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Missouri Public Service Commission

August 22, 2006

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BY HAND

Data Center
Missouri Public Service Commission
200 Madison Street, Suite 800
Jefferson City, MO 65102

Re: Kansas City Power & Light Company, Docket No. ER-2006-0314 – Direct Testimony of Wal-Mart Stores East, LP

Dear Sir or Madam:

Please find for filing an original and eight (8) copies of the Direct Testimony of Wal-Mart Stores East, LP in Docket No. ER-2006-0314. Additionally, please stamp and return the extra copy with our courier. Please contact us at your earliest convenience if you have any questions regarding this filing. Thank you for all of your assistance.

Sincerely,

Staci O. Schorgl

Staci O. Schorgl
Missouri Bar No. 49287

SOS:mf:*800405/0201125*
Enclosures

cc: Official Service List, Docket No. ER-2006-0314 (w/encl.)

Exhibit No.:	
Witness:	James T. Selecky
Type of Exhibit:	Direct Testimony
Issues:	Cost of Service and Revenue Allocation
Sponsoring Parties:	Wal-Mart Stores East, LP
Case No.:	ER-2006-0314

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

FILED[4]

AUG 2 2 2006

Missouri Public Service Commission

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan) **Case No. ER-2006-0314**

Direct Testimony and Schedules of

James T. Selecky on Cost of Service and Revenue Allocation

On Behalf of

Wal-Mart Stores East, LP

August 22, 2006

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Project 8627

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	)	**Case No. ER-2006-0314**

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF ST. LOUIS	)	

Affidavit of James T. Selecky

James T. Selecky, being first duly sworn, on his oath states:

1. My name is James T. Selecky. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Wal-Mart Stores East, LP in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on cost of service and revenue allocation issues which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2006-0314.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things it purports to show.

James Selecky

James T. Selecky

Subscribed and sworn to before this 21st day of August 2006.

CAROL SCHULZ
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 26, 2008

Carol Schulz

Notary Public

My Commission Expires February 26, 2008.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	**Case No. ER-2006-0314**

Direct Testimony of James T. Selecky

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A James T. Selecky; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.

Q **WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

A I am a consultant in the field of public utility regulation and a principal in the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q **PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

A These are set forth in Appendix A to my testimony.

Q **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A I am testifying on behalf of Wal-Mart Stores East, LP (Wal-Mart). Wal-Mart purchases electricity from Kansas City Power & Light Company (KCPL or Company) primarily on Rate Schedule 14.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A The purpose of my testimony is to discuss the results of KCPL's cost of service study and the allocation of any rate increase that the Missouri Public Service Commission (Commission) may grant. The fact that an issue is not addressed should not be construed as an endorsement of KCPL's position.

Q **PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

A A summary of my conclusions and recommendations is as follows:

1. The Commission should utilize the results of a cost of service study for purposes of allocating any increase in this proceeding.
2. The Commission should reject KCPL's proposal to use the average and peak method for purposes of allocating production and transmission fixed cost to KCPL's rate classes.
3. The Commission should utilize the results of a cost of service study that utilizes either the coincident peak method, or the average and excess demand method for purposes of allocating production and transmission fixed cost to the rate classes.
4. The average and peak method is inappropriate because it does not truly reflect cost causation, double counts the energy consumption or average demand component, and fails to recognize the appropriate trade offs between capital and operating costs.
5. The revenue allocation proposed by KCPL moves rates further away from cost of service when comparing the revenue responsibility of each rate class with the cost to serve that rate class.
6. If the Commission determines that KCPL's overall revenue requirement is less than the amount requested, the reduction to the revenue requirement should be allocated to those classes that have revenues in excess of the cost of service. That is, any reduction in the revenue requirement from the level requested by KCPL should be allocated to those rate classes based on cost of service.

Cost of Service Overview

Q HAS KCPL FILED A CLASS COST OF SERVICE STUDY (CCOSS) IN THIS PROCEEDING?

A Yes. KCPL has filed an embedded CCOSS study in this case. A CCOSS is used to determine the cost that KCPL incurs to serve the various customer classes.

Q WHAT INFORMATION IS CONTAINED IN A CCOSS?

A A CCOSS compares the cost that each customer class imposes on the system to the revenues each class contributes. This relationship is generally presented by comparing the rate of return that a class is providing with the utility's overall jurisdictional rate of return.

For example, when a customer class produces the same rate of return as the total utility rate of return, the customer class is paying revenue to the utility just sufficient to cover the costs that the utility incurs to serve that class. If a class produces a below-average rate of return, it may be concluded that the revenue provided by the class is insufficient to cover all relevant costs to serve that class. On the other hand, if a class produces a rate of return above the system average, it is not only paying revenues sufficient to cover the cost attributable to it, but in addition, it is paying part of the cost attributable to other classes who produce below system average rates of return.

Q WHY IS A CCOSS OF IMPORTANCE?

A A CCOSS shows the costs that a utility incurs to serve each class. It is a widely held principle that costs should be shared among customer classes on the basis of cost-causation. That principle is perhaps the most universally accepted principle of regulatory cost determination.

