Exhibit No.:
Issue: Energy Cost Recovery, Fuel and Purchased Power Expense, Off-System Sales Margin
Witness: Ralph C. Smith
Type of Exhibit: Direct Testimony
Sponsoring Party: Office of Public Counsel
Case No. ER-2006-0314
Date Testimony Prepared: August 2006

BEFORE THE

PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

DIRECT TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF

THE OFFICE OF PUBLIC COUNSEL

"NP" Version

** INDICATES THAT KCPL-DESIGNATED
"HIGHLY CONFIDENTIAL" INFORMATION HAS BEEN REDACTED**

August 8, 2006

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Kansas City Power & Light Company for Authority to Modify Its Tariffs to Begin the Implementation of Its Regulatory Plan	))))	**Case No. ER-2006-0314**

AFFIDAVIT OF RALPH C. SMITH

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

Ralph Smith, of lawful age and being first duly sworn, deposes and states:

1. My name is Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 36, Appendix RCS-I (qualifications), Schedules RCS-1 and RCS-2, and Attachments RCS-1, RCS-2 and RCS-3.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ralph C. Smith

Ralph C. Smith
Senior Regulatory Consultant

Subscribed and sworn to me this 8th day of August 2006.

Hugh Larkin Jr.

HUGH LARKIN JR.
NOTARY PUBLIC WAYNE CO., MI
MY COMMISSION EXPIRES Sep 13, 2007

Notary Public

My commission expires September 13, 2007

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Attachment RCS-2, KCPL's response to OPC DR No. 5014 (page 4 of 4 is redacted)
Attachment RCS-3, KCPL's response to OPC 5026

I. INTRODUCTION

Q. Please state your name and business address.

A. Ralph C. Smith. My business address is: Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. What is your occupation?

A. I am a certified public accountant and a senior utility regulatory consultant with Larkin & Associates PLLC, a firm of certified public accountants and regulatory consultants.

Q. What is your educational background?

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the C.P.A. examination in my first sitting in 1979, received my CPA license in 1981, and received a Certified Financial Planner™ certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. My memberships have also included the Michigan Bar Association and the American Bar Association (ABA). In the ABA I have been a member of the sections of Public Utility Law and Taxation. I am also a Certified Rate of Return Analyst (CRRA) and a member of the Society of Utility and Regulatory Financial Analysts (SURFA).

Q. Please summarize your professional experience.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation where the majority of my time for the past 27 years has been spent, I performed audit, accounting, and tax work on a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case filings of public utility companies and other regulatory issues before various regulatory commissions, and, where appropriate, preparing expert testimony and schedules relating to the issues for presentation before these regulatory agencies. I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Washington, and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. Has your regulatory experience included reviews of electric utility fuel and purchased power expense?

A. Yes. I have submitted testimony and/or testified in several proceedings involving the review of electric utility fuel and purchased power issues. Recent examples include the following:

Docket No.	Utility	Description	Client
05-806-EL-UNC	Cincinnati Gas & Electric Company	Financial and Management/Performance Audit of the Fuel and Purchased Power Rider	Energy Ventures Analysis, Inc./ Public Utility Commission of Ohio
21229-U	Savannah Electric & Power Company	FCR Fuel Case	Georgia Public Service Commission Staff
A.96-10-038	Pacific Enterprises and Enova Corporation d/b/a as Sempra Energy	Management Audit and Market Power Mitigation Analysis of the Merged Gas System of Pacific Enterprises and Enova Corporation	California Public Utilities Commission - Energy Division
19142-U	Georgia Power Company	FCR Fuel Case	Georgia Public Service Commission Staff
19042-U	Savannah Electric & Power Company	FCR Fuel Case	Georgia Public Service Commission Staff
ER 02060363	Rockland Electric Company	Audit of Deferred Balances, Phase I and II	New Jersey Board of Public Utilities
Non-Docketed	Georgia Power Company & Savannah Electric & Power Company	Fuel Procurement Review	Georgia Public Service Commission Staff
13711-U	Georgia Power Company	FCR Fuel Case	Georgia Public Service Commission Staff

13605-U	Savannah Electric & Power Company	FCR Fuel Case	Georgia Public Service Commission Staff
13196-U	Savannah Electric & Power Company	Natural Gas Procurement and Risk Management Hedging Proposal	Georgia Public Service Commission Staff
U-12604	Upper Peninsula Power Company	Power Supply Cost Recovery Plan	Michigan Attorney General
U-12613	Wisconsin Public Service Corporation	Power Supply Cost Recovery Plan	Michigan Attorney General

I also recently filed testimony in Docket No. ER-2006-0315 concerning Empire District Electric Company's fuel and purchased power costs and off-system sales margin on behalf of the Missouri Office of the Public Counsel ("OPC" or "Public Counsel").

Q. Have you prepared an appendix summarizing your educational background and regulatory experience?

A. Yes. Appendix RCS-I, attached hereto, provides details concerning my experience and qualifications.

Q. On whose behalf are you appearing?

A. I am appearing on behalf of the Missouri OPC.

Q. Have you previously testified before the Missouri Public Service Commission?

A. Yes. I testified before the Commission in Case No. GR-96-285, Missouri Gas Energy. As noted above, I also recently submitted direct and rebuttal testimony in Case No. ER-2006-0315, concerning Empire District Electric Company's fuel and purchased power costs and off-system sales margin.

Q. What issues are addressed in your testimony?

A. I address the adjusted test year fuel and purchased power cost requested by the Kansas City Power & Light Company ("KCPL," or "Company") and the amount of off-system sales margin reflected in KCPL's proposed revenue requirement calculations.

Q. How does your testimony fit within the OPC's overall presentation?

A. As noted above, my testimony addresses KCPL's adjusted test year fuel and purchased power cost and off-system sales.

Q. Have you prepared any Schedules in support of your testimony?

A. Yes. I prepared Schedules RCS-1 and RCS-2.

Q. Have you prepared any Attachments in support of your testimony?

A. Yes. Attachments RCS-1, RCS-2 and RCS-3 reproduce KCPL's responses to OPC DRs 5013, 5014 and 5026, respectively.

II. INTERIM ENERGY CHARGE

Q. Has KCPL proposed an Interim Energy Charge ("IEC") in this proceeding?

A. No. KCPL did not propose an IEC in its direct case filing. KCPL's reasoning for not proposing an IEC is set forth in the testimony of KCPL witness Chris Giles.

Q. Are you proposing an IEC for KCPL in this proceeding?

A. No.

III. OFF SYSTEM SALES MARGIN

Q. What amount of off-system sales margin has KCPL reflected in its filing?

A. As shown on KCPL Schedule DAF-1, Schedule 2, page 2 of 49, the Company reflected ** ** of off-system sales margin in its filing, prior to jurisdictional allocation.

