Exhibit No.:	
Issue:	Transmission Tracker, Renewable Energy Standard and Missouri Energy Efficiency Investment Act of 2009; DSM; Low-Income Weatherization
Witness:	Tim M. Rush
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

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
December 2010

REBUTTAL TESTIMONY

OF

TIM M. RUSH

Case No. ER-2010-0355

Q: Please state your name and business address.

A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City, Missouri 64105.

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

A: Yes.

Q: What is the purpose of your rebuttal testimony?

A: My testimony addresses a number of issues presented in the testimony of various parties. This includes

I.) The proposal by the Missouri Public Service Commission Staff ("Staff") witness Henry E. Warren and the proposal to have the low-income weatherization program funds placed into an account with Environmental Improvement and Energy Resources Authority ("EIERA") and that the program continue beyond 2010 with modifications.

II.) The current status of the Renewable Energy Stand ("RES") rulemaking that was previously addressed in my direct testimony.

III.) The current status of the Missouri Energy Efficiency Investment Act of 2009 ("MEEIA") and KCP&L's proposed adoption of recovery methods for DSM Program costs consistent with other Missouri utilities, Staff's recommendation to only allow recovery of DSM program costs using an Allowance for Funds used During

Construction ("AFUDC") rate and the proposal by Missouri Department of Natural Resources (MDNR) witness Adam Bickford that asks the Commission to require KCP&L to continue their demand side management ("DSM") programs at the conclusion of the regulatory plan ("CEP", Case No. EO-2005-0329). MDNR also recommends a change in the current amortization period for DSM cost recovery from 10 years to 6 years.

IV.) To address Staff witness Curt Wells, the Office of the Public Counsel (OPC) witness Ted Robertson and Midwest Energy Users Association, Missouri Industrial Energy Consumers and Praxair, Inc.("Industrials") positions taken with regard to the Company's proposal in include a Transmission Tracker as part of the case.

I. LOW-INCOME WEATHERIZATION PROGRAM

Q: Do you agree with Mr. Warren's proposal to have the low-income weatherization program funds be placed into an account with EIERA?

A: No, KCP&L disagrees with Mr. Warren's proposal to have the low-income weatherization funds placed into an account with EIERA. KCP&L and community action weatherization agencies—Kansas City Housing and Community Development Department ("KCHCDD"), Missouri Valley Community Action Agency ("MVCAA"), and Central Missouri Community Action ("CMCA")—have excellent working relationships. The established process of distributing weatherization payments monthly based upon actual weatherization services provided, has been seamless and effective.

An example of the strong partnership is prior to the distribution of American Recovery and Reinvestment Act (2009) ("ARRA") funds, we worked closely with these agencies to establish annual budgets that were attainable by the agencies. Additionally, our current program design has allowed flexibility to assist in the weatherization of more clients. For instance, in 2008 we sought a variance to the tariff that would allow agencies to spend a portion of funding to accelerate low-income weatherization program activities.

Placing the low-income weatherization funds with EIERA would create an added administrative burden not currently experienced by the Company and not necessary. The Company already provides funds directly to its local community action weatherization agencies.

Q: Do you agree with Mr. Warren that the programs with modifications should continue at the same level as suggested in his testimony?

A: No. I do not think that this is the proper forum for a decision to continue the current funding levels for low income weatherization. I think it should be first vetted with the Customer Program Advisory Group ("CPAG") which consists of various interested parties. Second, a Commission determination of the recovery mechanism should be determined before a decision is made. Staff's proposal is similar to the proposal from MDNR to require the Company to continue DSM programs after the CEP is complete, which is discussed later in my testimony. Additionally, Staff is recommending that the Company modify its direct reimbursement payment method to the weatherization agencies from monthly to annual. This change would be harmful to the Company's cash flow and places an undue burden on the Company.

II. RENEWABLE ENERGY STANDARD

Q: Would you describe the current status of the rulemaking for the RES, also known as Proposition C?

A: As a result of the rulemaking procedures at the Commission, a rule has been established that sets out the recovery mechanisms for the renewable energy credits.

Q: Please explain the implication of the rulemaking and its affects in this rate case.