Q DO YOU SUPPORT THAT PREMISE?

A Yes. Cost-based rates are not only fair and reasonable, but further the cause of stability, conservation and efficiency. When consumers are presented with price signals that convey the consequences of their consumption decisions, i.e. how much energy to consume, at what rate, and when, they tend to take actions which not only minimize their own costs, but those of the utility as well.

Although factors such as simplicity, gradualism, economic development and ease of administration may also be appropriate for consideration when determining the spread of the revenue requirement among classes, the fundamental starting point and guideline should be the actual cost of serving each customer class.

Q HOW ARE COST-BASED RATES DETERMINED?

A The appropriate mechanism to develop cost-based rates is a fully allocated embedded CCOSS. It follows, however, that the objective of cost-based rates cannot be attained unless the CCOSS is developed using cost-causation principles consistently.

Q WHAT ARE THE MAJOR STEPS IN A COST OF SERVICE STUDY?

A The first step in a CCOSS is known as <u>functionalization</u>. This simply refers to the process by which the Company's investments and expenses are reviewed and put into different categories of cost. The primary functions utilized are production, transmission and distribution. Of course, each broad function may have several subcategories to provide for a more refined determination of cost of service.

The second major step is known as classification. In the classification step, the functionalized costs are separated into the categories of demand-related, energy-related and customer-related costs.

Demand or capacity-related costs are those costs that vary with the amount of demand placed on the system. A traditional example of capacity-related costs is the investment associated with generating stations, transmission lines and a portion of the distribution system. Once the utility makes an investment in these facilities, the costs continue to be incurred, irrespective of the number of kilowatthours generated and sold.

Energy-related costs are those costs that vary in proportion to the number of kilowatthours sold. Thus, the fuel expense is almost directly proportional to the amount of kilowatthours generated by the utility system.

Customer-related costs are those costs that vary in proportion with the number of customers served. Primary examples of customer-related costs are investments in the distribution system, meters and service lines, and such accounting functions as meter reading, bill preparation and revenue accounting.

The final step in the CCOSS is the allocation of each category of costs to the various customer classes. Demand-related costs are allocated on the basis which gives recognition to each class's responsibility for the company's need to build plant to serve demands imposed on the system. Energy-related costs are generally allocated on the basis of energy use by each customer class. Customer-related costs are generally allocated based upon the number of customers in each class, weighted to account for the complexity of servicing the different classes of customers.

Q **WHAT CUSTOMER CLASSES DID KCPL INCLUDE IN ITS CCOSS STUDY?**

A KCPL developed a CCOSS for Residential, Small General Service, Medium General Service, Large General Service, Large Power Service, and Lighting. These classes generally conform to KCPL's current electric tariffs. Finally, the test year that was used for the CCOSS was the 12-month period ending September 2005.

Q **WHY IS IT IMPORTANT TO ADHERE TO BASIC COST OF SERVICE PRINCIPLES IN THE RATEMAKING PROCESS?**

A The basic reasons for using cost of service as the primary factor in the revenue allocation/rate design process are equity, cost causation, appropriate price signals, conservation and revenue stability.

Q **HOW IS THE EQUITY PRINCIPLE ACHIEVED BY BASING RATES ON COSTS?**

A To the extent practical, when rates are based on cost, each customer pays what it costs the utility to serve them, no more and no less. If rates are not based on cost of service, then some customers contribute disproportionately to the utility's revenue requirement and provide contributions to the cost to serve other customers. This is inherently inequitable.

Q HOW DO COST-BASED RATES PROVIDE APPROPRIATE PRICE SIGNALS TO CUSTOMERS?

A Rate design is the step that follows the allocation of costs to classes, so it is important that the proper amounts and types of costs be allocated to the customer classes so that they may ultimately be reflected in the rates.

When the rates are designed so that the demand costs, energy costs, and customer costs are properly reflected in the demand, energy and customer components of the rate schedules, respectively, customers are provided with the proper incentives to manage their loads appropriately. This, in turn, provides the correct signal to the utility (and other competitive power suppliers if applicable) about the need for new investment. When customers impose a certain level of demand on the system, they should pay for the prudent cost that the utility incurs to supply that demand and the energy charge that they pay should reflect the cost of providing that energy.

From a rate design perspective, overpricing the energy portion of the rate and under pricing the fixed components of the rate, such as customer and demand charges, will result in a disproportionate share of revenues being collected from high load factor customers and send erroneous price signals to all customers.

Q HOW DO COST-BASED RATES FURTHER THE GOAL OF CONSERVATION?

A Conservation occurs when wasteful or inefficient uses of electricity are discouraged or minimized. Only when rates are based on actual costs do customers receive an accurate and appropriate price signal against which to make their consumption decisions. If rates are not based on costs, then customers may be induced to use electricity inefficiently in response to the distorted price signals.

Q PLEASE DISCUSS THE REVENUE STABILITY CONSIDERATION.

