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Witness: Larry W. Loos
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Case No: ER-2009-0089
Date: April 7, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2009-0089

SURREBUTTAL TESTIMONY

OF

LARRY W. LOOS

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
April 2009

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Larry W. Loos, 11401 Lamar, Overland Park, Kansas 66211.

Q. ARE YOU THE SAME LARRY W. LOOS THAT PREVIOUSLY FILED DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOU SURREBUTTAL TESTIMONY?

A. I will respond on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company") to the rebuttal testimony filed on March 11, 2009 by Cary G. Featherstone on behalf of the Missouri Public Service Commission ("the Commission") Staff ("Staff") and by Maurice Brubaker on behalf of NNSA, Midwest Energy Users Association, Missouri Industrial Energy Consumers, and Praxair, Inc.

Q. HOW DO YOU ORGANIZE YOUR SURREBUTTAL TESTIMONY?

A. After I complete this introduction, I will address issues in the same general order presented by Mr. Featherstone.

Q. DO YOU HAVE ANY GENERAL OBSERVATIONS REGARDING MR. FEATHERSTONE AND MR. BRUBAKER'S REBUTTAL TESTIMONY?

A. Yes, Mr. Featherstone and Mr. Brubaker take exception with my specific recommendations in this case. However, they do not challenge the philosophical foundation upon which I support my recommendations, nor do they challenge my ultimate recommendation that:

> "in future rate cases the Commission should consider allocation approaches that provide explicit consideration to the fact that an electric utility pays a premium for power generating facilities that can produce energy economically."[1]

Neither witness addressed my extensive testimony regarding power supply cost drivers. Neither witness challenged my conclusion that utilities pay a premium for power generating facilities that can produce energy economically. In fact, Staff agrees with me as evidenced by Mr. Featherstone's response to the question "How do utilities meet their system load requirements?" by stating:

> "Utilities use a combination of base load capacity …, intermediate capacity …, along with peaking units or combustion turbines, … Base load units use nuclear or coal for fuel, while combined cycle units typically use natural gas for fuel. Combustion turbines are fueled by natural gas or oil, and have high operating costs, but lower installed capital costs. Base load units have very high installed capital costs, and lower operating costs. Combined cycle units have high capital costs compared

[1] Loos Direct: Page 54

to peaking units, but are more economical to operate compared to peaking units."[2]

Mr. Featherstone acknowledges that:

1) Base load resources have higher installed capital cost but lower operating costs, and

2) Peaking resources have higher operating costs but lower capital costs.

Q. IN HIS RESPONSE, IS MR. FEATHERSTONE REFERRING TO HOW UTILITIES MEET MAXIMUM (PEAK) LOADS?

A. Apparently not, since in response to the prior question,[3] he uses terms such as "maximum hourly peak load," "coincident peak," "peak load," "highest hourly peaks," "largest electric load requirement," and "maximum peak loads." Had Mr. Featherstone intended to refer to maximum or peak loads, he would have so specified instead of simply referring to "system load requirements."

Q. DO YOU HAVE ANY FURTHER EVIDENCE TO SUPPORT YOUR PROPOSITION THAT STAFF ACKNOWLEDGES THAT AN ELECTRIC UTILITY PAYS A PREMIUM FOR GENERATING RESOURCES THAT GENERATE ENERGY ECONOMICALLY?

A. Yes, I do.

Staff Witness Michael Scheperle states in rebuttal testimony that:

"high load factor customers are less expensive to serve than low load factor customers. If it is assumed that base load plants are built for high

[2] Featherstone Rebuttal: Page 11, Line 12
[3] Featherstone Rebuttal: Page 10, Line 20

> load factor customers, the fixed cost for these customers is high and the variable (i.e., fuel) cost is low. Likewise, if it is assumed that peaking plants are built to serve low load factor customers, the fixed costs should be lower and variable costs high."[4]

I generally agree with Mr. Scheperle's characterization. However, it is usually a combination of base load and peaking resources used to serve customers regardless of load factor. Utilities do not build base load plants exclusively for use by high load factor customers. However, for relatively higher load factor customers, total system costs are typically reduced when base load plants comprise a relatively greater portion of the generation mix.

Along this same line, in Case No. ER-2006-0314, Ms. Lena M. Mantle, Manager of the Energy Department, Utility Operations Division of the Missouri Public Service Commission Staff states in her rebuttal testimony that:

> "My rebuttal testimony provides general resource planning information regarding what type of generation units are built for low load factor utilities and what generation is built for high load factor utilities. Typically, high load factor utilities are most cost effectively served with a higher proportion of base load generation (i.e., high capital and low variable costs generation). Low load factor utilities are typically served most cost effectively with more intermediate and peaking generation (i.e., low capital and high variable cost generation.)"[5]

She continues stating:

> "Off-system sales margins are higher when the generation used to generate the energy sold was generated by base load generation since the variable cost of base load generation is lower than other types of generation. … If KCPL's generation capacity was built to most cost effectively meet the load requirements of KCPL's Kansas jurisdiction, it would have a higher proportion of peak capacity. If this were the case, there would be less off-system sales and the off-system sales margin would be smaller since the

[4] Scheperle Rebuttal: Page 7, Line 7
[5] Case No. ER-2006-0314, Mantle Rebuttal: Page 2

> variable cost of peak generation is higher. To use an allocation factor that allocates more margin to the lower load factor jurisdiction, as KCPL is doing, is giving Kansas more benefits from the base load generation that would not have been constructed if it was not for the higher load factor jurisdiction."[6]

These statements, in both the current case and Case No. ER-2006-0314, demonstrate that Staff knows what drives power supply cost. Staff knows that electric utilities pay a premium for generating resources that produce energy economically.

Q. DOES STAFF'S RECOMMENDED JURISDICTIONAL ALLOCATION IN THIS CASE RECOGNIZE THE PREMIUM PAID FOR GENERATING RESOURCES THAT PRODUCE ELECTRICITY ECONOMICALLY?