Q. What amount of off-system sales margin has KCPL projected it will receive?

A. KCPL projects that it expects to receive a much higher amount of off-system sales margin than it reflected in its filing. On Company Schedule MMS-6, KCPL's projections show a median amount of off-system sales margin of ** **

The ** ** reflected by KCPL in its filing is only at the 25th percentile of KCPL's estimated range of potential off-system sales margin results. The 25th percentile value represents a low-ball estimate that is below 75% of the estimated results in the Company's analysis. According to KCPL's analysis, there is a 75% likelihood that KCPL's future off-system sales margin will exceed the ** ** level that KCPL is proposing to reflect in the rates that result from this case.

In contrast, the median value lies midway on the probability distribution curve such that there is a 50% chance the actual margin will be lower, and a 50% chance the actual margin will be higher, as noted by Mr. Giles in his response to OPC DR No. 5005 and as known from an understanding of the definition of "median" when used with a probability distribution function.

Q. What amount of off system sales margin did KCPL include in its budgets for 2006 and 2007?

A. As stated in the direct testimony of KCPL witness B. Crawford at page 20, KCPL's "2006 and 2007 budgets proposed in the late summer and early fall of 2005 project ** ** and ** **, respectively, for wholesale margins."

Q. What amount of off-system sales margin should be reflected in operating revenues for purposes of establishing the revenue requirement for KCPL in this proceeding?

A. The most accurate estimate of off-system sales margin should be reflected in operating revenues for purposes of establishing the revenue requirement for KCPL in this proceeding. Based on the review of information conducted to date, the median value shown on Company Exhibit MMS-6 of ** ** appears to represent that best estimate.

Q. Why did KCPL not reflect that ** ** amount of off-system sales margin in operating revenues in its determination of the revenue requirement in its filing?

A. KCPL did not reflect its median value (or best estimate) of ** ** amount of off-system sales margin in operating revenues in its determination of the revenue requirement in its filing because KCPL was concerned about potential impact on its credit ratings if that estimate were not achieved, as noted by Mr. Giles in his response to OPC DR 5005.

Q. Why is it necessary to reflect the best estimate of off-system sales margin in the determination of KCPL's revenue requirement in this proceeding, as opposed to some lower amount?

A. It is necessary to reflect the most accurate estimate of off-system sales margin for purposes of determining KCPL's jurisdictional revenue requirement in this proceeding because, if some lower amount of off-system sales margin were to be reflected in the determination of KCPL's revenue requirement, and then KCPL achieves a higher amount of such sales margin (such as its projected median estimate), the result would be that KCPL shareholders would receive a windfall at the expense of ratepayers. The extra off-system sales margin would increase KCPL's return for shareholders above the level that the Commission determines is reasonable. The new rates resulting from this case will not be just and reasonable if they are set at a level (i.e. reflecting the 25th percentile for off-system sales instead of the 50th percentile) that is expected provide a return on equity in excess of the return on equity determined by the Commission to be appropriate in this case.

Q. Has KCPL stated unequivocally that it is not the Company's intention to retain any portion of the off-system sales margin for its shareholders?

A. Yes. KCPL stated this unequivocally during discussions, and confirmed this in writing in its response to OPC Q 5013(a) (See Attachment RCS-1): "Please confirm that it is not KCPL's intent to retain any portion of the off-system sales margin for shareholders." Answer: "Yes, that is correct." Additionally, as noted by Mr. Giles in his direct testimony at page 28, line 17, through page 29, line 2, KCPL also stated this in the Regulatory Plan Stipulation and Agreement :

> Q. Did the Regulatory Plan Stipulation and Agreement contain a provision regarding treatment of off-system [sales for] ratemaking purposes?
> A. Yes, it did. The provision in Section III(B)(1)(j) at page 22 reads as follows: "KCPL agrees that off-system energy and capacity sales revenues and related costs will continue to be treated above the line for ratemaking purposes. KCPL will not propose any adjustment that would remove any portion of its off-system sales from its revenue requirement determination in any rate case, and KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process."

Q. What adjustment do you recommend?

A. I recommend that the ** ** median value for off-system sales margin be reflected in setting KCPL's revenue requirement in this proceeding. As shown on

Schedule RCS-1, the difference between the ** ** I recommend and the ** ** that KCPL reflected on Company Schedule DAF-1, page 2 of 49, is ** **. Applying an estimated Missouri jurisdictional allocation of ** ** to this increases KCPL's adjusted off-system sales margin by ** **.

Q. Is OPC willing to consider an alternative treatment of off-system sales margins that would provide specific consideration for the potential for a large variation in the level of off-system sales margin that KCPL could realize during the rate effective period?

A. Yes. Referring to the response to OPC DR 5013, KCPL confirmed that:

(a) It is not the Company's intent to retain any portion of the off-system sales margin for shareholders; and

(b) In the current case, KCPL is concerned about the risk of not actually attaining the level of off-system sales margin that would be used to develop rates in this case during the rate-effective period.

KCPL's response to OPC DR 5013(c) also seems to confirm that KCPL would endorse and support a mechanism to provide ratepayers with 100% of the Company's realized off-system sales margins allocable to the Missouri jurisdiction, as long as such mechanism would not cause substantial risks that KCPL may not be able to achieve certain minimum credit ratios (such as funds from operation to debt) during the rate effective period. KCPL indicated, per the Stipulation and Agreement in Case No. EO-2005-0329, as long as the plant assets are in rate base, KCPL agrees that asset based off-system energy and capacity sales revenues and related costs will continue to be treated above the line for ratemaking purposes. KCPL states further that it is concerned that it has a realistic opportunity during the rate effective period to earn the return on equity authorized in this case. KCPL is also concerned about its credit rating and financial ratios.

Off-system sales and the resultant margin are a material component of KCPL's earnings and can be volatile. Consequently, because of this and to address some, if not all, of the concerns expressed by KCPL and to help assure that the actual margins realized by KCPL on off-system sales continue to be treated above the line for ratemaking purposes, OPC is willing to consider an alternative mechanism by which KCPL would establish a regulatory liability (or asset) account, and would record its actual achieved off-system sales margin during the rate effective period in excess of (or below) the ** ** in such account.

For example, if in 2007, KCPL realized off-system sales margin of ** **, the Missouri jurisdictional portion of the difference between the realized amount and the ** ** that was recognized above the line for ratemaking purposes in this proceeding would be recorded by KCPL in Account 254, Regulatory Liability.

Q. What are the benefits of such an accounting treatment?

A. The benefits are that this would assure that KCPL's ratepayers can be provided with 100% of the off-system sales margin realized by KCPL. The ** ** that I recommend be reflected in the determination of KCPL's revenue requirement in this case is a median amount. That means that there is a significant likelihood that KCPL will achieve a much higher level of off-system sales margin during 2007. KCPL's median projected amount of ** ** also corresponds with KCPL's 2007 projected budgeted amount[1].