A When rates are closely tied to costs, the impact on the utility's earnings due to changes in customer use patterns will be minimized. Rates that are designed to track changes in the level of costs result in revenue changes that mirror cost changes. Thus, cost-based rates provide an important enhancement to a utility's earnings stability, reducing its need to file for rate increases.

From the perspective of the customer, cost-based rates provide a more reliable means of determining future levels of power costs. If rates are based on factors other than the cost to serve, it becomes much more difficult for customers to translate expected utility-wide cost changes, such as expected increases in overall revenue requirements, into changes in the rates charged to particular customer classes and to customers within the class. This situation reduces the attractiveness of expansion, as well as continued operations, in the utility's service territory because of the limited ability to plan and budget for future power cost.

KCPL's CCOSS

Q PLEASE COMMENT ON KCPL'S MISSOURI JURISDICTIONAL CCOSS.

A First, KCPL's proposed allocation method utilized to allocate the production and transmission fixed costs is inappropriate and over allocates costs to high load factor customers. As indicated in the testimony of KCPL witness Lois Liechti on page 8, the Company used an allocation method called the Average and Peak method to allocate production and transmission fixed costs. Second, the Company allocated certain Administrative and General (A&G) costs on an energy allocator. These costs should have been allocated on a Salary/Wages allocator. I have not performed a thorough review of the allocation of all cost components. Therefore, expect for the items specifically identified, I have utilized the Company's allocation method to develop the CCOSS that I will discuss later. The fact that I have used a Company proposed allocation of revenues or costs should not be construed as an endorsement.

Q DOES THE COMPANY PROVIDE SUPPORT FOR UTILIZING THE AVERAGE AND PEAK METHOD TO ALLOCATE PRODUCTION AND TRANSMISSION PLANT?

A No. The Company simply states in its testimony that it has utilized the Average and Peak method for purposes of allocating production and transmission plant investment because it gives classes recognition for both usage and contribution to peak load.

Q WHAT IS THE BASIC REASONING FOR UTILIZING THE AVERAGE AND PEAK (A&P) METHOD FOR ALLOCATING PRODUCTION AND TRANSMISSION PLANT?

A Generally, those who endorse the A&P method argue that it reflects resource planning because it accounts for both the coincident peak and the average demand. Typically, the reason for using the A&P method is because this method assumes the electric utility will invest in more expensive types of generating capacity solely because of lower fuel costs associated with that capacity. As a result, this assumes a substitution of capital investment for fuel cost.

Q WHAT ARE THE FLAWS WITH THE A&P METHOD?

A The basic flaws with utilizing the A&P method are:

1. Energy consumption or average demand is double counted.
2. The A&P method, if viewed as a capital substitution method, fails to appropriately recognize the trade-offs between capital and operating costs. This is sometimes referred to as a fuel symmetry problem.
3. The A&P method is an oversimplification of the utility planning process.

Q WHY DO YOU SAY THAT THE A&P METHOD DOUBLE COUNTS AVERAGE DEMAND OR ENERGY?

A Double counting occurs because the average demand, which is equivalent to the year round energy consumption divided by 8,760 hours, is also a component of the coincident peak demand. By allocating some capital costs relative to average demand, and some relative to coincident peak demand, energy is counted twice – once by itself and the second time as a subset of the coincident peak. If the year-around energy is analogous to base load units which supply capacity on a continuing basis throughout the year, then it follows that the only time when intermediate and peaking units would be needed to meet the system demands when they are in excess of the average year demand. The A&P improperly allocates the cost of this additional capacity relative to the total coincident demand, rather than the excess demand. As a result, the double counting substantially penalizes high load factor customers by assigning them a disproportionate share of costs.

Q TURNING TO YOUR SECOND CRITICISM, HOW DOES THE A&P METHOD, AS A CAPITAL SUBSTITUTION METHOD, FAIL TO PROVIDE A SYMMETRICAL ALLOCATION OF BOTH CAPITAL AND OPERATING COSTS?

A The A&P method focuses on the allocation of production fixed costs. For example, the A&P method allocates more production plant to high load factor classes than either the coincident peak or an average and excess allocation methods. These methods will be discussed later in my testimony. This result is claimed to be fair by A&P proponents because high load factor customers require more base load capacity and because the capital cost of base load units tend to be higher than peaking plants. However, the A&P method, as applied, makes no attempt to recognize the other side of the capital cost/operating cost trade-off. Base load plants may have above average capital costs, but they usually have below average operating costs relative to peaking units. To ignore the fuel cost differential creates a mismatch between the theory and application.

If system planning principles are to be applied in determining the allocation of production plant, it is also logical and consistent to apply the same principles to the allocation of fuel expense. However, this is not done in KCPL's CCOSS. Average fuel expense is allocated to each rate class. That is, each class is allocated the same per unit fuel cost.

Q WHAT WOULD YOU ESTIMATE THE OUTCOME TO BE OF AN ANALYSIS THAT WOULD CORRECT THE FUEL SYMMETRY PROBLEM?

