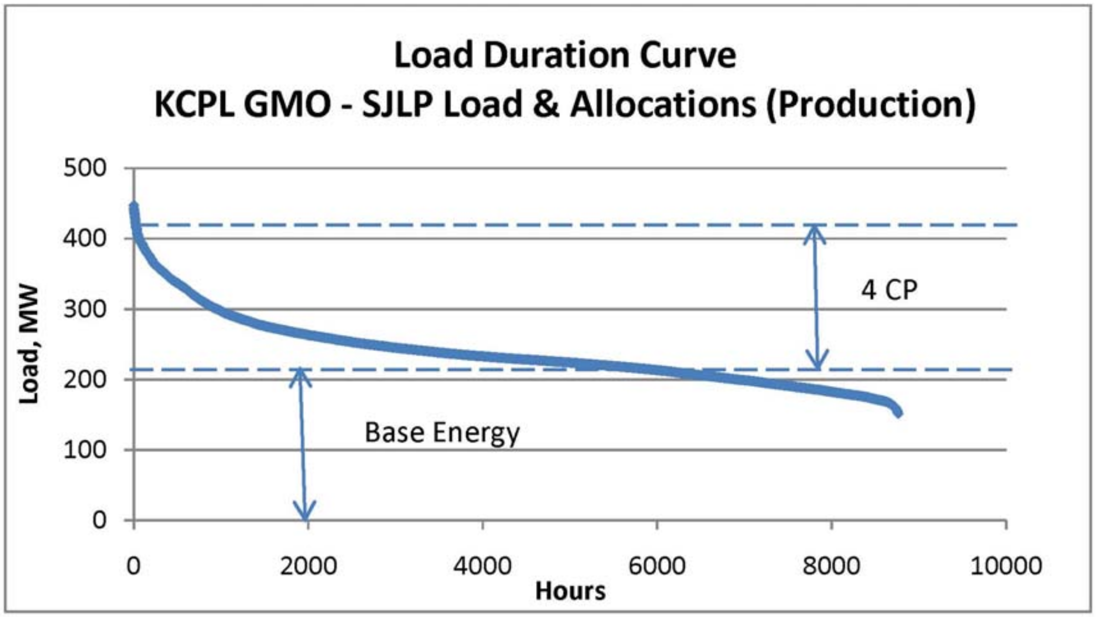

Figure 5

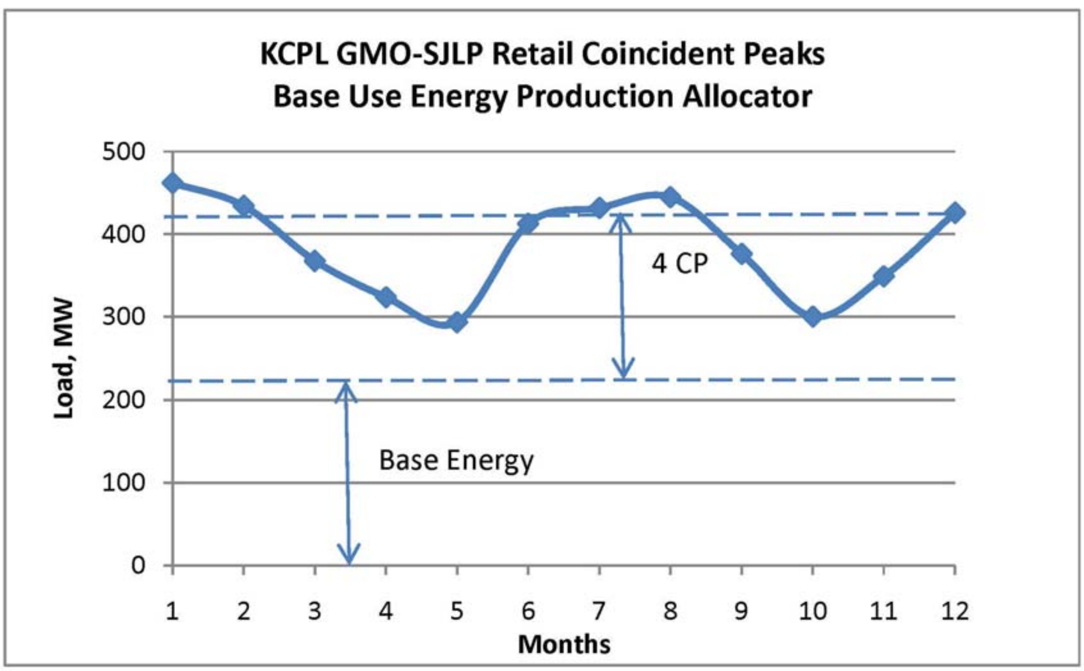

Figure 6

Q: What is another important aspect in the allocation of production plant?