A. No, although Staff knows the economics of generation planning, Staff chooses to ignore these fundamentals in the allocation of cost to jurisdictions. Staff's recommended allocation bases ignore this premium.

For the most part, Staff makes the previous statements to support their claim that the higher load factor jurisdiction (Missouri) is less costly to serve and hence the Company is able to realize higher margins from off-system sales. I will address this misconception later in my surrebuttal testimony.

[6] Case No. ER-2006-0314, Mantle Rebuttal: Page 7

UNIQUE AND UNUSUAL

Q. DO YOU AGREE WITH MR. FEATHERSTONE'S CHARACTERIZATION THAT YOUR PROPOSALS ARE UNIQUE[7], EXTRAORDINARY, NOVEL, AND HIGHLY UNUSUAL?

A. No, I do not. The fact that Mr. Featherstone (or myself for that matter) has not seen specific allocations[8] does not mean that the allocations in question do not reflect (or better reflect) cost causation for electric utilities in general and KCP&L in particular. Recognizing that some portion of power supply fixed costs are related to energy sales has been an element of electric utility cost allocations I have seen throughout my 40-year career.

With regard to my recommendation to allocate environmental control costs based on energy, environmental equipment installed at coal-fired steam generating plants in my view is clearly related to customers' annual energy requirements. The cost of this environmental equipment is incurred in order for utilities to generate energy economically. The cost of this equipment is an element of the premium paid for base load generating resources that are designed and constructed (or retrofitted) to generate energy reliably and economically. Peaking resources, that are designed and constructed primarily to operate a few hours each year in response to customers' peak power requirements, typically do not have a great deal of environmental control equipment.

[7] Featherstone Rebuttal: Page 1, Line 22; Page 3, Line 11
[8] Featherstone Rebuttal: Page 7, Line 19

With regard to my proposed allocation of off-system sales margin, I am simply allocating margin based on the cost of the infrastructure that supports those sales. My proposal to allocate off-system sales margin on the same basis as the fixed costs of the power supply facilities that support such off-system sales (margin follows plant), is similar to the concept of "expenses follow plant" that Mr. Featherstone discusses.[9]

JURISDICTIONAL ALLOCATION FAIRNESS

Q. DO YOU AGREE WITH MR. FEATHERSTONE THAT KCP&L IS IN NO POSITION TO COMPLAIN THAT IT IS UNFAIR FOR THE KANSAS CORPORATION COMMISSION TO USE A 12 CP METHOD AND THIS COMMISSION USE A 4 CP? [10]

A. No, I do not. Mr. Featherstone's statement appears designed to create issues where there are none.

I specifically state in my direct testimony[11] that I do not expect either the Missouri or Kansas Commission to change their allocation approach solely in response to this situation. In this case, I certainly do not suggest that the Missouri Public Service Commission do so. I merely recommend considering the allocation bases employed by other jurisdictions when evaluating alternative jurisdictional allocation bases.

[9] Featherstone Rebuttal: Page 9, Line 1
[10] Featherstone Rebuttal: Page 5, Line 13
[11] Loos Direct: Page 12, Line 13

Q. DOES KCP&L SEEK TO ELIMINATE ANY UNDER RECOVERY ASSOCIATED WITH DIFFERENT ALLOCATION BASES USED BY THE MISSOURI AND KANSAS COMMISSIONS IN THIS CASE?[12]

A. In this case, I do not recommend allocation bases that eliminate any under recovery. I base my specific recommendation on what I perceive as a reasonable move toward allocation bases that, regardless of jurisdiction, better reflect the manner in which KCP&L incurs costs to meet its customers' requirements at reasonable cost.

My recommendations in this case tend to narrow differences. However, I make my recommendations not to eliminate or narrow jurisdictional differences but to reflect the cost incurred by KCP&L to serve customers in the various jurisdictions. In making my recommendations, I consider the reasonableness of the approaches I recommend and the ability to justify them philosophically, before the Missouri or Kansas Commissions or whether at the jurisdictional or class level.

To recognize cost requires allocating off-system sales margin based on power supply fixed cost and environmental control costs based on energy. Recognizing cost has implications on both the allocation of costs among jurisdictions and between classes, in particular between the residential and industrial classes.

I fully agree with Mr. Brubaker:

> "that the Commission consider whether there are compelling cost-based reasons to change any of the allocation methods … Newly proposed changes that were not a part of the consideration in Case No. ER-2006-

[12] Brubaker Rebuttal: Page 4, Line 4

0314 should be considered on their merits in terms of cost-causation and consistency with generally accepted allocation procedures."[13]

In my direct testimony, I present allocation methods that have a more fundamental and comprehensive philosophical base than what I believe was presented to the Commission and adopted in Case No. ER-2006-0314. Further, I have provided extensive cost-based considerations supporting the adoption and use of these alternatives and the specific methods I recommend in this case.

Q. DO YOU RECOMMEND ALLOCATING PLANT, EXPENSES, AND OFF-SYSTEM SALES MARGIN "IN AN INCONSISTENT AND INAPPROPRIATE MANNER TO THE DETRIMENT OF KCP&L'S CUSTOMERS IN MISSOURI?[14]

A. No, I do not. Mr. Featherstone apparently believes that allocating more costs than other methods to Missouri customers represents a detriment. I do not believe that an allocation that results in allocating cost to Missouri fairly and equitably, even though higher than an alternative, is a detriment but a matter of equity. Each jurisdiction should pay its fair share. I believe the allocation bases recommended by Staff do not result in allocating a fair share of costs to the Missouri jurisdiction. I believe my recommended allocations represent a step in the direction of allocating a fairer share of costs to the Missouri and Kansas jurisdictions.