A Such an analysis would confirm that there is a symmetrical relationship between the allocation of plant and fuel costs. A low load factor class, which is allocated below average plant investment, would be allocated above average fuel cost. High load factor customers, by contrast, who are allocated above average plant investment, would be allocated below average fuel cost. By failing to recognize this symmetrical relationship, the A&P method is flawed and is obviously grossly unfair to high load factor customers.

To give an analogy, suppose that two different customers are required to rent a fleet of cars. The fleet consists of two types of cars. One type has a high fixed charge per day, and gets better mileage per gallon of gasoline, while the other type has a low fixed charge per day and gets poor mileage. The first type of vehicle is analogous to a base load plant, while the second vehicle is analogous to a peaking plant. The A&P method argues that the customer who drives his/her car a few miles per day should be allocated more gas guzzlers and few of the more efficient cars, with the opposite type of allocation for the customer that will drive many miles per day. While recognizing that the lower load factor customer would pay a lower daily charge for his/her car than the higher load factor customer, the A&P method fails to recognize the lower load factor customer should accordingly pay a higher mileage charge than the higher load factor customer to recognize the higher fuel cost of a gas guzzler. In other words, the A&P method suffers from the fuel symmetry problem.

Q DO UTILITY PLANNERS CONSTRUCT MORE CAPITAL-INTENSIVE CAPACITY FOR THE SOLE PURPOSE OF REDUCING FUEL COSTS?

A No. This belief is based on an oversimplification of the planning process. In reality, planners are faced with the decision of providing reliable service and minimizing total costs.

Cost minimization is a requirement that the utility provide service at the lowest overall cost. The utility strives to install a mix of generating capacity that, along with its existing generation, yields the lowest total cost. In other words, the economic choice between a base load plant and a peaking plant must consider both capital costs and operating costs.

The utility's investment decisions can also be affected by existing generation mix, the availability of a suitable site for the plant, environmental restrictions and fuel diversification, just to mention a few.

Q IS THE A&P METHOD APPROPRIATE FOR ALLOCATING PRODUCTION AND TRANSMISSION PLANT?

A No. It is inappropriate for allocating production plant for the reasons I have previously stated.

Results of KCPL's Cost of Service Study

Q HAVE YOU REVIEWED THE RESULTS OF KCPL'S CCOSS?

A Yes. I reviewed the results of KCPL's CCOSS. The results of the CCOSS are summarized on **Schedule JTS-1**.

Q WHAT DO THE RESULTS OF THE CCOSS SHOW?

A **Schedule JTS-1** shows the results of the Company's CCOSS at both the current and the proposed rates. The CCOSS results include the rate of return, the index of return, and the revenue under and over-collection. A revenue under-collection means a class is providing revenues below its cost of service. An over-collection means that a class is providing revenues in excess of its cost to serve.

The results of KCPL's CCOSS show that the residential and lighting classes are currently paying rates that are less than the cost of serving the customers in those classes. All other rate classes are paying rates in excess of cost of service.

Q DOES KCPL'S PROPOSED REVENUE ALLOCATION REDUCE THE OVER AND UNDER COLLECTIONS?

A No. As shown on **Schedule JTS-1**, KCPL's proposed allocation of the rate increase moves rates further away from cost of service as measured by the differences between the revenues and the cost of providing that service. For example, the Large Power Service class over-collection increases from $2,705,000 to $4,757,000under KCPL's proposed revenue allocation.

Q HOW DID KCPL ALLOCATE THE INCREASE IN THIS CASE?

A As indicated in the testimony of KCPL witness Tim Rush, the Company is recommending an equal percentage increase to all customer classes with minimal changes to rate design.

Revised Allocation of Production and Transmission Costs

Q WHAT METHOD DO YOU PROPOSE FOR ALLOCATING KCPL'S PRODUCTION AND TRANSMISSION COSTS?

A I would support an allocation of fixed production and transmission costs using either the coincident peak method, or the average and excess demand (A&E) method.

Q PLEASE DESCRIBE THE COINCIDENT PEAK METHOD.

A The coincident peak method uses each customer class coincident peak demand to allocate the production and transmission fixed costs.

Q WHY DO YOU BELIEVE THE COINCIDENT PEAK METHOD IS APPROPRIATE FOR ALLOCATING PRODUCTION AND TRANSMISSION COSTS?

A The method used to allocate production and transmission cost should be consistent with the principles of cost causation. The allocation method should reflect the contribution of each customer class to the demands that cause utilities to incur demand or capacity-related costs.

Production and transmission investments are sized to meet the maximum simultaneous demands of all customers on the system. Production units and transmission lines are normally rated by their maximum demands in MW. Typically, these types of investments are not rated by average demand, or the amount of energy that is consumed during the year, divided by 8,760 hours.

Q WHEN UTILIZING A COINCIDENT PEAK DEMAND, WHAT FACTORS SHOULD BE CONSIDERED IN ALLOCATING THE PRODUCTION AND TRANSMISSION COSTS?