A: From both a planning and operation point of view, there are two costs that represent production facilities: fixed and variable. Unless these two costs are synchronized in the allocation process, a potentially severe and material misallocation will occur in class cost allocation. This can be clearly evidenced by simply reviewing my Schedule PMN-3 A and B of my Direct Testimony at the Uniform Rate of Return (9.00%) section (MPS–3A page 19 and LP–3B page 23). The various unbundled costs which make up the total revenue requirement for the Company based on the cost of service assumptions included in the model are as follows:

Table 3

	- - - - - MPS - - - - -		**- - - - - L&P - - - - -**	
	($M)	**%**	**($M)**	**%**
Demand				
Production	185.2	30.8	65.2	35.9
Transmission	55.0	9.2	7.1	3.9
Distribution	110.3	18.4	26.6	14.7
Total Demand	350.5	58.3	98.9	54.5
Energy	203.6	33.9	69.3	38.2
Customer	46.8	7.8	13.2	7.3
Total Company	600.9	100.0	181.4	100.0
Total Production	388.8	64.7	134.5	74.1

The total production-related costs equal 32% (Demand) plus 35% (Energy), or 67% of total costs. Allocating 32% of all revenue requirements on simply one, two or four coincident peaks is unadvisable and will distort the class allocation away from larger energy users and, more importantly, deviates from the planning and operation process.

Tables 4A and 4B, below, summarize these relationships and show the percent responsibility related to 4 CP versus energy use (column 5).

Table 4A – MPS

4 CP AND ENERGY COMPARISON
(with losses)

Class	4 CP (MW)	%	Energy @ Gen w/Losses (MWH)	% Energy	MWH per 4CP MW
	(1)	(2)	(3)	(4)	(5) = (3) / (1)
Residential	844.5	60.0%	2,979,524	47.5%	3,528.2
Small GS	169.7	12.1%	868,269	13.8%	5,115.9
Large GS	168.3	12.0%	963,973	15.4%	5,729.4
Large Power	224.1	15.9%	1,466,383	23.4%	6,544.9
Total Excl Lighting	1,406.5	100.0%	6,278,150	100.0%	4,463.6

Table 4B – L&P

4 CP AND ENERGY COMPARISON
(with losses)

Class	4 CP (MW)	%	Energy @ Gen w/Losses (MWH)	% Energy	MWH per 4CP MW
	(1)	(2)	(3)	(4)	(5) = (3) / (1)
Residential	196.9	47.3%	864,771	37.8%	4,392.9
Small GS	21.2	5.1%	116,097	5.1%	5,464.6
Large GS	71.4	17.2%	421,065	18.4%	5,900.2
Large Power	126.5	30.4%	883,552	38.7%	6,982.5
Total Excl Lighting	416.0	100.0%	2,285,484	100.0%	5,493.9

Tables 4A and 4B present class results that clearly show that the primary beneficiaries of production allocation factors based on a CP method are large energy users. Simply put, assigning a major portion of fixed costs based on a 4 CP allocation when these customers can only consume a smaller level of the energy is illogical. As can be noted in columns (5), large users use almost twice the energy per MW which is primarily provided by base resources of GMO operations. Base units will operate at their maximum capability for most available hours of the year, and peaking conditions will be met by alternative resources. The BIP approach is the only production allocation that properly mirrors the planning and generation of a power system.

<u>Transmission Plant</u>

Q: Do you have similar concerns with transmission plant?

A: Yes, I do. While the transmission component of total revenue requirements is much less (7.9%), the basic arguments are the same with respect to the Company's transmission facilities. This is also clearly shown on Figures 3 and 6, attached.

Q: What allocation factor did you propose for transmission plant?

A: I proposed the use of a 12 CP which considers all of the Company's monthly peaks as the most representative of the Company's entire transmission plant investments. In doing so, my approach provides the following benefits:

1 – Well recognized method;

2 – Easily replicated;

3 – Much more stable and equitable than the limited CP methods;

4 – 12 CP better captures the backbone high voltage system;

5 – Inherent in this 12 CP method is an energy association that is implied; and

6 – Excludes the inadequate allocation of total energy as proposed by Staff.

Q: Since your review of Staff's and other intervenors' testimonies, do you still believe the results of each GMO operation's CCOS study as proposed provide the most reasonable results?

A: Yes, I do. My approach is more realistic and more closely matches the planning and operations of GMO's power system for all functional cost levels. This same approach was recently proposed and filed in KCP&L's Kansas filing, Docket No. 10-KCPE-415-RTS.

Q: Did the Commission in Kansas accept your approach?

A: Yes, in the final order dated November 22, 2010 the Commission endorsed my approach and stated that "the BIP method provides more structure for modeling costs of production plant and use of generating resources. It also allows for a detailed examination of seasonal costs and corresponding seasonal rate allocations." Attributes that are also directly relevant to this case.

Q: Did the other parties rely on their own CCOS study results in proposing a rate design?

A: Yes, despite the issues previously identified, Staff and the Industrials utilized their studies to propose rate design changes.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company to Modify Its Electric Tariffs to Effectuate a Rate Increase	)))	Docket No. ER-2010-0356

AFFIDAVIT OF PAUL M. NORMAND

COMMONWEALTH OF PENNSYLVANIA)
) **ss**
COUNTY OF BERKS)

Paul M. Normand, being first duly sworn on his oath, states:

1. My name is Paul M. Normand. I am a management consultant and president with the firm of Management Applications Consulting, Inc. in Reading, Pennsylvania. I have been retained by Great Plains Energy, Inc., to serve as an expert witness to provide testimony on behalf of KCP&L Greater Missouri Operations Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of fifteen (15) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Paul M. Normand

Subscribed and sworn before me this 14 day of December, 2010.

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Linda L. Rudloff, Notary Public
Sinking Spring Boro, Berks County
My Commission Expires April 16, 2012
Member, Pennsylvania Association of Notaries

Notary Public

My commission expires: 04.16.2012