A: As I stated in my direct testimony, the Company has entered into a solar purchased power agreement that qualifies as a renewable energy resource that is included in annualized purchased power expense. Staff has also recognized the solar purchase power agreement in its fuel run.

Solar rebates and renewable energy credit tracking costs are also being incurred and are included in the Company's annualized O&M expense. Staff has not recognized these expenses in its Cost of Service. KCP&L's Missouri operation has spent over $125,000 so far in 2010.

Q: Based on the new rule, do you have a recommendation on how the solar rebates and renewable energy credit tracking costs should be handled for purposes of setting rates?

A: Yes. I think that the experience of 2010 gives us a good indication of minimally what the expected costs will be over the next several years. The current rule gives us a method for recovery of these costs that will provide the Company appropriate recovery. I recommend that an annualized amount equivalent to the expenses incurred in 2010 be included in cost of service as an ongoing expense level and that the expenses incurred in 2010 be included in cost of service to be amortized over a 2-year period beginning with the implementation of rates in this case.

III. MISSOURI ENERGY EFFICICENCY INVESTMENT ACT OF 2009

Q: Would you describe the current status of the rulemaking for the MEEIA?

A: My Direct Testimony in this case addressed the MEEIA, also known as Senate Bill 376 ("SB 376"). While preparing my Direct Testimony in June, a formal rule had not been developed. The Staff was holding informal workshops and in the process of developing a proposed rule to present to the Commission. I further addressed my concern that the current cost recovery mechanism for KCP&L did not reflect the policy goals of SB 376.

A rule was published in the Missouri Register in October and hearings are scheduled for December. The timing of the rule will most likely coincide with the effective date of rates from this case, but implementing a recovery mechanism consistent with the rule does not seem feasible in this case.

Q: Do you recommend any alternative until the proposed rule takes effect?

A: Yes. As I previously stated in my Direct Testimony, KCP&L was in the forefront in Missouri for implementing DSM programs. In fact, most of the utilities in Missouri have essentially followed suit and the programs the other utilities have implemented are very similar to those implemented by KCP&L. The primary difference is in the DSM cost recovery. The other utilities have received recovery of the program costs that is more favorable to the utility. While many of these may have been established through some form of Stipulation and Agreement in a rate case, they ultimately result in an inequitable position to KCP&L. KCP&L's DSM cost recovery mechanism discourages, rather than encourages, the implementation of DSM programs. I would recommend that until the rulemaking process is completed, that KCP&L's revenue recovery mechanism be consistent with the recent Order approving the Stipulation and Agreement in the AmerenUE rate case (ER-2010-0036). This would change KCP&L's current amortization period for the DSM regulatory asset from 10 years to 6 years and include the unamortized balance in rate base for actual expenditures booked to the DSM regulatory asset up through the true-up period of December 31, 2010. The six year amortization period would be applied to DSM program expenditures referred to by Staff as being incurred in "Vintage 4", that is, those subsequent to September 30, 2008. Prior expenditures would continue to be amortized over the originally authorized ten-year period. Additionally, KCP&L would defer the costs of the DSM programs in Account 182 and, beginning with the December 31, 2010 True Up date in this case, calculate allowance for funds used during construction (AFUDC) monthly using the monthly value of the annual AFUDC rate.

Q: Would this be consistent with other utilities in the state?

A: It would be consistent with KCP&L Greater Missouri Operations Company treatment except that the amortization period is currently 10 years (Case No. ER-2007-0004 Stipulation & Agreement), and as stated above, mirrors the recovery mechanism approved for AmerenUE.

Q: How has the recovery of prior investments in DSM been treated in the past three cases?

A: The Experimental Regulatory Plan Stipulation and Agreement provided for a recovery of DSM program costs to be amortized over 10 years with the following calculation of a return on DSM program costs:

> The amounts accumulated in these regulatory asset accounts shall be allowed to earn a return not greater than KCPL's AFUDC rate.

Q: How has a return been handled in this and in prior cases?

A: In both Case No.'s ER-2006-0314 (“2006 Case”) and ER-2007-0291 (“2007 Case”), the unamortized balance related to DSM program costs was included in rate base by both KCP&L and Staff. In both the 2009 Case and the current case, Staff omitted the balance from rate base, instead proposing inclusion of an annual return based on applying an AFUDC rate to the unamortized balance for each vintage.