A The selection of the coincident peak allocation factor should properly reflect the operating characteristics of the loads that are served by the utility. If a utility has a higher summer peak relative to the demands during the other times during the year, then the production and transmission fixed cost should be allocated based on each customer's contribution to the summer peak. If a utility has predominant peaks in both the summer and winter months, then the allocation of the production and transmission fixed cost should be based on both the summer and winter peak periods.

Q **WHAT MONTHS DID YOU UTILIZE TO DEVELOP YOUR COINCIDENT PEAK ALLOCATOR?**

A For KCPL, the production and transmission costs should be allocated based on each customer classes' peak demand during the summer months (June through September). The energy costs would be allocated based on energy usage as proposed by KCPL.

Q **WHY DID YOU CHOOSE THE MONTHS OF JUNE THROUGH SEPTEMBER?**

A **Schedule JTS-2** is an analysis of the monthly loads of KCPL's system for the historic period 1996 through 2005. A review of this load data indicates a dominance of the summer peaks of June, July, August and September on KCPL's system. The peak loads during these months do not go below 80% of the highest peak, except for September 2003. This clearly indicates that KCPL's demand peaks during these four months. These four summer peaks are the primary driver for determining the amount of capacity that KCPL needs to adequately provide service to its customers. It is these peaks that cause KCPL to incur additional cost that must be passed on to their ratepayers. Therefore, it is critical that customers receive proper price signals as to what is causing their rates to increase. To send the appropriate price signals to customers, it is appropriate to allocate their fixed production and transmission costs based on a four-month coincident peak allocator.

Q **PLEASE DESCRIBE SCHEDULE JTS-2.**

A As previously stated, **Schedule JTS-2** is an analysis of KCPL's monthly peak demands. Page 1 of **Schedule JTS-2** shows KCPL's average monthly peak demands for the period 1996 through 2005. Page 2 of **Schedule JTS-2** shows each year's peak demand as a percentage of the maximum peak demand in any year. As page 2 shows, the months of June through September are the dominant months in determining KCPL's capacity needs.

Q **HAVE YOU PERFORMED A CCOSS ALLOCATING THE PRODUCTION COST AND TRANSMISSION FIXED COSTS ON A FOUR COINCIDENT PEAK ALLOCATOR?**

A Yes. **Schedule JTS-3** is a result of my CCOSS study at present rates for Missouri customers utilizing the four coincident peak allocation method for fixed production and transmission cost.

Q **PLEASE BRIEFLY DESCRIBE SCHEDULE JTS-3.**

A **Schedule JTS-3** shows the results of the CCOS study utilizing the four-month coincident peak allocator. **Schedule JTS-3** shows the relative rates of return, the indices of return, and the change in revenues that would be needed to produce equalized rates of return. As **Schedule JTS-3** shows, the Residential class is providing revenues below their cost of service. All other classes are providing revenues in excess of their class cost of service.

Q HAVE YOU MADE ANY OTHER REVISIONS TO THE CCOSS?

A Yes. As I previously indicated, KCPL has allocated certain A&G costs utilizing an energy allocation factor. The energy allocation factor was used for the following A&G expenses:

1. Account 921 – Office Expense.
2. Account 922 – Administrative Expense Transfer-Credits.
3. Account 923 – Outside Services.
4. Account 930.2 – Miscellaneous General Expenses – Others.
5. Account 931 – Rents.

I revised this allocation factor and utilized a Salary/Wages allocator. It should be noted that KCPL utilized Salary/Wages to allocate some of their A&G expenses in their CCOSS. Finally, the use of Salary/Wages to allocate these costs is consistent with the allocation method supported by the National Association of Regulatory Commissioners in their <u>Electric Utility Cost Allocation Manual</u>.

Q HAVE YOU ALSO PERFORMED A CCOSS UTILIZING THE AVERAGE AND EXCESS DEMAND METHOD?

A Yes. The results of that CCOSS are summarized on **Schedule JTS-4**.

Q BEFORE YOU DISCUSS THE RESULTS OF THE A&E CCOSS, PLEASE BRIEFLY DESCRIBE THE A&E METHOD.

A The A&E method allocates cost to the rate classes utilizing an average demand component and an excess demand component. This theory allocates plants recognizing that utility plant capacity serves a dual purpose.

The average demand component is simply the total kWh usage by rate class, divided by the total number hours in the year. This essentially represents the amount of capacity that would be needed to produce energy if the same demand were taken at the same rate each hour of the year. Under this allocation method, it essentially assumes that each class uses energy at a constant 100% load factor.

The second component of each classes' allocation factor is the excess demand factor. It is the demand that is in excess of the average demand. This component provides for the allocation of cost that represents each class's peak usage or contribution to peak in excess of average demand.

Q PLEASE EXPLAIN WHY THE A&E METHOD MAY BE APPROPRIATE FOR ALLOCATING PRODUCTION AND TRANSMISSION COSTS.

A Assume that you have two rate classes that have different usage patterns and both classes utilize the same amount of energy. In addition, assume Class A has a 100% load factor, while Class B's load factor is less, but has a dominant peak period. Figure 1 below shows the different usage patterns.