[13] Brubaker Rebuttal: Page 6, Line 9
[14] Featherstone Rebuttal: Page 4, Line 4

"HYBRID" ALLOCATION FACTOR

Q. DO YOU PROPOSE TO COMBINE DEMAND AND ENERGY ALLOCATION FACTORS TO CREATE A HYBRID TO ALLOCATE CERTAIN PLANT INVESTMENTS AND CERTAIN NON-WAGE MAINTENANCE COSTS? [15]

A. No, I do not. I do not recommend use of a "hybrid" allocation factor.

My specific recommendation is to "classify steam plant production costs related to environmental protection and control as energy related and allocate accordingly."[16] Any "hybrid" results from accommodating KCP&L's and Staff's cost allocation models. Both models collapse the three-step allocation process I describe in my direct testimony[17] into a single step. Allocation models that reflect the three-step process typically would not require what Mr. Featherstone characterizes as a "hybrid" allocation factor.

Q. DO YOU RECOMMEND USE OF WHAT MR. FEATHERSTONE CHARACTERIZES AS A "HYBRID ALLOCATION FACTOR" TO ALLOCATE KCP&L'S NUCLEAR GENERATING FACILITIES? [18]

A. No, I do not.

In my direct testimony,[19] I recommend that steam-fired plant environmental cost be classified as energy related and allocated accordingly. Examination of my testimony and

[15] Featherstone Rebuttal: Page 6, Line 3
[16] Loos Direct: Page 53, Line 14
[17] Loos Direct: Page 7, Line 16
[18] Featherstone Rebuttal: Page 7, Line 2
[19] Loos Direct: Page 10, Line 9 and Page 53, Line 4

schedules shows that throughout, my reference to steam plant includes only coal-fired generating resources. It does not include nuclear.

Examination of Mr. Weisensee's schedules shows that he developed the factor he uses to recognize the portion of steam (coal-fired) investment related to environmental control and that he applies that factor solely to steam (coal-fired) facilities. He does not apply that factor to nuclear or other generation.

Q. DOES NUCLEAR GENERATION RELY ON A STEAM CYCLE?

A. Yes, it does. However, in the electric utility industry, reference to steam plant seldom if ever, includes nuclear. For example, examination of Mr. Weisensee's Schedule 11 (Pages 21 and 22) shows production plant separated into

1) Steam (Accounts 310 through 316),
2) Nuclear (Accounts 320 through 328), and
3) Other Production Plant (Accounts 340 through 346).

In the Uniform System of Accounts, FERC specifies these primary account designations, and the individual accounts included in each.

My recommendation to Mr. Weisensee is clear. The treatment I recommend relates solely to environmental equipment used in KCP&L's steam plants which include all of KCP&L's coal-fired resources, but not nuclear.

Mr. Featherstone's characterization is misplaced. He is trying to make an issue when there is none. The FERC Uniform System of Accounts does not include nuclear-fueled generation with steam plants. In Staff's February 11, 2009 Report, nuclear-fueled

generation plant is not included with KCP&L's steam production plant. In my schedules, I clearly show that I am recommending use of an energy allocator to allocate environmental equipment associated with steam plants, but not nuclear.

With all this, it is not clear why Mr. Featherstone suggests that my reference to steam plants includes both coal-fired and nuclear?

KCP&L'S DIFFERENT ALLOCATION METHODS

Q. DO YOU RECOMMEND ALLOCATION METHODS THAT APPLY ALLOCATION FACTORS INCONSISTENTLY?[20]

A. No, I do not. I do however recommend:

1) Classifying fixed power supply costs associated with steam plant environmental control equipment as energy related and allocating on the basis of energy sales,

2) Functionally classifying non-labor boiler maintenance expense as variable costs and allocating based on energy sales, and

3) Allocating off-system sales margin based on the fixed cost of the resources used to generate the electricity sold off-system.

None of these recommendations represents nor results in an inconsistent allocation method. They do however represent a treatment that differs from the Staff's recommendation and the Commission's treatment in prior rate cases. Apparently, Staff has neither seen nor thought of the approaches I discuss in my testimony. Further, to my knowledge, no party has ever offered them to the Commission.

[20] Featherstone Rebuttal: Page 33, Line 5

Q. DO YOU RECOMMEND USING A DEMAND FACTOR TO ALLOCATE A SMALLER PORTION OF OFF-SYSTEM SALES MARGIN TO THE MISSOURI JURISDICTION? [21]

A. No, I do not recommend using a demand factor to allocate off-system sales margin. As stated above, I recommend that the allocation of off-system sales margin follow the allocation of the fixed costs of those resources used to generate energy sold off-system. Nonetheless, my recommended allocation method will in all likelihood result in allocating a smaller portion of off-system sales margin to Missouri than the energy allocation factor recommended by Staff. However, if extended to retail, it will allocate a higher portion of margin to less energy intensive classes (residential).

Mr. Featherstone seems to measure the reasonableness of alternative cost allocation approaches, not on the merits but on whether or not the allocation results in allocating more or less costs to the Missouri jurisdiction. I disagree (whether it is Missouri or Kansas); the standard should be the extent that the method recognizes the nature of the costs and cost drivers. Allocation methods that better reflect the nature of the cost and the cost drivers should be relied on in lieu of methods that do not fully reflect the nature of the cost and cost drivers. My recommendations better reflect the nature of costs and cost drivers than Staff's.

[21] Featherstone Rebuttal: Page 33, Line 7

EXPENSES FOLLOW PLANT

Q. ARE YOU FAMILIAR WITH THE CONCEPT MR. FEATHERSTONE DISCUSSES OF "EXPENSES FOLLOW PLANT?"[22]

A. Yes, I am. I have used that approach for nearly 40 years. My recommendations in this case are no exception.

While Mr. Featherstone refers to the "expenses follow plant approach," the approach that he actually uses (as does everyone else) is more properly referred to as "fixed operating expenses follow plant." The recommendations that I make in this case are related to fixed costs (depreciation, taxes, and return) and fixed operating expenses. Since I recommend classification of non-labor boiler maintenance as variable it does not represent a fixed operating cost and is properly allocated based on energy sales, in exactly the same fashion as other variable costs such as fuel.