The range of potential off-system sales margins for calendar year 2007 that KCPL considered in its analysis ran from ** ** to ** ** Additionally, as described at page 16 of KCPL witness Schnitzer, "there is a 90% likelihood that the Off-System Contribution Margin will be between ** ** … and a 5% chance that the margin will be greater than ** **. Thus, by instituting this type of regulatory accounting in recognition of the special circumstances of KCPL's unique situation, ratepayers could benefit significantly if KCPL realizes higher than its median projected amount of off-system sales.

At the same time, if KCPL does not actually realize off-system sales margins in 2007 equal to or greater than its projected median amount of ** ** KCPL's concerns are addressed by recording the difference in a regulatory asset account. This accounting for variances in the achieved level of off-system sales margins would thus

[1] See, e.g., the direct testimony of KCPL witness Crawford at page 20, lines 1-2.

provide KCPL with a realistic opportunity to earn the return on equity authorized in this case during the rate effective period.

Q. Is KCPL already using similar accounting for some of its other fuel-related costs or revenues?

A. Yes. As noted on page 33, lines 21-23, of KCPL witness Blunk's direct testimony, the Regulatory Plan Stipulation and Agreement requires KCPL to record all SO2 emission allowance sales proceeds as a regulatory liability in Account 254. It further provides that KCPL may recommend an appropriate amortization period for SO2 emission allowances that have been recorded in Account 254 to be included in the Company's 2009 rate case revenue requirement.

Q. If KCPL was allowed to use the regulatory asset/liability concept discussed above for off-system sales margins, would the changes in incentives to make off-system sales need to be addressed?

A. Yes. Permitting KCPL to implement the regulatory asset/liability mechanism described above would affect the incentive that KCPL has to maximize the level of its off-system sales margins. Consequently, this would need to be addressed in the determination of the reasonableness of the mechanism and the possible need to create a new incentive structure that would protect customers from harm that could result from altering the traditional incentive structure for off-system sales.

IV. FUEL AND PURCHASED POWER EXPENSE

Q. What amount of fuel and purchased power expense is KCPL requesting?

A. Per the direct testimony of KCPL witness Blunk at page 17, and shown on KCPL witness Frerking's Schedule DAF-1, Schedule 1, page 1 of 49, the Company has calculated a total Company adjusted level of fuel expense of ** ** and purchased power expense of ** ** The Missouri retail jurisdictional portion of this for which KCPL is requesting rate relief, per Company witness Frerking's Schedule DAF-1, is ** ** for fuel expense and ** ** for purchased power expense.

Q. How does that compare with the Company's test year amounts?

A. Comparing the Company's amounts on Schedule DAF-1 indicates that KCPL's proposed amount of ** ** is about 2.12% higher than the Company's test year system total amount of ** ** shown on that same KCPL exhibit. KCPL's proposed purchased power amount of ** ** is about 1% higher than the test year system total amount for purchased power expense of ** . **

Q. Is it your understanding that KCPL intends to true-up its projected fuel prices to actual prices during the course of this proceeding?

A. Yes. Page 17, lines 18-20, of KCPL witness Blunk's direct testimony states, for example, that KCPL expects "to true-up these projected prices during the course of this proceeding in accordance with the Regulatory Plan Stipulation and Agreement approved by the Commission in Case No. EO-2005-0329."

The Commission's Order and Notice issued February 3, 2006 in the current case indicates that the Commission has reserved dates for a true-up hearing. Moreover, "in Case No. EO-2006-0329, the Commission approved KCPL's agreement with signatories to a stipulation that the test year in this case would be based upon a historic test year ending December 31, 2005, (initially filed with nine months actual and three months budgeted data), updated for known and measurable changes as of June 30, 2005, with a true-up through September 30, 2006, and with KCPL filing a reconciliation in the true-up proceeding on or about October 21, 2006."

<u>Estimate of Natural Gas Costs</u>

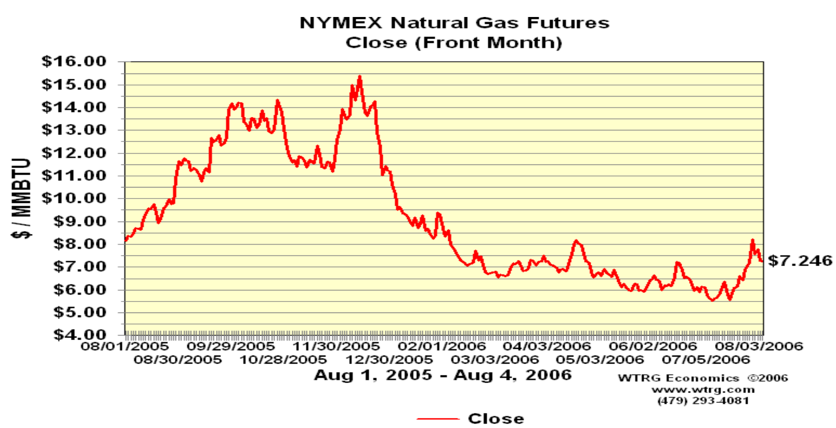
Q. How did KCPL forecast natural gas prices?

A. As described in KCPL witness Blunk's direct testimony at pages 17-18, "natural gas prices are based on the average of the six business days from December 27, 2005 through January 3, 2006 for the NYMEX closing prices for the September 2006 Henry Hub natural gas futures contract." During the six-day period selected by KCPL, the NYMEX closing prices for the September 2006 Henry Hub natural gas futures contract, per KCPL's calculations, averaged $10.312. In contrast, the June 30, 2006 NYMEX closing price for this contract was $6.369. As shown in the following table, the price input used by KCPL is substantially higher than the comparable price as of June 30, 2006:

Delivery Month		KCPL Proposed 2005Y/E Avg.	NYMEX Price 6/30/2006	Difference Amount	Difference Percent
		(A)	(B)	(C)	(D)
Sept	2006	$ 10.312	$ 6.369	$ 3.943	61.9%

Source:	
(A)	KCPL Fuel Workpapers, FPF20060103 - HC: Coal, Gas, Oil Market Average. According to KCPL Witness W. E. Blunk (at pp. 17-18), KCPL forecasted natural gas prices by using a 6-day average of 12/27/05 through 1/3/06, for the Sept 2006 NYMEX natural gas futures contract.
(B)	Wall Street Journal, July 1, 2006 Saturday/Sunday Issue.
(C)	Col. A less Col. B
(D)	Col. C / Col. B

Additionally, the following graph of NYMEX natural gas futures contract prices through August 4, 2006 demonstrates the decline in natural gas prices that has occurred since December, 2005:



Q. Should the prices for natural gas used by KCPL be updated to reflect the June 30, 2006 information?

A. Yes. This represents a known and measurable change as of June 30, 2006.

Q. How could the KCPL gas cost estimate be updated to use this known and measurable change as of June 30, 2006?

A. The June 30, 2006 NYMEX price should be substituted for the six-day average from December 27, 2005 through January 3, 2006 that was used by KCPL. Then, the same procedure used by KCPL to derive its estimate could be applied. As KCPL witness Blunk explains at page 18 of his direct testimony,

> "Given the September 2006 price, the prices for the other months in the COS were developed by applying the long-term average relationship of each month's closing price to the following September. The monthly Henry Hub prices were then adjusted for basis using historical basis information from Kase and Company. These basis-adjusted values for October 2005 through September 2006 were used to develop the cost of natural gas in the COS."