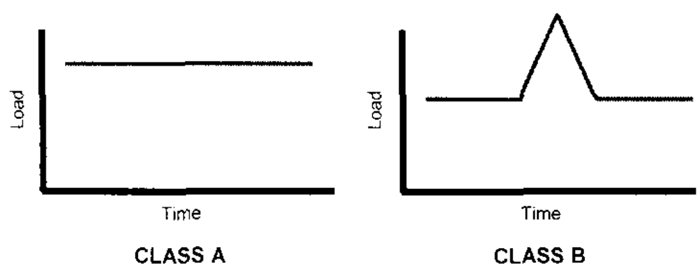

Figure 1

Because both classes use the same total amount of energy, both classes have the same average demand. However, a greater maximum demand is imposed on the system by Class B. A greater maximum demand imposes greater costs on the utility that must be passed on to ratepayers. This is because the utility must have sufficient capacity to meet the maximum demands of all of its customers. In addition, there may also be higher costs incurred by the utility because of the variation in usage patterns from one class to another.

The A&E method provides a way to allocate the additional production capacity cost of the system in proportion to the peaks that each customer class imposes that are in excess of their average demand.

Q HAVE YOU PROVIDED THE RESULTS OF THE CCOSS USING THE A&E ALLOCATOR?

A Yes. **Schedule JTS-4** shows the results of the cost of service study using the A&E factor to allocate fixed production and transmission costs. **Schedule JTS-4** shows the rates of return, the indices of return, and the change in revenues needed to equalize the rate of return for all rate classes.

As **Schedule JTS-4** shows, the Residential class is providing revenues less than their cost of service. The Small General Service Class is almost providing revenues equal to its cost of service. The Medium General Service, Large General Service, Large Power Service, and Lighting classes are providing revenues in excess of their cost of service. Therefore, these classes would need to see rate decreases in excess of 9% to bring their rates to cost of service.

Q **DID YOU MAKE ANY OTHER REVISIONS TO THE COST OF SERVICE STUDY THAT USES THE A&E METHOD, OTHER THAN THE CHANGE IN THE PRODUCTION AND TRANSMISSION ALLOCATION FACTORS?**

A Yes. I made a change to the allocation of certain A&G expenses that were previously discussed. That is, I revised the allocation factors utilized to allocate certain A&G expenses from an energy allocator to a Salary/Wages allocator.

Q **WHAT IS YOUR PROPOSAL REGARDING WHICH CCOSS THE COMMISSION SHOULD ADOPT FOR DETERMINING THE RATE REVENUE RESPONSIBILITY OF EACH RATE CLASS?**

A Although I prefer the coincident peak method, I recommend the Commission utilize the results of the A&E method cost of service study for purposes of establishing each rate class's revenue responsibility.

It should be noted that KCPL indicates the Company intends to file annual rate cases for the next few years. Given that customers may be seeing annual base rate increases, it is critical that the Commission adopt a cost of service method that is reflective of cost causation. Therefore, I recommend that the Commission require KCPL in its future rate proceedings file a cost of service study utilizing the A&E method for allocating production and transmission costs for purposes of determining each rate class's revenue responsibility.

Revenue Allocation

Q HOW DOES THE COMPANY PROPOSE TO ALLOCATE ANY RATE INCREASE THAT THE COMMISSION MAY GRANT IN THIS PROCEEDING?

A KCPL is recommending an equal percentage increase to all customer classes. As a result, the Company has allocated its overall increase of 11.5% to all customer classes. My preference is to move all rates to cost of service.

Q IF THE COMMISSION DETERMINES THAT KCPL'S OVERALL REVENUE INCREASE SHOULD BE LESS THAN ITS $55.8 MILLION REQUESTED, HOW SHOULD THE INCREASE BE ALLOCATED?

A If the Commission determines the total increase should be less than KCPL's requested amount, I recommend that any reduction from the requested amount should be allocated to those classes whose rates are above cost of service or have a rate of return in excess of the overall rate of return that KCPL is proposing. Under this scenario, rates would move closer to cost of service. The results of the average and excess CCOSS should be used to allocate any amount that is less than the level requested.

Q HAVE YOU PREPARED A SCHEDULE THAT SHOWS HOW YOU WOULD ALLOCATE ANY RATE REDUCTION FROM THE AMOUNT REQUESTED BY KCPL?

A Yes. **Schedule JTS-5** provides an example of how a reduction of $20 million from the amount that KCPL is requesting in this case would be allocated to customer classes based on my recommendation.

The allocation of a $20 million reduction from KCPL's requested amount would be based on the cost of service results as shown on **Schedule JTS-4**. The reduction in the revenue requirement would be used to reduce KCPL's proposed revenue for those rate classes that are above cost of service, while maintaining KCPL's recommended revenue responsibility for those rate classes that are below cost of service.

Q WHAT IS YOUR RECOMMENDATION IF THE DECREASE IN KCPL'S PROPOSED REVENUE REQUIREMENT IS SUFFICIENT TO BRING ALL RATES TO COST OF SERVICE?