With respect to operating costs associated with steam plant environmental facilities, Mr. Weisensee has allocated steam plant operating costs (exclusive of non-labor boiler maintenance) based on the classification of steam plant investment into capacity and energy related. Mr. Weisensee identified that 28.61% of steam generating plant investment relates to environmental control equipment. Mr. Weisensee allocates 28.61% of steam plant fixed operation and maintenance expenses on the basis of energy deliveries.

[22] Featherstone Rebuttal: Page 9, Line 21

ALLOCATION FACTORS

Q. ARE YOU AWARE OF ANY FACTS OR THEORY THAT SUPPORTS YOUR RECOMMENDATION TO ALLOCATE ENVIRONMENTAL CONTROL COSTS BASED ON ENERGY SALES?

A. Yes, and contrary to Mr. Featherstone's claim, so does Staff. Mr. Featherstone states:

> "Staff is aware of no facts or theory that supports breaking out the costs of production facilities based on whether they are from non-environmental production facilities such as turbines and generators or environmental plant such as scrubbers used at production facilities."[23]

Not withstanding this claim, on the same page, he presents some facts that support my recommended treatment when he acknowledges,

> "Power plants are designed to meet certain load requirements in provisioning electricity to native load customers. As discussed earlier, large base load units have high capital costs with generally lower operating costs."[24]

The lower operating costs represent a benefit that customers realize through the energy they use. Mr. Featherstone would allocate 53.86 percent of the fixed costs and 57.30 percent of the fuel and other variable costs to Missouri customers. The variable costs Mr. Featherstone would allocate are lower by virtue of the higher fixed costs of the base load units. Mr. Featherstone wants to allocate 57 percent of the benefits to Missouri customers but only 54 percent of the costs, which give rise to those benefits. Mr. Featherstone wants to allocate 43% of the benefits of lower energy costs to Kansas, while

[23] Featherstone Rebuttal: Page 17, Line 3
[24] Featherstone Rebuttal: Page 17, Line 14

allocating 46% of the costs associated with the resources capable of providing those benefits.

Apparently, Staff wants to ignore that one of the factors that contributes to higher capital cost associated with these base load resources is the environmental control equipment required to burn the lower cost fuel (coal). While Mr. Featherstone would ignore the cost implications of environmental control equipment in the allocation of cost, he acknowledges their implications when he states:

> "KCPL is spending, and has spent, $100s of millions of dollars on environmental equipment that has increased its customer rates. Customers are paying significantly higher rates because of this equipment. KCPL is not investing these sums of money and the Company's customers are not paying increased rates for this equipment to sit idle."[25]

Mr. Featherstone is aware that environmental control costs contribute substantially to the high capital costs of large base load units. He is clearly aware that utilities do not invest the substantial sums for steam plant environmental equipment to sit idle for 6,000, 7,000, or more hours per year.

By separating out environmental control costs and allocating them based on energy, I give partial recognition to the premium paid for these base load plants in order to generate electricity more economically.

[25] Featherstone Rebuttal: Page 17, Line 22

Q. DO YOU OVERLOOK "THE FACT THAT COMPLIANCE WITH ENVIRONMENTAL REGULATIONS IS NOT A FUNCTION OF HOW MUCH ENERGY IS GENERATED?"[26]

A. No, I do not.

Mr. Brubaker's statement demonstrates his myopic view. I agree that an increase in the annual energy output of a particular steam plant of say 10 percent does not result in an increase of 10 percent in the fixed costs related to environmental control equipment. However, I disagree with his myopic view and believe that equity requires a more holistic perspective.

KCP&L in fact incurred these steam plant environmental control fixed costs in order to meet its native load customers' energy requirements. If at the time of construction of any of KCP&L's steam generating units, KCP&L determined that generation was required solely to meet customers' peak period requirements by generating energy for only a thousand or so hours a year, KCP&L would not have constructed the high cost steam plant with its extensive environmental controls. Instead, KCP&L would have opted to construct a lower capital cost resource. The lower capital cost resources do not have extensive environmental equipment that base load steam plants must have.

[26] Brubaker Rebuttal: Page 8, Line 2

Q. DO YOU AGREE WITH MR. BRUBAKER'S ARGUMENT THAT "THE FACT THAT SOME OTHER COMPLIANCE STRATEGY WOULD HAVE CREATED COSTS OF A DIFFERENT NATURE IS IRRELEVANT" BECAUSE "THESE COSTS DO NOT APPEAR ON KCP&L'S BOOKS?"[27]

A. No, I do not. Mr. Brubaker's argument is further evidence of his myopic view.

Mr. Brubaker apparently believes that costs that do not appear on the Company's books have no meaning nor deserve any consideration. I completely disagree. Total revenue requirements are generally limited to what the Company reports on its books; however, alternatives, whether reported on the books, provide a valid measure and deserve consideration when evaluating the nature of costs.

Q. DO YOU AGREE WITH MR. FEATHERSTONE THAT POWER PLANTS ARE DESIGNED TO MEET CERTAIN LOAD REQUIREMENTS IN PROVIDING ELECTRICITY TO NATIVE LOAD CUSTOMER?

A. Yes, I do. Mr. Featherstone acknowledges, "large base load units have high capital costs with generally lower operating costs."[28] Not withstanding Staff's recognition of the benefit of lower variable costs resulting from large base load units and the higher utilization of these large base load units by higher load factor customers, Staff makes no attempt to recognize this fundamental fact in Staff's recommended allocation.

In order to recognize the cost implications of relatively lower load factor (versus relatively higher load factor), in my direct testimony, I recommended:

[27] Brubaker Rebuttal: Page 8, Line 8
[28] Featherstone Rebuttal: Page 17, Line 15

> "in future rate cases, the Commission should consider allocation approaches that provide explicit consideration to the fact that an electric utility pays a premium for power generating facilities that can produce energy economically."[29]

I see nothing in Mr. Featherstone or Mr. Brubaker's rebuttal testimony challenging this recommendation.

Q. DOES YOUR RECOMMENDED ALLOCATION IN THIS CASE RECOGNIZE THE PREMIUM PAID FOR GENERATION WHICH GENERATES LOW COST ENERGY?