Q: Do you agree with Staff’s contention that the deferred DSM program costs can not be included in rate base for DSM costs in this case?

A: No. We are at the conclusion of the Experimental Regulatory Plan and we should look forward to how treatment of DSM program costs should be handled. KCP&L believes that until the rulemaking is completed, that inclusion in rate base is the simplest and most appropriate means by which to include a return in regulatory filings and the unamortized balance should be included in rate base for actual expenditures booked to the DSM regulatory asset up through the true-up period of December 31, 2010. Additionally, the current amortization period for additions to the DSM regulatory asset subsequent to September 30, 2008 should be changed from 10 years to 6 years. Finally, beginning with the December 31, 2010 True Up date in this case, the deferred costs of the DSM programs would include a carrying charge based on the monthly AFUDC rate, applied to the unamortized monthly balance.

Q: What would be the effect of these changes on Staff’s cost of service?

A: Staff’s amortization of the DSM program costs that it reflects in Vintage 4, before offsets discussed below, would increase by $1.4 million. Staff’s proposed AFUDC return on unamortized DSM program costs of $1.7 million would be eliminated and replaced by the return on rate base authorized in this case.

Q: What is your position regarding MDNR's request to the Commission to require KCP&L continue their demand side management ("DSM") programs at the conclusion of the CEP?

A: KCP&L is committed to implementing cost effective DSM programs that are beneficial to customers, the communities we serve and the Company. We have been on the forefront in Missouri in pursuing DSM programs that do just that. My primary concern regarding MDNR's proposal to "require" the Company to implement DSM programs after the CEP conclusion is that it does not address cost recovery mechanism. It is the Company's position that an appropriate cost recovery mechanism must be in place to pursue the DSM programs.

Q: When the existing DSM program tariffs were established, were they intended to be available indefinitely?

A: No, they were not. The tariffs make reference to the Stipulation & Agreement in EO-2005-0329, which covers the time frame associated with the investments agreed to. Additionally, many of the tariffs explicitly state an end date of the tariff or define a budget ending period.

Q: Why were DSM program tariffs structured this way?

A: In the Stipulation & Agreement in the Experimental Regulatory Plan, the Company agreed to implement certain DSM programs with a specified method for recovery. As the term of that agreement was finite, it was appropriate to establish tariffs that also were finite in length. As I have mentioned, KCP&L was the lead utility in the state in implementing DSM programs. As such, with uncertainty around: a.) the success of the programs, b.) evolving technology, c.) energy policy overall and d.) future cost recovery, it made sense to limit the life of the programs in order to revisit and determine the future direction of DSM. This is being addressed by this Commission in a number of ways. First, the Commission has a number of rulemakings that specifically address DSM, including the rulemaking on Integrated Resource Planning and the rulemaking on the MEEIA.

Q: Does MDNR recommend changes to DSM cost recovery consistent with this proposal?

A: Yes.

Q: Do you have any other issues regarding DSM Program costs that you would like to discuss?

A: Yes. Staff nets unrelated issues to be included with its adjustment for DSM program costs. Staff includes negative costs against the unamortized balance of DSM program costs for purposes of computing an annual amortization and return. These negative costs are those that the Commission has previously ordered to be returned to ratepayers over ten years and include excess margins on off-system sales and net reparations from the litigation of Montrose coal freight rates before the Surface Transportation Board, but are unrelated to DSM program cost recovery. Staff also adds deferred advertising costs to the DSM Program costs. As discussed in the rebuttal testimony of Company witness John P Weisensee, KCP&L believes this netting to be inappropriate. DSM Program costs should be considered as a stand-alone cost for purposes of cost recovery.

IV. TRANSMISSION TRACKER

Q: The Company proposed a transmission tracker in the initial filing. How did the parties to this case address the transmission tracker proposed by the Company?

A: Staff's filing was supportive of a transmission tracker. Staff recommended a modification to the tracker to include transmission revenues. Both OPC and the MIEC recommended that the tracker not be approved.

Q: Please summarize the Company's proposal regarding a transmission tracker.