A If the reduction to KCPL's requested revenue requirement is sufficient to bring all rate classes to cost of service, then any additional reduction should be allocated based on rate base to all classes.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?

A Yes, it does.

Appendix A

Qualifications of James T. Selecky

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James T. Selecky. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and am a principal with the firm of Brubaker & Associates, Inc. (BAI), energy, economic and regulatory consultants.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EMPLOYMENT EXPERIENCE.

A I graduated from Oakland University in 1969 with a Bachelor of Science degree with a major in Engineering. In 1978, I received the degree of Master of Business Administration with a major in Finance from Wayne State University.

I was employed by The Detroit Edison Company (DECo) in April of 1969 in its Professional Development Program. My initial assignments were in the engineering and operations divisions where my responsibilities included evaluation of equipment for use on the distribution and transmission system; equipment performance testing under field and laboratory conditions; and troubleshooting and equipment testing at various power plants throughout the DECo system. I also worked on system design and planning for system expansion.

In May of 1975, I transferred to the Rate and Revenue Requirement area of DECo. From that time, and until my departure from DECo in June 1984, I held various positions which included economic analyst, senior financial analyst, supervisor of the Rate Research Division, supervisor of the Cost-of-Service Division and director of the Revenue Requirement Department. In these positions, I was responsible for overseeing and performing economic and financial studies and book depreciation studies; developing fixed charge rates and parameters and procedures used in economic studies; providing a financial analysis consulting service to all areas of DECo; developing and designing rate structure for electrical and steam service; analyzing profitability of various classes of service and recommending changes therein; determining fuel and purchased power adjustments; and all aspects of determining revenue requirements for ratemaking purposes.

In June of 1984, I joined the firm of Drazen-Brubaker & Associates, Inc. (DBA). In April 1995 the firm of Brubaker & Associates, Inc. (BAI) was formed. It includes most of the former DBA principals and staff. At DBA and BAI I have testified in electric, gas and water proceedings involving almost all aspects of regulation. I have also performed economic analyses for clients related to energy cost issues.

In addition to our main office in St. Louis, the firm also has branch offices in Phoenix, Arizona; Corpus Christi, Texas; and Plano, Texas.

Q **HAVE YOU PREVIOUSLY APPEARED BEFORE A REGULATORY COMMISSION?**

A Yes. I have testified on behalf of DECo in its steam heating and main electric cases. In these cases I have testified to rate base, income statement adjustments, changes in book depreciation rates, rate design, and interim and final revenue deficiencies.

In addition, I have testified before the regulatory commissions of the States of Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming, and the Provinces of Alberta, Nova Scotia and Saskatchewan. I also have testified before the Federal Energy Regulatory Commission. In addition, I have filed testimony in proceedings before the regulatory commissions in the States of Florida, Montana, New York and Pennsylvania and the Province of British Columbia. My testimony has addressed revenue requirement issues, cost of service, rate design, financial integrity, accounting-related issues, merger-related issues, and performance standards. The revenue requirement testimony has addressed book depreciation rates, decommissioning expense, O&M expense levels, and rate base adjustments for items such as plant held for future use, working capital, and post test year adjustments. In addition, I have testified on deregulation issues such as stranded cost estimates and rate design.

Q ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A Yes, I am a registered professional engineer in the State of Michigan.

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KANSAS CITY POWER & LIGHT COMPANY - MISSOURI

Rates of Return, Indexes and Subsidies
Using the Company Filed Cost of Service Study
(Dollars in Thousands)

						Present Rates					KCPL Proposed Rates		
Line	Rate Classes	Rate Base	Operating Revenue	Operating Expenses	Net Operating Income	Rate of Return	Index	(Under) Over Collections	Company Proposed Increase	Proposed Operating Income	Rate of Return	Index	(Under) Over Collections
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	*Residential*	$ 508,385	$ 214,112	$ 186,167	$ 27,945	5.50%	74	$ (15,948)	$ 19,913	$ 40,130	7.89%	76	$ (20,217)
2	Small General Service	90,679	41,685	34,197	7,488	8.26%	111	1,247	4,215	10,067	11.10%	108	1,149
3	Medium General Service	137,945	73,557	59,258	14,300	10.37%	140	6,650	7,182	18,694	13.55%	131	7,271
4	Large General Service	234,737	131,190	110,091	21,099	8.99%	121	6,030	12,587	28,801	12.27%	119	7,452
5	Large Power Service	190,988	118,207	102,387	15,819	8.28%	112	2,705	11,136	22,633	11.85%	115	4,757
6	Lighting	9,297	6,648	6,378	270	2.91%	39	(685)	716	708	7.62%	74	(411)
7	Total Missouri	$ 1,172,031	$ 585,399	$ 498,477	$ 86,922	7.42%	100	$ 0	$ 55,749	$ 121,034	10.33%	100	$ (0)
8	Tax Factor	1.634290											

KANSAS CITY POWER & LIGHT COMPANY

Monthly Peak Demands (MW)

