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Issue: Class Cost of Service
Witness: Paul M. Normand
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Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

PAUL M. NORMAND

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
January 2011

SURREBUTTAL TESTIMONY

OF

PAUL M. NORMAND

Case No. ER-2010-0356

Q: Please state your name and business address.

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 and rebuttal testimony in this matter?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: The purpose of my surrebuttal testimony is to address certain parties' rebuttal testimony presented in this case. Specifically, I will address the rebuttal testimony of Missouri Public Service Commission Staff (Staff) witness Michael S. Scheperle and Ag Processing, Inc., Sedalia Industrial Energy Users Association, and Federal Executive Agencies (Industrials) witness Maurice Brubaker concerning class cost of service ("CCOS") studies proposed in this case.

Q: Would you summarize Mr. Scheperle's rebuttal?

A: Mr. Scheperle discusses the CCOS study results offered by the other parties, highlighting the benefits of the comprehensive studies performed by Staff and the Company with the simple, class level studies offered by Mr. Brubaker. Mr. Scheperle then walks through

the rate design proposals offered by the parties and provides comments on each. Company witness Tim Rush addresses the rate design aspects of this and other parties in his surrebuttal testimony.

Q: Do you have any specific concerns with Mr. Scheperle's CCOS-related comments?

A: Yes. As noted in my rebuttal testimony, 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. Mr. Scheperle suggests that usage of annual kWh for base. I believe it is more appropriate to select a realistic method that more closely matches the planning and operations of GMO's power system for all functional cost levels. I have some concern that Staff's selection incorrectly skews the results of the study.

Q: Would you please comment on Staff's use of annual kWh for class allocation of base units?

A: Unfortunately, Mr. Scheperle's use of kWh for base and NCP in fact increases the class distortion of these allocated costs. For example, I believe that base units are primarily energy producers for the majority of the 8,760 hours of a calendar year. In using a traditional class kWh allocation factor as Staff has done, a considerable amount of non-base load energy is included in a disproportionate amount by customer class (see rebuttal Figures 3 and 6). This oversight results in a "double dip" allocation to certain classes.

Q: Do you agree with Staff's characterization of allocating fuel costs on class energy?

A: No, I do not. GMO's cost studies carefully and correctly allocated the monthly fuel costs based on the adjusted class sales each month. In other words, a simplistic annual energy

(kWh) was not used as alleged by Staff (i.e. monthly fuel costs times monthly class kWh sales adjusted for losses).

Q: Would you summarize Mr. Brubaker's rebuttal?

A: Mr. Brubaker concentrates his discussion on the CCOS studies offered by Staff and the Company and his concerns with the allocation methods employed. Mr. Brubaker contends the BIP method is not appropriate for use in this case and offers the average and excess and other methods as more suitable for production cost allocation. Finally, I address what appears to be an error in Mr. Brubaker's rebuttal.

Q: Please elaborate on your concerns with Mr. Brubaker's rebuttal.

A: Mr. Brubaker asserts that the BIP method is not suitable for allocation of production plant. This is fundamentally incorrect. The BIP method is documented as one of many appropriate production allocation methods in the NARUC Cost Allocation Manual (1992). The BIP method, as applied in my study, is the result of a systematic review of historical hours of operation, generated kWh, and MW contribution to system peak to arrive at a reasonable and representative allocation of production costs to customer classes, rates and seasons. I contend the BIP method provides a more realistic and consistent method which more closely matches the planning and operations of GMO's power system for all functional cost levels.

My use of base energy, established as using the lowest monthly (non-zero) energy use for the test year and applying this level to each month, forms the basis for allocating the initial or base portion of production-related costs. This approach matches the base portion of load served with the corresponding generation resources utilized to produce this hourly energy demand. The remaining non-base production costs were then

subsequently allocated using a 4 CP demand-related method less any prior class assignment responsibility. These layered or stacked approaches to production allocation appropriately account for the demand and energy elements of customer usage contrary to Mr. Brubaker's assertion. The base units have a capacity for each hour and since they are to be used when available throughout the year, the hourly sum of each of these capacity values equals annual base energy and not just one hour of capacity.

The BIP method is one of several methods that allow 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. In other words, the production and transmission allocation process Staff and I employed properly synchronizes the fixed and variable costs of the production functions to customer classes.

Q: Please compare this to the method proposed by Mr. Brubaker.

A: The Average and Excess method also acknowledged by NARUC also attempts to provide recognition (indirectly) that production plant serves both energy and demand requirements. However, the BIP method is a much more robust approach to this energy versus demand allocation tradeoff. The BIP method allows us to recognize the dual nature (fixed and variable) of our generating resources and give us a structured and more precise way to incorporate a large, base load unit into our rates in an equitable manner. Furthermore, the BIP method can be easily replicated and introduces sufficient detail into the causation of production costs to allow a detailed examination of seasonal costs and the resulting seasonal rate allocations. This important characteristic is not provided by the Brubaker proposal.

Q: Do you agree with Mr. Brubaker's approach to the allocation of transmission plant?

A: No, transmission plant costs are a function of many factors which include interconnection to other utilities, connecting generation to the grid and single contingency analyses relating to plant loads, maintenance outages, etc. In order to balance all of these factors and recognize a relationship to generation, I simply allocated transmission plant and related costs using a 12 CP average demand factor. This allocator was then used to allocate all of transmission plant and related costs. The seasonal cost allocation was determined by using each class's seasonal average demand ratio.

Q: Have you provided any additional testimony regarding your transmission plant allocation in this filing?

A: Yes, I have prepared additional comments in my rebuttal testimony on pages 11 and 14.

Q: After reviewing the rebuttal testimony of the other parties do you still believe the methods and results of KCP&L's CCOS study as proposed provide the most reasonable results?

A: Yes, I do. The BIP method as applied in my study provides 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 in an equitable manner. My study is more realistic and more closely matches the planning and operations of GMO's power system for all functional cost levels. Accordingly, the CCOS results are more appropriate for use by the Commission to guide the application of any overall rate change to the Company's individual customer classes or rates.

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 Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of five (5) 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 12 day of January, 2011.

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