A: The Company proposes a tracking mechanism to ensure appropriate recovery of certain transmission expenses. The expenses identified for inclusion in the tracker result from charges by Southwest Power Pool ("SPP") and other providers of transmission service.

Q: Why should these expenses be included in a tracker?

A: The transmission charges are expected to increase substantially in the next few years as demonstrated by analysis performed by the SPP Rate Impact Task Force ("RITF"), which operates under the purview of the Regional State Committee. The Regional State Committee, which is populated by commissioners from the state public utility commissions represented in the SPP geographic footprint, formed the RITF for the express purpose of addressing concerns about the magnitude of impending costs that will result from transmission projects directed by SPP. In addition to the fact that changes in these expenses are expected to be substantial in magnitude, the large majority of the expenses will be outside of KCP&L's control. Therefore, these transmission expenses fit the classic reasons for a tracker: 1) they are material, 2) they are expected to change significantly in the near future, and 3) they are primarily outside the control of the utility.

Q: The Staff supports the concept of a transmission tracker, but proposes to include changes in wholesale transmission revenue as an offsetting value to the changes in expense included in the tracker. Do you support the Staff's proposal?

A: No.

Q: What is your reason for opposing the Staff's suggestion to include revenue changes?

A: Essentially, this proposal would create a mismatch between costs and revenues. The wholesale transmission revenue received by KCP&L serves to offset its actual total cost of owning and operating transmission facilities. The magnitude of this actual total cost will be represented by the transmission functional component of the total cost-of-service established in this docket. The amount of total transmission cost allowed for recovery under KCP&L's Missouri rates will not change absent another general rate case that may be filed in the future by KCP&L; it will be a fixed amount and unaffected by the tracker as proposed by either Staff or KCP&L. However, Staff proposes to include changes in wholesale transmission revenue for inclusion in the tracker as an offset to that fixed total cost of owning and operating transmission facilities. Thus, there will be a mismatch between the total transmission ownership cost included in KCP&L's Missouri rates, which will be fixed, and the amount of Staff's proposed revenue offset, which will vary over time.

Q: Why is this mismatch between cost and revenue a problem?

A: In FERC Docket No. ER10-230-000, KCP&L recently established a wholesale transmission "formula rate" that allows KCP&L's wholesale transmission rates to vary each year in accordance with its actual costs of owning and operating transmission facilities. As a result, KCP&L's future stream of wholesale transmission revenue is expected to be correlated with its actual total costs of transmission facility ownership and operation. As the total costs rise, the wholesale transmission revenue amount is expected to rise and as the total costs fall, the wholesale transmission revenue amount is expected to fall. For this reason, the Staff's proposal to include wholesale transmission revenue in the tracker (while the total cost-of-service included in rates is held constant at the test year level) is expected to have completely counter-intuitive effects. When the total cost of owning and operating transmission facilities increases, the amount of wholesale transmission revenue is expected to increase also, which would have the effect of *decreasing* the amount of transmission net cost recovered from retail customers under the Staff's tracker proposal. When the total cost of owning and operating transmission facilities decreases, the amount of wholesale transmission revenue is expected to decrease also, which would have the effect of *increasing* the amount of transmission net cost recovered from retail customers under the Staff tracker proposal. In short, the Staff proposal likely would have the long-term effect of pushing retail rates in the opposite direction of actual cost, which is clearly inappropriate ratemaking treatment.

Q: What remedies are available to address the problem with the Staff's proposal?

A: There are two basic approaches to address this problem. One approach would be to implement the Staff proposal to include wholesale transmission revenue in the tracker, but to supplement it with a mechanism whereby retail rates could be adjusted to reflect changes in the cost of owning and operating transmission facilities. In that manner, there would be a match between cost and revenue that would alleviate the problem described above. In this docket, however, KCP&L is not proposing such a mechanism. Instead, KCP&L is proposing the simpler approach of limiting the tracker to include only transmission expenses resulting from charges by other transmission providers. By excluding wholesale transmission revenue from the tracker, the problem outlined above is avoided.

Q: If the inclusion of wholesale transmission revenue in the tracker creates a mismatch problem, why does the inclusion of certain transmission expenses not create a similar issue?