A. Yes, to a very limited extent. I recommend allocating the fixed costs associated with environmental control equipment at the Company's steam plants based on annual sales. As I indicate in my direct testimony, this equipment is required to generate energy more economically. This equipment is required in order to use coal to generate electricity. The benefit of using coal is low cost per kWh generated.

The economic disadvantage of using coal is the high fixed costs incident to its use. These high fixed costs are due to a number of factors, not the least of which is the cost of constructing, operating, and maintaining the pollution control equipment required to burn coal.

Q. CAN YOU DEMONSTRATE THE IMPLICATIONS OF THE COST OF ENVIRONMENTAL CONTROL REQUIRED BY STEAM (COAL) PLANTS?

A. I need go no further than KCP&L's addition of required pollution control equipment at its existing Iatan I plant.

[29] Loos Direct: Page 54, Line 1

Mr. Weisensee informs me that KCP&L is spending about $385 million ($820/kW) in required environmental improvements at its 469 MW Iatan I plant.[30] This $385 million is nearly 25 percent greater than the $312 million original cost of the Iatan 1 plant. Iatan I generates energy at a cost of less than 1.5 cents per kWh. If KCP&L needed only the 469 MW of capacity provided by Iatan I, in lieu of spending $385 million at Iatan, KCPL could construct 469 MW of simple-cycle combustion turbine capacity for a cost comparable to the environmental improvements at Iatan I. The resulting cost of energy produced from 469 MW of combustion turbine capacity would however be multiple times more expensive than the cost of coal fired energy generated from Iatan 1.

This demonstrates that at least in today's market, the cost of environmental control equipment represents one measure of the premium electric utilities pay for coal-fired base load resources. Thus, my recommended treatment regarding the cost of environmental control equipment represents a step in the direction of recognizing the implications of the premium paid for coal-fired base load resources in the allocation of fixed power supply costs.

Staff would ignore such implications. Staff recommends allocating the environmental improvements based on capacity. Staff recommends allocating 54 percent of the cost of these environmental improvements to Missouri customers when Missouri customers receive 57 percent of the benefit of the lower cost energy produced by Iatan I.

[30] Dollars and MW are KCP&L share

Q. IN YOUR RECOMMENDED ALLOCATION, DO YOU RECOGNIZE THE LOWER VARIABLE COST INCIDENT TO SERVING HIGHER LOAD FACTOR CUSTOMERS?

A. No, I do not. In this case, I only recommend classifying and allocating fixed costs associated with steam plant environmental control as energy. I do not recommend classifying and allocating fixed costs attributable to the balance of the premium paid for steam, nuclear, or wind generation based on energy.

Based on the results of the various allocation bases I examined and show in Schedule LWL-13, I am satisfied that my recommendation conservatively reflects some of the premium paid. Had I recommended an approach that classified and allocated the entire premium paid for generation and recognized the lower variable cost, the resulting allocation to Missouri would exceed the level that I recommend in this case.

OFF-SYSTEM SALES

Q. DO YOU RECOMMEND ALLOCATING OFF-SYSTEM SALES MARGIN BASED ON A DEMAND FACTOR?[31]

A. No, I do not. To be clear, I did not and do not recommend use of a demand factor to allocate off-system sales margins. I recommend, much like Mr. Featherstone's "expenses follow plant" approach, allocating off-system sales margin in the same manner as the fixed costs associated with KCP&L's generating resources used to generate the energy

[31] Featherstone Rebuttal: Page 9, Line 34

sold off-system. Thus, in the limiting case where all fixed costs of the power supply resources are allocated on the basis of 4 coincident peak demands (as Staff proposes in this case), my recommendation results in allocating off-system sales margin using the 4CP method.

On the other hand, if as I recommend, 1) 29 percent of fixed costs of power supply resources (used to make off-system sales) is allocated based on energy (to recognize the cost of environmental equipment), and 2) 71 percent based on demand (to recognize the remainder of the plant); my recommendation results in allocating 29 percent of off-system sales margin based on energy and 71 percent based on demand.

Q. IS YOUR RECOMMENDED ALLOCATION OF OFF-SYSTEM SALES MARGINS SIMILAR TO THE UNUSED ENERGY ALLOCATION KCP&L RECOMMENDED IN ITS PRIOR CASE?[32]

A. No, it is not. There is no similarity whatsoever between my recommended allocation and the "unused energy allocator." The philosophical foundation for my recommendation differs totally. My recommended allocation factor differs completely. Mr. Featherstone's allegation that they are similar would seem to represent an attempt to mislead the Commission.

In the following table, I summarize various allocation factors.

[32] Featherstone Rebuttal: Page 9, Line 35
Brubaker Rebuttal: Page 9, Line 17

Line No.	[A] Allocation Basis	[B] Reference	[C] Total KCPL	[D] Missouri	[E] Kansas & Wholesale
1	4-Coincident Peak Demands (Average)				
2	Units - MW		3,360.5	1,810.0	1,550.5
3	Ratio	LN 2	100.00%	53.86%	46.14%
4	Energy Sales				
5	Units - MWH		15,677,806	8,983,819	6,693,987
6	Ratio	LN 5	100.00%	57.30%	42.70%
7	Unused Energy				
8	Available Capacity - MW		4,245		
9	Available Capacity (by Jurisdiction) - MW	LN 8 * LN 3	4,245	2,286	1,959
10	Total Energy Available - MWH	LN 9 * 8,760	37,186,200	20,028,871	17,157,329
11	Net Energy Available - MWH	LN 810- LN 5	21,508,394	11,045,052	10,463,342
12	Ratio	LN 11	100.00%	51.35%	48.65%

I show the "unused energy" allocator applicable to Missouri amounts to 51.35 percent. Staff recommends an energy allocator amounting to 57.30 percent. A 4CP allocator amounts to 53.86 percent and falls between these two extremes.