Applying the June 30, 2006 NYMEX price for the September 30, 2006 natural gas futures contract and same procedures used by KCPL should thus result in a decrease in gas costs.

Q. Besides the fact that natural gas prices have declined from the late December 2005/early January 2006 levels used in KCPL's forecast, do you have other concerns regarding how KCPL estimated natural gas prices?

A. Yes. I generally agree with KCPL's recognition and use of a basis adjustment from the Henry Hub price. However, because of the volatility of natural gas price fluctuations in different delivery months, I question whether KCPL's procedure of "applying the long-term average relationship of each month's closing price to the following September" is the best or most appropriate way of deriving a gas cost estimate for purposes of this case. At this point, I am not recommending an alternative forecasting <u>method.</u> (As noted above, I am recommending using the known and measurable June 30, 2006 NYMEX price information for the September 2006 natural gas futures contract.)

<u>Surface Transportation Board Lawsuit</u>

Q. Has KCPL proposed recovering from ratepayers costs related to a Surface Transportation Board lawsuit?

A. Yes. On October 12, 2005, KCPL filed a rate complaint case with the Surface Transportation Board ("STB") against Union Pacific Railroad ("UP"). A copy of KCPL's complaint against UP was provided in response to Staff DR 0324. KCPL's response to OPC DR 5014 provided additional information concerning the costs and status of the Company's STB compliant. (See Attachment RCS-2.)

In response to OPC DR 5014(c), KCPL indicates that it has included costs associated with this STB lawsuit against UP.

In response to OPC DR 5014(d), KCPL states that Company witness Don Frerking included costs that KCPL expected to incur during the nine months ending September 30, 2006 in Company Adjustment 58, "Adjust Fuel Handling Expense to include the costs [of] the 2006 freight rate complaint before the Surface Transportation Board." Thus, KCPL has included costs that it expects to incur in this rate complaint that it filed against UP with the STB on October 12, 2005 in the adjusted amount for Fuel Handling Expense.

Q. What does KCPL claim in its STB suit?

A. In the STB rate complaint case identified above, KCPL charged that UP's rates for the movement of coal from the Powder River Basin (PRB) to KCPL's Montrose Generating Station were unreasonably high. KCPL believes that the rates charged by UP exceeded 180% of the variable cost and was greater than the "stand-alone cost" to provide such service.

Q. Has KCPL stated what will happen if it prevails in its STB complaint against UP?

A. Yes. As explained in the Company's response to OPC DR 5014(e), "if KCPL is successful in demonstrating that both conditions existed, the STB will prescribe a rate consistent with the greater of 180% of the variable cost or the 'stand-alone cost' (SAC) to provide such service." As explained further in response to OPC DR 5014(g), "if KCPL proceeds with the rate complaint against the UP and if it prevails, KCPL expects to reflect any rate prescriptions in its subsequent cost of service calculations."

Q. Is there a procedural schedule in KCPL's STB complaint case?

A. A procedural schedule was established, but it appears to have been suspended. The procedural schedule established for KCPL's STB complaint case against UP is set forth in the Company's response to OPC DR 5014(f). As explained further in that response, however, on February 27, 2006, the STB interrupted KCPL's procedural schedule and instituted a rulemaking to address major issues regarding the proper application of the stand-alone cost test in rail rate cases and the proper calculation of the floor for any rail rate relief. Per that DR response, the STB declared that the changes adopted in that rulemaking proceeding (Ex Parte No. 657 (Sub-No.1)), would be applied to a pending SAC case in which the record had not yet begun to be developed. Accordingly, the procedural schedule for discovery and submission of evidence in KCPL's pending case against UP was suspended. A final decision in the STB rulemaking proceeding (Ex Parte No. 657 (Sub-No.1)) is expected in October 2006. KCPL's response to OPC DR 5014(f) indicates that the STB plans to issue a new procedural schedule in the KCPL case after the STB decision in that rulemaking proceeding.

Q. Should KCPL be allowed to recovery any of the costs of its STB complaint suit against UP in this case?

A. No. KCPL should not be permitted to recovery any of the ** ** estimated Missouri jurisdictional expense that its included in its rate request. By removing this amount, the amount of expense that KCPL recorded for this STB complaint in the test year will be removed, and the additional amount that KCPL expected to incur through September 30, 2006 will be removed.

Q. How much has KCPL incurred to date on its STB complaint case against UP?

A. The Company's response to OPC DR 5014 indicates that, from September 2005 through May 2006, KCPL recorded ** ** in Account 501503, Fuel Handling Expense, and ** ** in Account 926511, Employee Benefits. Based on KCPL's response to OPC DR 5014, the amounts incurred during the 2005 test year relating to the Company's STB complaint against UP amounted to ** ** in Account 501503 and ** ** in Account 926511.

Q. How much additional expense did KCPL add to the test year in its pro forma adjustment no. 58 related to the Company's STB complaint against UP?

A. The Company's workpapers for its adjustment 58 indicate that KCPL added ** ** of expense related to its STB complaint. Those workpapers indicate that

KCPL anticipates a total cost of ** ** KCPL's proposed level of expense includes legal of ** ** based on an estimate received by the Company on November 7, 2005, and consultant fees of ** ** KCPL's pro forma adjustment added ** ** to the test year to reflect KCPL's estimate of additional costs through September 2006.

Q. Given the suspension of the procedural schedule in KCPL's STB complaint case, is it doubtful that KCPL would actually incur such levels of cost in the period ending September 30, 2006?

A. Yes. As noted above, on February 27, 2006, the STB interrupted KCPL's procedural schedule and instituted a rulemaking proceeding. A final decision in that STB rulemaking proceeding is expected in October 2006, according to KCPL's response to OPC DR 5014(f). That KCPL response explains further that the STB plans to issue a new procedural schedule in the KCPL complaint case against UP after the STB issues a final decision in the rulemaking proceeding. Given these developments, it is doubtful that KCPL would incur the levels of cost that it had previously estimated for the STB complaint case through September 30, 2006. Given these developments, including the suspension of the schedule in KCPL's complaint case, KCPL adjustment no. 58 does not meet the standard of being a "known and measurable" adjustment.