A: There are two key differences between the ratemaking treatment of the transmission expense resulting from service charges and the transmission revenue resulting from the company's formula rate. First, these transmission expenses are excluded from the computation of transmission rates under the FERC-approved formula rate. These are expenses incurred due to KCP&L's role as a transmission customer, whereas the costs under the formula rate are those of KCP&L as an owner and operator of transmission facilities. Therefore, these expenses are of a fundamentally different nature and are largely uncorrelated with the primary segment of KCP&L's transmission costs, which is that of a transmission owner and operator. Second, inclusion in the tracker of expenses resulting from charges by other transmission providers does not result in retail rates moving in the opposite direction from actual total costs. On the contrary, including these expenses in the tracker results in retail rates that move in tandem with and more accurately reflect the costs incurred on behalf of retail customers.

Q: Do you have any comments regarding the numbers proposed by Staff in Appendix 5, Schedule DIB-3?

A: The Account 456.1 revenue number shown by staff in that schedule does not represent the total amount of Account 456.1 revenue as suggested by Staff's testimony. Instead, it represents primarily the portion of revenue in that account that is derived from SPP point-to-point transactions. That is why it is labeled in the FERC formula rate as "Net 456.1 Account Activity" rather than "New 456.1 Account Activity" as stated in Staff testimony. If this specific portion of KCP&L's transmission revenue were to be used as the basis of a revenue offset in the transmission tracker, the problems described above concerning the correlation between revenue and the cost of owning and operating transmission facilities would be mitigated. Although, KCP&L does not advocate at this time the concept of including any transmission revenue in the transmission tracker calculation, it would be preferable to include only this portion related to SPP point-to-point transactions rather than the total for Account 456.1.

Q: Do you have any comments regarding Staff's recommendations of reporting requirements for transmission projects constructed by KCP&L, as described on pages 151 and 152 of Staff testimony?

A: Staff proposes several reporting requirements in this section, including the filing of certain information with the Commission when KCP&L proposes a transmission project at a voltage greater than 100kV, the update of this information within seven days if a cost estimate changes by more than ten percent, and the filing of quarterly updates of costs incurred and progress made toward completion of all transmission projects regardless of size. KCP&L understands that the Commission has an interest in these issues given the very substantial transmission construction plans now being developed and directed by SPP. However, these matters can be more effectively addressed within a docket that focuses specifically on transmission development, where any problems can be more thoroughly analyzed and solutions can be more carefully tailored to address those problems. The Commission recently opened a docket, Case No. EO-2011-0134, in which such matters can be addressed on a general policy basis rather than in this rate case for an individual company. Therefore, KCP&L suggests that such reporting requirements not be adopted through this rate case.

Q: Why does OPC and Industrials not recommend approval of the transmission tracker?

A: The Industrials simply argue that the tracker should be denied because these costs are simply normal operating costs. OPC argues that the Company's proposal for a transmission tracker should not be approved. On page 13 of Mr. Robertson's testimony he indicates that he has done a historic review of transmission costs and that these costs have not fluctuated substantially.

Q: Do you agree with the Industrial position that these costs are normal expenses and should not be established as part of a tracking mechanism?

A: No. While these are part of the cost of service of the Company, they are changing at a rapid pace as the transmission systems are changing. Many of these costs are not within the control of the Company and more driven by public policy. As I previously noted, a major factor in these increases is the push for renewable energy resources in the region and the need for significant transmission upgrades necessary to capture the benefits of wind generation in the region. The other reason is the need to reduce congestion in the region on the key transmission paths to create more efficient markets.

Q: How do the Company's projected transmission costs compare to historical levels?

A: As can be seen on attached Schedule TMR2010-5 filed in my Direct Testimony, transmission costs have increased significantly in recent years. These costs are expected to grow at an even faster pace in the future in order to address these regional energy needs.

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 Kansas City)
Power & Light Company to Modify Its Tariffs to) Docket No. ER-2010-0355
Continue the Implementation of Its Regulatory Plan)

AFFIDAVIT OF TIM M. RUSH

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Tim M. Rush, being first duly sworn on his oath, states:

1. My name is Tim M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of Sixteen (16) 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.

Tim M. Rush
Tim M. Rush

Subscribed and sworn before me this 9th day of December, 2010.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2011

" NOTARY SEAL "
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200