Q. WHAT IS THE PHILOSOPHICAL FOUNDATION OF THE ALLOCATION BASES YOU SHOW IN TABLE 1?

A. Philosophically, the unused energy allocator recognizes the availability of resources to generate electricity for sale off-system. The unused energy allocator allocates the benefit of the off-system sales based on each jurisdiction's "contribution" to energy available for sale off-system. The unused energy allocator allocates the benefit of off-system sales not based on cost, but based on how much capacity that is "allocated" to a jurisdiction is not used by that jurisdiction. Looked at from a slightly different perspective, the "unused energy" allocator allocates the benefit of off-system sales margins not based on how

much capacity is allocated to each jurisdiction, but based on the capacity cost paid for but not used to generate energy.

With regard to my recommendation, I recommend allocating the margin from off-system sales based on the fixed power supply cost allocated to that jurisdiction. Philosophically, I recommend allocating the benefit (margin) from the incidental use of generating resources (to generate energy sold off-system) based on the fixed costs allocated to each jurisdiction. Thus, customers share in the benefit derived from off-system sales in proportion to the costs allocated to customers of the facilities (infrastructure) used to generate the electricity sold off-system.

Q. WHAT IS THE PHILOSOPHICAL FOUNDATION OF STAFF'S RECOMMENDED ENERGY ALLOCATOR?

A. I'm not sure there is one.

In response to this question, Mr. Brubaker states:

> "this approach recognizes that capacity is not installed in order to make off-system sales, but is only utilized for that purpose when the capacity is not required to serve native load."[33]

I agree with Mr. Brubaker's statement, but fail to see how his statement relates to or supports an allocation of off-system sales margin based on annual sales. If anything, it supports an "unused energy allocation."

[33] Brubaker Rebuttal: Page 10, Line 3

Staff would allocate the benefit of off-system sales based on energy sales. Thus, Staff allocates off-system sales margin based on the benefit (kWh used) that the generation provides customers. In all appearances, this represents a classic "double-dip."

In allocating fixed costs, Staff does not recommend considering the benefit of energy used by customers. Staff recommends allocating all fixed costs based on capacity (4CP) requirements.

This does not make sense. It is inconsistent. Staff's recommendation represents the minimum level of costs allocated to Missouri jurisdictional customers, even though the recommended allocation is internally inconsistent and devoid of any economic or engineering reality.

OFF-SYSTEM SALES ALLOCATORS

Q. DO OFF-SYSTEM SALES TRANSACTIONS OCCUR BETWEEN UTILITIES RESULTING IN PROFITS (NET MARGIN) TO KCP&L?[34]

A. Yes, they do. This margin as indicated by Mr. Featherstone is a contribution to KCP&L's fixed costs. Again, consistent with Mr. Featherstone's standard that "expenses should follow plant," this margin should be allocated on a basis that is consistent with what it represents, a contribution to KCP&L's fixed costs. Mr. Featherstone would however ignore what this margin represents and allocate it based on energy sales.

[34] Featherstone Rebuttal: Page 19, Line 4

Q. DOES YOUR RECOMMENDATION REPRESENT A NON-TRADITIONAL AND INCONSISTENT METHOD FOR ALLOCATING OFF-SYSTEM SALES MARGIN?[35]

A. No, it does not. My recommendation represents a consistent method to allocate margin. Staff's recommended energy allocator represents an inconsistent method.

As I will subsequently demonstrate, Mr. Featherstone's recommendation is not only internally inconsistent, it is inconsistent with Mr. Featherstone's rebuttal testimony in Case No. ER-2006-0314 because it fails to recognize the way native load customers support the infrastructure KCP&L relies on to make off-system sales.[36]

Mr. Featherstone characterizes my recommended allocation of off-system sales margin as inconsistent and inappropriate because I would allocate "the fuel and purchase power costs using an energy allocation factor and the residual margin using a different factor – the demand factor."[37] This is a ridiculous argument, how does the allocation of fuel and purchase power associated with off-system sales and the allocation of residual margin differ from the allocation of fuel and purchase power cost among jurisdictions based on energy sales and the allocation of residual costs (fixed costs) on the basis of the demand factor?

[35] Featherstone Rebuttal: Page 19, Line 21
[36] Case No. ER-2006-0314 – Featherstone Rebuttal: Page 5, Line 20
[37] Featherstone Rebuttal: Page 20, Line 10

Further, Mr. Featherstone acknowledges that Staff (in Case Nos. ER-83-49 and EO-85-185) used a demand allocator to allocate off-system sales.[38]

Q. WHY IS STAFF'S RECOMMENDATION INCONSISTENT?

A. Mr. Featherstone acknowledges that KCP&L makes off-system sales when it has "excess idle capacity."[39] This is the foundation of the "unused energy allocation basis" Mr. Featherstone refers to and the Commission rejected in Case No. ER-2006-0314. Mr. Featherstone's own statement supports and justifies the use of the "unused energy" allocation method that he rejects.

I disagree with Mr. Featherstone's suggestion, that by virtue of making off-system sales, capacity is excess or idle. I do agree that off-system sales represent the sale of energy generated by resources paid for by native load customers but not required to meet native load requirements from time-to-time.

I also agree that the off-system sales margin is what is left over after the fuel and purchased power costs incurred in generating the energy sold off-system are deducted from off-system sales revenues. By reducing off-system sales revenues by the fuel and related purchase power cost, the Company has recovered the costs associated with making off-system sales. Since the Company's variable costs have been covered, the margin must represent a contribution towards the Company's fixed costs. This contribution is to the fixed cost of KCP&L's infrastructure used to make such sales.

[38] Featherstone Rebuttal: Page 23, Line 9
[39] Featherstone Rebuttal: Page 20, Line 3

Q. DOES KCP&L PURCHASE POWER TO SELL OFF-SYSTEM?[40]

A. Yes, KCP&L purchases some energy from time-to-time that is sold off-system. However, the margins realized from off-system sales supported by purchases are relatively inconsequential, amounting to $1.1 million in 2007. Many transactions involving purchases sold off-system are incidental to after the fact stacking of cost to assure native load customers receive the least cost energy.