Q. What is your recommendation?

A. KCPL's proposed adjustment no. 58 should be rejected. The procedural schedule that the cost estimates used by KCPL were apparently premised upon has been suspended. A new procedural schedule in KCPL's STB complaint case is not expected to be established until after the STB reaches a decision in a rulemaking proceeding that the STB instituted. The STB's decision in such rulemaking proceeding is expected in October 2006. Consequently, cost levels related to this STB complaint previously estimated by KCPL to occur prior to September 30, 2006 will likely not be incurred during that time frame at the levels estimated by KCPL. KCPL's adjustment no. 58 does not meet the standard of a "known and measurable" adjustment.

Moreover, KCPL's proposed inclusion of such costs does not appropriately match costs and benefits. KCPL has identified no benefits from its STB complaint in the test year, only costs.

Schedule RCS-2 shows the calculation of my recommended adjustment to remove the expenses that KCPL has included in the test year and in its Adjustment 58 for the costs related to its complaint against UP at the STB. Removal of the test year recorded amounts of ** ** in Account 501503 and the ** ** in Account 926511 and the KCPL pro forma expense adjustment amount of ** ** produces a total adjustment to reduce KCPL's proposed expenses by ** ** KCPL's Missouri jurisdictional operation expenses are reduced by ** **

Q. If, despite OPC's recommendation to the contrary, the Commission decides to permit KCPL to recover some STB-related cost in this case, should such costs be expensed in a single year or amortized over a longer period of time?

A. It would not be appropriate to expense STB-related costs in a single year for revenue requirement purposes for two reasons: (1) such costs are not annually recurring expenditures, and (2) if KCPL is able to achieve a favorable outcome in the STB case, such an outcome would likely have benefits for more than one year. Therefore, the expenses incurred to create the benefit should be spread out over more than one year by normalizing the costs over an appropriate time period. The filing of expensive STB cases against railroads by KCPL has been a rare or infrequent occurrence. Consequently, if allowed in the determination of the revenue requirement in the current case (where there has been no benefit to ratepayers demonstrated), at minimum the costs of the STB complaint should be spread over a representative period, such as five years or longer, that reflects the relative infrequency of such cases and the future period benefited from the expenditure.

Powder River Basin Coal Delivery Problems

Q. Did KCPL experience problems in getting coal delivered from mines in the Powder River Basin to its plants during the test year?

A. Yes. During 2005 and continuing into 2006, KCPL experienced problems in obtaining full contractual deliveries of PRB coal to its plants. As an illustrative example, a letter from KCPL to Burlington Northern Sante Fe Railroad Company ("BNSF") dated April 21, 2006, indicates that BNSF incurred an initial volume deficit in coal deliveries to KCPL's Iatan, La Cygne and Hawthorn stations the first quarter of 2006. Similar letters from KCPL to BNSF describe similar volume deficits in coal deliveries that were identified by KCPL with respect to 2005. KCPL's response to OPC DR 5015 lists PRB coal contract shortfalls experienced by KCPL in 2005.[2]

Q. What kinds of impacts on KCPL did the under-delivery of contracted quantities of coal to its plants have?

A. KCPL's response to OPC DR 5019 identified the following impacts resulting from the coal delivery problems in 2005 and 2006:

**

**

2 The tons listed in that response represent total venture (including tons associated with jointly-owned plant) and not

Thus, the primary impact of the PRB delivery disruptions affecting coal deliveries to its coal-fired generating plants was to ** **

Q. What is KCPL's best expectation as to when deliveries of PRB coal to KCPL's plants will resume to full contractual levels?

A. This question was posed to KCPL in OPC DR 5018. The situation is somewhat different with respect to each of the railroads. KCPL's response indicates that ** ** Concerning the other railroad that supplies KCPL with PRB coal, the response states that:

** **

merely KCPL's share.

Q. Has KCPL received compensation from railroads and/or PRB mine owners for coal delivery shortfalls in 2005 and 2006?

A. The Company's response to OPC DR 5017 addresses this. The response indicates that: **

**

Q. Has KCPL incurred any litigation or litigation preparation cost in 2005 or 2006 related to the under-deliveries of coal out of the PRB?

A. KCPL's response to OPC DR 5020 addresses this and states that:

**

**

Q. How did KCPL forecast coal prices for its cost of service?

A. This is described at pages 18-19 of KCPL witness Blunk's direct testimony. The September 2006 delivered prices of PRB coal were forecast as the sum of mine price and transportation rate. All of KCPL's expected coal requirements for 2006 are under contract. KCPL utilized the price terms for those contracts.

KCPL also reflected ** ** Because of variations in Emission Allowance prices since that date, this information will need to be updated.

Q. Are you recommending any adjustments at this time for KCPL's fuel costs as a result of non-recurring coal delivery problems that occurred during the 2005 test year?

A. No. As noted above, the <u>primary</u> impact on KCPL from the PRB delivery problems encountered in the 2005 test year was on ** **. I have addressed off-system sales margin previously in my testimony and am recommending the use of a normalized amount.

Fuel Adders

Q. What types of additional costs has KCPL included that are related to fuel but are not included in the price of fuel?

A. KCPL has included a variety of additional costs that are related to fuel but are not included in the price of fuel. KCPL refers to these costs as "fuel adders." These are identified in KCPL witness Blunk's testimony at pages 19-22 and include unit train related cost including lease expense, lease revenue, maintenance, and property tax, as well as natural gas hedging costs and costs associated with transporting natural gas.

Q. Do you have any concerns about the costs that KCPL has included for fuel adders?

A. Yes. I have a concern that some of the costs KCPL included are for estimated future events and therefore need to be adjusted as the actual costs become known. As an illustrative example, KCPL witness Blunk's direct testimony, at page 20, line 13, indicates that the long-term unit train lease expense used by KCPL "includes the payments for trainsets that are to be built later this year." The lease expense for these trainsets that are to be built later this year will need to be removed or adjusted if it is not known and measurable by the June 30, 2006 date for "known and measurable changes" or September 30, 2006 true up dates that were specified in the Commission's February 3, 2006 order and consistent with the items that the Commission addresses in the true-up.

Southwest Power Pool Benefits

Q. Has KCPL reflected any impact of the Southwest Power Pool (SPP) Energy Imbalance Market (EIM) in its filing?

A. No. In response to data request OPC 5026 (See Attachment RCS-3), KCPL stated that the SPP EIM did not have any impact on the 2005 test year adjusted for known and measurable changes through September 2006:

> The anticipated implementation by SPP of an Energy Imbalance Market does not have any impact on the revenues for the 2005 test year or the revenues adjusted for known and measurable changes for the twelve-month period ending September 2006. Such impacts were not included in KCPL's adjusted cost-of-service study results for multiple reasons. The cost-benefit analysis of SPP's proposed Energy Imbalance Market that was performed by Charles River Associates indicated that the net impact on KCPL would be small relative to KCPL's level of wholesale transactions. Furthermore, the impacts of the market are both highly uncertain and difficult to quantify accurately. Finally, the implementation date of the Energy Imbalance Market continues to shift, as demonstrated by its postponement by the Federal Energy Regulatory Commission to a date no earlier than October 1, 2006. Such an implementation date now falls outside the twelve-month period reflected in the adjusted costs, revenues, and expenses filed by KCPL in this case.

Q. Has KCPL included expenses related to SPP participation?

A. Yes. In response to data request OPC 5026, KCPL stated that:

> The 2005 test year included at least $388,000 in labor and travel-related expenses associated with participation in the SPP Regional Transmission Organization, but only a portion of this was attributable to development of the energy market functions of SPP. Expenses of participation on SPP committees and working groups are not separately accounted on an issue-by-issue basis; therefore, the specific amounts associated with the energy market are not identified. The cost of implementing the software systems necessary for participation in the Energy Imbalance Market is being capitalized. None of this software implementation cost was booked in plant accounts during 2005. Approximately $266,000 for a software system with

> functionality that supports both the SPP energy market and the current bilateral market was projected to be placed in plant during the adjusted twelve-month period through September 2006. However, the cost of the primary system to support the SPP Energy Imbalance Market was not projected in plant during the adjusted period ending September 2006.

Q. In obtaining Commission approval for transfer of functional control of certain transmission assets to the SPP, were benefits to KCPL from SPP participation cited?

A. Yes. In Case No. EO-2006-0142, the Commission approved KCPL's transfer of functional control of certain transmission assets to the SPP, subject to certain restrictions and safeguards. Reasons cited in that proceeding for approving the transfer were benefits to KCPL. For example, the Staff Memorandum in Support of the Stipulation and Agreement in the KCPL and Empire SPP dockets cited the results of the SPP cost benefit analyses (prepared by Charles River Associates) which projected that KCPL could receive net benefits from joining SPP RTO. Page 5 of the Staff Memo noted that: "The results of the CRA study provide a strong indication that net benefits to Missouri ratepayers from KCPL and EDE joining the SPP RTO are positive." The Staff Memo at page 5 also noted that: "The results of the CRA allocations to the utilities indicate that EDE receives higher net benefits from joining SPP RTO than KCPL."

Q. What implications does KCPL's participation in the SPP have for this case?

A. Currently, the benefits to KCPL, such as those estimated in the SPP cost benefit studies, do not appear to meet the known and measurable standard. However, to the extent that the benefits cited in the SPP cost benefit studies for KCPL become known and measurable during a later stage of the case, such as when other amounts are being updated, then such benefits should be reflected in the case.

V. SUMMARY OF RECOMMENDATIONS

Q. Please summarize the recommendations you have made in your testimony.

A. My testimony recommends the following adjustments to the Missouri jurisdictional revenue requirement requested by KCPL in its application and testimony:

- The ** ** median value for off-system sales margin should be reflected in setting KCPL's revenue requirement in this proceeding. As shown on Schedule RCS-1, the difference between the ** ** I recommend and the ** ** that KCPL reflected on Company Schedule DAF-1, page 2 of 49, is ** **. Applying an estimated Missouri jurisdictional allocation of ** ** to this increases KCPL's adjusted margin by ** **.
- KCPL's STB complaint cost incurred during the test year and its adjustment no. 58 for costs related to a STB proceeding against UP railroad should be rejected. The procedural schedule in this STB proceeding has been suspended and a new procedural schedule is not expected to be established until October 2006. Consequently, cost levels related to this STB complaint previously estimated by KCPL to occur prior to September 30, 2006 will likely not be incurred during that time frame at the levels

estimated by KCPL. Moreover, rate recognition of such costs should be coordinated with the period benefited, and there have been no benefits, only costs, identified in the test year. Schedule RCS-2 shows the calculation of my recommended adjustment to remove the expenses that KCPL has included in the test year and in its Adjustment 58 for the costs related to its complaint against UP at the STB. Removal of the test year recorded amounts of ** ** in Account 501503 and the ** ** in Account 926514 and the KCPL pro forma expense adjustment amount of ** ** produces a total adjustment to reduce KCPL's proposed expenses by ** ** KCPL's Missouri jurisdictional operation expenses are reduced by ** **

In addition to these specific adjustments, I have also recommended that:

- Prices for natural gas used by KCPL should be updated to reflect a known and measurable change as of June 30, 2006. The June 30, 2006 NYMEX price should be substituted for the six-day average from December 27, 2005 through January 3, 2006 that was used by KCPL.
- Some of the costs KCPL included for "fuel adders" are for estimated future events, such as the long-term unit train lease expense used by KCPL which "includes the payments for trainsets that are to be built later this year." Such costs will need to be removed or adjusted if it is not known and measurable by the June 30, 2006 date for "known and measurable changes" or September 30, 2006 true up dates that were specified in the

Commission's February 3, 2006 order and consistent with the items that the Commission addresses in the true-up.

- The September 2006 delivered prices of PRB coal were forecast by KCPL include **

  ** Because of variations in Emission Allowance prices since that date, this information will need to be updated.

- To the extent that the benefits cited in the SPP cost benefit studies for KCPL become known and measurable during a later stage of the case, such as when other amounts are being updated, then such benefits should be reflected in the case.
- If, despite OPC's recommendations to the contrary, the Commission decides to permit KCPL to recover some STB-related cost in the determination of the revenue requirement in the current case (where there has been no benefit to ratepayers demonstrated), at minimum the costs of the STB complaint should be spread over a representative period, such as five years or longer, that reflects the relative infrequency of such cases and the future period benefited from the expenditure.

Q. Do you have any additional observations at this time?

A. Yes. OPC would consider an alternative mechanism for the ratemaking treatment of KCPL's off-system sales margin. One such alternative would require KCPL to account for variations in its off-system sales margins during the rate effective period in a regulatory liability (or asset) account. The benefits of this alternative would be the assurance that KCPL's ratepayers can be provided with 100% of the off-system sales margin realized by KCPL. The ** ** that I recommend be reflected in the determination of KCPL's revenue requirement in this case is a median amount. That means that it is likely that KCPL could achieve a much higher level of off-system sales margin during 2007. The range of potential off-system sales margins for calendar year 2007 that KCPL considered in its analysis ran from ** ** to ** ** Additionally, as described at page 16 of KCPL witness Schnitzer, "there is a 90% likelihood that the Off-System Contribution Margin will be between ** ** … and a 5% chance that the margin will be greater than ** **. Thus, by instituting this type of regulatory accounting in recognition of the special circumstances of KCPL's unique situation, ratepayers could benefit significantly if KCPL realizes higher than its median projected amount of off-system sales. As noted earlier in this testimony, this type of alternative ratemaking treatment of off-system sales would alter the traditional incentive structure that has been effective in encouraging utilities to achieve high levels of off-system sales and new incentives may need to be considered in order to protect ratepayers if such an alternative is to be implemented.