Q. DO YOU AGREE WITH MR. FEATHERSTONE'S ASSESSMENT THAT OFF-SYSTEM SALES MARGIN DOES NOT REPRESENT OFFSETS TO POWER SUPPLY COSTS BUT A CONTRIBUTION TO THE OVERALL REVENUE REQUIREMENT?[41]

A. No, I do not. Mr. Featherstone's suggestion is at odds with fundamental utility costing, ratemaking principles, and the fundamental laws of physics. Off-system sales do not involve the entire utility but only the production and transmission functions (and perhaps some incidental administrative and accounting support).

If Mr. Featherstone indeed thinks that off-system sales margin represents a contribution to the overall revenue requirement, Staff should support an allocation of off-system sales margin based on KCP&L's total revenue requirement. Staff has not done so. Staff proposes to allocate off-system sales margin based on energy sales. I expect that a proper allocation based on KCP&L's total revenue requirement will result in an allocation to the Missouri jurisdiction much closer to my recommended allocation in this case than Staff's.

[40] Featherstone Rebuttal: Page 20, Line 5
[41] Featherstone Rebuttal: Page 22, Line 19

Q. DO YOU RECOMMEND ALLOCATING OFF-SYSTEM SALES ON SOME BASIS THAT RECOGNIZES KCP&L'S TOTAL REVENUE REQUIREMENT?

A. No, I do not. KCP&L does not rely on any infrastructure except power supply and transmission to sell energy off-system. Just like primary or transmission system sales, lower voltage facilities are not involved in making off-system sales.

SYSTEM LOAD FACTOR

Q. DOES STAFF'S RECOMMENDED JURISDICTIONAL ALLOCATION IN THIS CASE RECOGNIZE THE PREMIUM PAID FOR GENERATING RESOURCES THAT PRODUCE ELECTRICITY ECONOMICALLY?

A. No, while Staff acknowledges this premium, Staff's recommended allocation fails to recognize it. Staff has presented extensive testimony alleging that because of the Missouri jurisdiction's higher load factor, costs are lower. Staff sponsored similar testimony in Case No. ER-2006-0314 in challenging KCP&L's proposed "unused energy allocation." In that case, as well as the current case Staff's recommended allocation of off-system sales margin does not recognize the economics of power supply in the allocation of power supply fixed costs, or of off-system sales.

Q. DO YOU AGREE WITH MS. MANTLE'S CONCLUSION (IN CASE NO. ER-2006-0314) THAT OFF-SYSTEM SALES MARGINS ARE HIGHER WHEN BASE LOAD GENERATING UNITS ARE USED?

A. All other factors being equal, I do. However, in agreeing with that conclusion I must point out that she also acknowledged that the fixed costs associated with this base load generation are higher than the fixed cost of peaking generation.

Q. DO YOU AGREE WITH MR. FEATHERSTONE THAT THE MISSOURI JURISDICTION OPERATES AT A HIGHER LOAD FACTOR THAN THE BALANCE OF THE SYSTEM?[42]

A. Yes, I do. I agree with much of what Mr. Featherstone says regarding load factor but not necessarily the way he says it, nor with the precise terms he uses.

Q. DO YOU AGREE THAT OPERATING AT A HIGHER LOAD FACTOR RESULTS IN LOWER OVERALL COST?

A. No, as a general proposition, I do not. I agree that all factors equal, operating at a higher load factor usually results in lower variable cost per kWh. This lower variable cost per kWh comes about because at higher load factor:

1) Generating resources operating with relatively lower variable costs are used more extensively, and/or

2) The generation mix includes a higher proportion of generating resources operating with relatively lower variable costs.

[42] Featherstone Rebuttal: Page 34

Assuming the same generation mix, I agree that Missouri jurisdiction's higher load factor results in lower KCP&L system average unit fuel cost than if the Missouri jurisdiction operated at the same load factor as Kansas. However, as a result of the Missouri jurisdiction's higher load factor, the optimum generation mix includes a higher proportion of higher fixed cost/lower variable cost generating resources than if it operated at a lower load factor. Thus, in return for lower variable costs, KCP&L incurs higher fixed costs because of Missouri's higher load factor.

Mr. Featherstone argues that:

1) Missouri's higher load factor results in a lower average variable cost.

2) This lower variable cost results in KCP&L realizing a higher margin from off-system sales.

3) Using energy to allocate off-system sales margin recognizes that the higher margin results from Missouri's higher load factor.

Q. DOES LOWER VARIABLE COST PERMIT KCP&L TO INCREASE MARGIN FROM OFF-SYSTEM SALES?

A. Not necessarily, all other factors equal:

1) To the extent lower variable cost results from 1) above (large base load units are used more extensively by native load customers), off-system margins are reduced because the availability of lower variable cost resources to generate energy for off-system sales declines.

2) To the extent lower variable cost results from 2) above (large base load units make up a larger portion of the generating mix), off-system margins may increase if the availability of large base load units to generate electricity for sale off-system increases.

3) To the extent lower variable cost results from 1) above (large base load units are used more extensively) power supply fixed costs born by native load customers are unaffected.

4) To the extent lower variable cost result from 2) above (large base load units make up a larger portion of the generating mix) power supply fixed cost born by native load customers increases.

Q. DO YOU HAVE ANY OBSERVATIONS?

A. Yes, I do. These relationships present some interesting dynamics that Staff chooses to ignore, namely:

1) As load factor increases, off-system sales margins may increase or decrease.

2) An increase in load factor results in increased margins only when a greater proportion of generation resources is made up of higher fixed cost large base load units.

When a higher proportion of generation resources is made up of base load units, lower load factor customers pay a relatively higher proportion of the fixed cost of the additional base load units, but receive a relatively smaller proportion of the benefit of the energy produced at lower variable cost.

Q. WHAT ARE THE IMPLICATIONS ON COSTS ALLOCATED TO THE MISSOURI JURISDICTION?

A. Staff recommends an allocation of fixed costs that results in the low load factor and high load factor jurisdictions paying the same per unit (fixed and variable) costs. Thus,

1) Because of Kansas' lower load factor,

- Missouri receives an allocation of fixed cost that is lower than if the generation mix were optimized for Missouri's load factor.
- Missouri receives an allocation of variable cost that is higher than if the generation mix were optimized for Missouri's load factor.