Q. Does this complete your testimony at this time?

A. Yes, it does.

DATA REQUEST– Set OPC_20060626
Case: ER-2006-0314
Date of Response: 07/14/2006
Information Provided By: Tim Rush
Requested by: Smith Ralph

Question No. : 5013
(a) Please confirm that it is not KCPL's intent to retain any portion of the off-system sales margin for shareholders. (b) Please confirm that KCPL, in the current case, is concerned about the risk of not actually attaining the level of off-system sales margin that would be used to develop rates in this case during the rate-effective period. (c) Please confirm that KCPL would endorse and support a mechanism to provide ratepayers with 100% of its realized off-system sales margins allocable to the Missouri jurisdiction, as long as such a mechanism would not cause substantial risks that KCPL may not be able to achieve certain minimum credit ratios (such as funds from operation to debt) during the rate effective period. (d) To the extent that a, b, or c, cannot be fully confirmed without qualification or reservation, please explain fully. (e) Please identify, quantify and explain what is the minimum FFO/Debt ratio KCPL believes it needs during the rate effective period. (f) Provide all support relied upon for your answer to part e.

Response:

(a) Yes, that is correct.
(b) Yes, that is correct.
(c) Yes, that is partially correct. In our Stipulation and Agreement in Case No.EO-2005-0329, KCPL agrees that as long as the plant assets are in rate base, asset based off-system energy and capacity sales revenues and related costs will continue to be treated above the line for ratemaking purposes.

    It is KCPL's position that the treatment of off-system sales cannot be evaluated as a single issue. Rather, it must be evaluated in concert with the authorized rate of return, credit ratios, and risk. Additionally, while the setting of rates has its basis in history, KCPL's immediate future, the period in which the rates are in effect, will not mirror its recent past.

    KCPL is concerned that it has a realistic opportunity during the rate effective period to earn the return on equity authorized in the case. An amortization amount will be determined based upon authorized rate of return. Should this return be set without regard to looking forward to the rate effective period it is not likely KCPL would be able to earn the authorized return, thus cash available from the combination of earnings and amortization would cause an inability to meet the credit ratios. It was also KCPL's intent to provide some upside to cash earnings by using the off-system sales (margin), in case the authorized rate of return was set without consideration of a forward look. Taking a forward look in setting the authorized return can also alleviate the concern. The rate of return, opportunity to earn the rate of return during the rate effective period, and the amount of off-system sales margin included in computing the current rate of return compared with the level expected in the rate effective period are critical in whether KCPL can demonstrate to S&P that it has a reasonable opportunity to meet the credit ratios during the rate effective period. KCPL will need to demonstrate that it can meet the ratios as soon as the order is issued in this case. Absent this assurance to S&P KCPL will be down graded. Meeting this assurance will likely result in a lowering of KCPL's business risk profile from a 6 to a 5 which in turn will result in much less stringent requirements of FFO/Debit in future rate effective periods.

(d) N/A

(e) The minimum FFO/Debt ratio as defined in the Regulatory Plan Stipulation & Agreement (Case # EO-2005-0329) is 25%.

(f) The minimum FFO/Debt ratio is defined in Appendix E of the Regulatory Plan Stipulation & Agreement.

Attachments: None

DATA REQUEST– Set OPC_20060626
Case: ER-2006-0314
Date of Response: 07/14/2006
Information Provided By: Ed Blunk
Requested by: Smith Ralph

Question No. : 5014
(a) Please show in detail how KCPL is accounting for the costs related to the Surface Transportation Board lawsuit(s) against the railroad(s) which deliver coal to KCPL. (b) Please show KCPL's actual costs related to the STB proceedings, by month, by account. (c) Has KCPL included any costs associated with any STB proceedings in its filing? (d) If the answer to part c is yes, please identify all such costs, by account, and amount, and show exactly where in KCPL's filing they are reflected. (e) Please identify, quantify and explain all benefits that KCPL anticipates or seeks from the STB proceedings. (f) Please explain fully and in detail KCPL's understanding of the time frame for the STB proceedings and final resolution. (g) Please identify, quantify and explain the impact to Missouri ratepayers if KCPL prevails in the STB proceedings.

Response:

In response to the request for 2006 financial information, we are providing actual financial results for the requested period. The information provided in this response does not address the rate case update through June 30, 2006, or the true-up through September 30, 2006. Additionally, the 2006 financial information is unaudited, has not been publicly released and should be considered **HIGHLY CONFIDENTIAL** private financial information.

(a) KCPL is recording the costs related to the STB proceeding to Accounts 501503 and 926511.

(b) Please find attached as an electronic attachment KCPL's actual costs recorded by month by account related to the current STB proceeding from September 2005 through May 2006.

(c) Yes

(d) "Adj-58 Adjust Fuel Handling Expense to include the costs the 2006 freight rate complaint before the Surface Transportation Board" as shown in the Summary of Adjustments in Schedule DAF-2 attached to the direct testimony of KCPL Witness Don A. Frerking reflects the costs KCPL expected to incur during the nine (9) months ending September 30, 2006 in a rate complaint case it filed October 12, 2005, with the Surface Transportation Board (STB).

(e) In the rate complaint case identified above, KCPL charged that Union Pacific's rates for the movement of coal from Powder River Basin to KCPL's Montrose Generating Station were unreasonably high. Under the STB's rules established through a combination of case law and promulgation KCPL believed that the rate being charged by UP exceeded 180% of the variable cost and was greater than the "stand-alone cost" to provide such service. If KCPL is successful in demonstrating that both conditions existed, the STB will prescribe a rate consistent with the greater of 180% of the variable cost and or the "stand-alone cost" (SAC) to provide such service.

As discussed below in item (f) the STB has instituted a rulemaking proceeding in STB Ex Parte No. 657 (Sub-No. 1) to address major issues regarding the proper application of the SAC test in rail rate cases and the proper calculation of the floor for any rail rate relief. We can neither identify nor quantify the potential benefits of a rate complaint case until after the STB issues its final order in Ex Parte No. 657 (Sub-No. 1). Moreover, estimates of such benefits performed before the institution of STB Ex Parte No. 657 (Sub-No. 1) are now moot.

(f) October 12, 2005, Kansas City Power & Light Company (KCP&L) filed a rate complaint case with the Surface Transportation Board (STB) charging that Union Pacific Railroad's (UP's) rates for the movement of coal from origins in the Powder River Basin of Wyoming to KCP&L's Montrose Generating Station (Montrose), located near Ladue, Missouri, were unreasonably high. KCP&L charged that UP possesses market dominance over the traffic and requested the STB prescribe maximum reasonable rates. Subsequently, the STB established the case KANSAS CITY POWER & LIGHT COMPANY V. UNION PACIFIC RAILROAD COMPANY as Docket Number NOR_42095_0 (the KCP&L case).

October 26, 2005, the STB issued a protective order in the KCP&L case that governs the production of highly confidential material because "the unrestricted disclosure of confidential, proprietary, or commercially sensitive material could cause serious competitive injury. Issuance of the requested protective order will ensure that the material, produced in response to a discovery request or otherwise, will be used only in connection with this proceeding and not for any other business or commercial purpose." Also in that order, the STB issued the following procedural schedule:

November 1, 2005	Answer to complaint due.
December 2, 2005	Staff-supervised discovery conference.
February 10, 2006	End of discovery.
April 25, 2006	Opening statements due.
May 26, 2006	Staff-supervised technical conference.
July 25, 2006	Reply statements due.
September 25, 2006	Rebuttal statements due.

After rebuttal statements are filed the STB will announce the date that briefs will be due and a decision in the case is expected within 9 months after the filing of the briefs. The above schedule was amended with the Staff-supervised discovery conference being deferred to January 13, 2006. Consequently, the other dates in the procedural schedule were delayed.

February 27, 2006, the STB interrupted KCP&L's procedural schedule and instituted a rulemaking proceeding, Ex Parte No. 657 (Sub-No. 1), to address major issues regarding the proper application of the stand-alone cost (SAC) test in rail rate cases and the proper calculation of the floor for any rail rate relief. The STB declared that the changes adopted in Ex Parte No. 657 (Sub-No. 1) would be applied to STB Docket No. 42095, a pending SAC case in which the record had not yet begun to be developed. Accordingly, the procedural schedule for discovery and the submission of evidence in the KCP&L case was suspended. The STB plans to issue a new procedural schedule in the KCP&L case after it issues a final decision in Ex Parte No. 657 (Sub-No. 1). A final decision in Ex Parte No. 657 (Sub-No. 1) is expected in October 2006.

(g) If KCPL proceeds with the rate complaint case against the UP and if it prevails, KCPL expects to reflect any rate prescriptions in its subsequent cost of service calculations.

Response by: W. Blunk, Fuels and M. Stephens, Accounting

HIGHLY CONFIDENTIAL Attachment:
Q5014_STB Costs.pdf

This Highly Confidential Attachment has been redacted.

DATA REQUEST– Set OPC_20060626
Case: ER-2006-0314
Date of Response: 07/14/2006
Information Provided By: Tim Rush
Requested by: Smith Ralph

Question No. : 5026
(a) Does the implementation by SPP of an Energy Imbalance Market have any impact on KCPL's test year costs, revenues or operating expenses? If so, please identify all impacts and show exactly how they have been reflected in KCPL's filing. If not, explain fully why not. (b) Does the implementation by SPP of an Energy Imbalance Market have any impact on KCPL's pro forma adjusted costs, revenues or operating expenses? If so, please identify all impacts and show exactly how they have been reflected in KCPL's filing. If not, explain fully why not.

Response:

The anticipated implementation by SPP of an Energy Imbalance Market does not have any impact on the revenues for the 2005 test year or the revenues adjusted for known and measurable changes for the twelve-month period ending September 2006. Such impacts were not included in KCPL's adjusted cost-of-service study results for multiple reasons. The cost-benefit analysis of SPP's proposed Energy Imbalance Market that was performed by Charles River Associates indicated that the net impact on KCPL would be small relative to KCPL's level of wholesale transactions. Furthermore, the impacts of the market are both highly uncertain and difficult to quantify accurately. Finally, the implementation date of the Energy Imbalance Market continues to shift, as demonstrated by its postponement by the Federal Energy Regulatory Commission to a date no earlier than October 1, 2006. Such an implementation date now falls outside the twelve-month period reflected in the adjusted costs, revenues, and expenses filed by KCPL in this case.

The 2005 test year included at least $388,000 in labor and travel-related expenses associated with participation in the SPP Regional Transmission Organization, but only a portion of this was attributable to development of the energy market functions of SPP. Expenses of participation on SPP committees and working groups are not separately accounted on an issue-by-issue basis; therefore, the specific amounts associated with the energy market are not identified. The cost of implementing the software systems necessary for participation in the Energy Imbalance Market is being capitalized. None of this software implementation cost was booked in plant accounts during 2005. Approximately $266,000 for a software system with functionality that supports both the SPP energy market and the current bilateral market was projected to be placed in plant during the adjusted twelve-month period through September 2006. However, the cost of the primary system to support the SPP Energy

Imbalance Market was not projected in plant during the adjusted period ending September 2006.
Attachments: None

Kansas City Power & Light Company

Schedule RCS-1

Adjustment for Off System Sales Margin

Line No.	Description	Amount ($000)	Reference
1	KCPL Median (50th percentile) amount	** **	C. Giles Testimony Page 24.
2	KCPL proposed test year amount (25th percentile)	** **	Schedule DAF-1, page 2 of 49.
3	Adjustment	** **	
4	Estimated Missouri retail allocation	** **	UE1, Schedule DAF-1 (Allocators) Page 36 of 49.
5	Estimated Missouri jurisdictional impact	** **	

Highly Confidential or Proprietary Information Designated By "**__**".

Kansas City Power & Light Company
Adjustment for Montrose STB Rate Complaint Case Expenses

Schedule RCS-2

Line No.	Description	Amount	Reference
	Expenses KCPL recorded in the test year:		
1	Account 501503	** **	OPC DR 5014
2	Account 926511	** **	OPC DR 5014
3	Expense in Test Year	** **	
4	Additional Expense KCPL added to the test year in Company Adjustment 58	** **	Wkp-58-Montrose STB Complaint Case Expense. See Below.
5	Adjustment to remove KCPL's expense for STB Complaint Case	** **	
6	Estimated Missouri retail allocation	** **	E1, Schedule DAF-1 (Allocators) Page 36 of 49.
7	Estimated Missouri jurisdictional impact	** **	

Notes and Source

Per KCPL's Response to OPC DR 5014 and KCPL Workpaper 58 - Estimated Adjustment for Montrose STB Rate Complaint Case Expenses.
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Note: as described in KCPL's response to OPC DR 5014, that procedural schedule has been suspended and a new procedural schedule is expected to be issued after October 2006.