2) Because of Missouri's higher load factor,

- Kansas receives an allocation of fixed cost that is higher than if the generation mix were optimized for Kansas' load factor.
- Kansas receives an allocation of variable cost that is lower than if the generation mix were optimized for Kansas' load factor.

The allocation produces somewhat symmetrical results. The unit costs (fixed and variable) allocated to Missouri and Kansas are equal. Kansas subsidizes Missouri by paying higher fixed costs incident to higher cost generation that produces lower cost energy to accommodate the higher Missouri load factor. Missouri subsidizes Kansas by paying higher variable costs incident to lower cost generation that produces higher cost energy to accommodate the lower Kansas load factor.

Q. WHAT ARE THE IMPLICATIONS IF OFF-SYSTEM SALES MARGINS ARE ALLOCATED BASED ON ENERGY?

A. Staff's recommended energy allocation overturns this symmetry. Staff recommends allocating the margins so that the resulting fixed costs applicable to Missouri are lower than for Kansas, even though Staff acknowledges that the fixed costs associated with service to Missouri are greater.

Under Staff's recommendation, Kansas and Missouri pay equally ($/kW) for the fixed cost of generation. So long and to the extent that Kansas and Missouri pay equally for

the fixed costs, margins realized from the sale of energy off-system must be allocated in proportion to the fixed costs paid by the various jurisdictions from the resources used to generate the energy sold off-system.

When margins (revenues in excess of variable costs) are allocated, as recommended by Staff, based on energy, the higher load factor jurisdiction receives a relatively larger credit to fixed costs than the fixed cost the higher load factor jurisdiction is charged.

Q. DOES YOUR RECOMMENDED ALLOCATION OF OFF-SYSTEM SALES MARGIN PENALIZE THE MISSOURI JURISDICTION?

A. No, it does not. In fact, my recommendation meets the requirement that Mr. Featherstone specified in Case No. ER-2006-0314.

In attacking KCP&L's proposed "unused energy allocation" in Case No. ER-2006-0314, Mr. Featherstone stated that

> "KCPL's approach to allocating the off-system sales is unfair and inequitable to the Missouri retail customers served by the Company with respect to the way that these customers have been required to support the infrastructure that has been constructed to allow KCPL to engage in the off-system sales market."[43]

I agree with Mr. Featherstone that the "unused energy allocator" fails to recognize the way "customers have been required to support the infrastructure."

However, apparently, Mr. Featherstone doesn't recognize that the statement he made in Case No. ER-2006-0314 not only applies to the "unused energy" allocator but equally well to Staff's recommended energy allocator. An energy allocation likewise fails to

[43] Case No. ER-2006-0314: Featherstone Rebuttal: Page 5, Line 20

recognize the way "customers have been required to support the infrastructure" which allows "KCP&L to engage in the off-system sales market." Staff recommends allocating all power supply fixed costs based on demands. Yet it is these fixed costs that represent KCP&L's cost of constructing and operating (except for fuel) the infrastructure Mr. Featherstone refers. Mr. Featherstone said as much in Case No. ER-2006-0314, stating:

> "The generating assets that produce the energy to enable KCPL to make off-system, sale transactions have been allocated … on a demand allocation method. Also, the fuel and purchased power costs that are necessary to make the off-system sale transactions are allocated on an energy allocation method … "[44]

Mr. Featherstone acknowledges allocating fuel and purchased power (variable) costs incident to off-system sales based on energy. KCP&L credits the variable costs related to making off-system sales to fuel and purchase power cost so that native load customers are not burdened by costs that KCP&L directly incurs to make those off-system sales.

Mr. Featherstone acknowledges that the fixed costs of the infrastructure used to make off-system sales are allocated based on demand. By use of a demand allocator, customers in the various jurisdictions share equally ($/kW) in the costs of this infrastructure. To the extent that revenues in excess of costs are realized by KCP&L, those revenues (margins) must be consistently allocated. Any other allocation is "unfair and inequitable" according to Staff. In short, Staff's recommended allocation of off-system sales margin is by Staff's own testimony "unfair and inequitable."

Mr. Featherstone correctly points out that the "unused energy allocator" fails to recognize the manner in which native customers support the infrastructure used to make such sales.

[44] Case No. ER-2006-0314: Featherstone Rebuttal: Page 7, Line 10

Mr. Featherstone would ignore that the energy allocator he proposes suffers from the same deficiency.

Using an energy allocation factor to allocate off-system sales margin does not recognize how native load customers support infrastructure. An energy allocation factor recognizes how customers use and benefit from that infrastructure.

Q. DOES YOUR RECOMMENDED ALLOCATION OF OFF-SYSTEM SALES MARGIN RESULT IN MISSOURI RETAIL CUSTOMERS PAYING A HIGHER PORTION OF POWER SUPPLY FIXED COSTS?[45]

A. Yes, it does, relative to Staff's proposal. My recommendation eliminates the artificial reduction in fixed costs associated with serving the Missouri customers by virtue of the inconsistent energy allocator that Staff uses to allocate off-system sales margins. Following my recommendation, Missouri customers will pay the same unit fixed power supply costs as Kansas customers. Staff recommends a method that will result in the allocation of a lower unit fixed power supply cost allocated to Missouri customers, even though Staff repeatedly acknowledges the higher fixed costs associated with serving higher load factor customers.

Q. DOES THIS CONCLUDE YOUR PREPARED SURREBUTTAL TESTIMONY?

A. Yes, it does.

[45] Featherstone Rebuttal: Page 23, Line 22

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, "Surrebuttal 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 2nd day of ~~March~~ April 2009.

Notary Public

My commission expires: June 8, 2011

DONNA ATKINS
NOTARY PUBLIC - ARIZONA
MARICOPA COUNTY
My Commission Expires
June 8, 2011