Month	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Jan	1,916	2,002	1,914	2,171	2,026	2,233	2,105	2,268	2,335	2,313	2,128
Feb	1,956	1,812	1,778	1,954	1,937	2,147	2,095	2,165	2,235	2,186	2,027
Mar	1,820	1,703	1,940	1,859	1,776	1,981	2,036	2,095	1,858	2,003	1,907
Apr	1,608	1,662	1,628	1,778	1,885	1,988	2,131	2,011	1,895	2,042	1,863
May	2,328	1,723	2,734	1,910	2,936	2,579	2,779	2,556	2,734	2,615	2,489
Jun	2,795	2,816	2,987	2,766	2,958	2,858	3,083	3,109	3,009	3,338	2,972
Jul	2,987	3,044	3,136	3,251	3,230	3,304	3,335	3,426	3,384	3,512	3,261
Aug	2,803	2,929	3,175	3,084	3,374	3,352	3,333	3,610	3,376	3,426	3,246
Sep	2,489	2,761	2,993	2,961	3,269	2,722	3,139	2,617	2,874	3,007	2,883
Oct	1,810	2,405	1,849	1,963	2,352	1,920	2,665	2,018	1,977	2,754	2,171
Nov	1,846	1,761	1,763	1,812	2,045	1,988	1,957	1,994	2,129	2,209	1,950
Dec	2,012	1,933	2,117	2,085	2,382	1,934	2,055	2,186	2,376	2,563	2,164

KANSAS CITY POWER & LIGHT COMPANY

Monthly Peak Demands as a Percentage of Maximum Annual Peak

Month	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Average
Jan	64.1%	65.8%	60.3%	66.8%	60.0%	66.6%	63.1%	62.8%	69.0%	65.9%	65.3%
Feb	65.5%	59.5%	56.0%	60.1%	57.4%	64.1%	62.8%	60.0%	66.0%	62.2%	62.1%
Mar	60.9%	55.9%	61.1%	57.2%	52.6%	59.1%	61.0%	58.0%	54.9%	57.0%	58.5%
Apr	53.8%	54.6%	51.3%	54.7%	55.9%	59.3%	63.9%	55.7%	56.0%	58.1%	57.1%
May	77.9%	56.6%	86.1%	58.8%	87.0%	76.9%	83.3%	70.8%	80.8%	74.5%	76.3%
Jun	93.6%	92.5%	94.1%	85.1%	87.7%	85.3%	92.4%	86.1%	88.9%	95.0%	91.1%
Jul	100.0%	100.0%	98.8%	100.0%	95.7%	98.6%	100.0%	94.9%	100.0%	100.0%	100.0%
Aug	93.8%	96.2%	100.0%	94.9%	100.0%	100.0%	99.9%	100.0%	99.8%	97.6%	99.5%
Sep	83.3%	90.7%	94.3%	91.1%	96.9%	81.2%	94.1%	72.5%	84.9%	85.6%	88.4%
Oct	60.6%	79.0%	58.2%	60.4%	69.7%	57.3%	79.9%	55.9%	58.4%	78.4%	66.6%
Nov	61.8%	57.9%	55.5%	55.7%	60.6%	59.3%	58.7%	55.2%	62.9%	62.9%	59.8%
Dec	67.4%	63.5%	66.7%	64.1%	70.6%	57.7%	61.6%	60.6%	70.2%	73.0%	66.4%

KANSAS CITY POWER & LIGHT COMPANY - MISSOURI

Class Cost of Service Study for Missouri Customers
4 Coincident Peak Scenario
For the Test Year Ended September 30, 2005
(Dollars in Thousands)

Line	Description	Missouri Retail (1)	Residential (2)	Small General Service (3)	Medium General Service (4)	Large General Service (5)	Large Power Service (6)	Lighting (7)
1	Total Rate Base	$ 1,172,031	$ 560,673	$ 88,903	$ 135,506	$ 218,276	$ 162,989	$ 5,684
	Operating Revenues:							
2	Adjusted Sales Revenues	$ 483,656	$ 171,390	$ 36,586	$ 62,431	$ 108,729	$ 98,464	$ 6,057
3	Other Revenues	101,743	43,863	5,062	11,089	22,105	19,116	508
4	*Total Operating Revenue*	$ 585,399	$ 215,253	$ 41,648	$ 73,520	$ 130,834	$ 117,580	$ 6,564
5	Total Operating Expenses	$ 498,477	$ 196,462	$ 34,025	$ 58,802	$ 106,763	$ 96,627	$ 5,798
6	Operating Income	$ 86,922	$ 18,791	$ 7,623	$ 14,718	$ 24,071	$ 20,952	$ 767
7	Rate of Return	7.42%	3.35%	8.57%	10.86%	11.03%	12.86%	13.49%
8	Index Rate of Return	100	45	116	146	149	173	182
9	Change Needed to Equalize ROR	$ -	$ 37,246	$ (1,682)	$ (7,629)	$ (12,883)	$ (14,487)	$ (564)
10	Percent of Sales Revenue	0.00%	21.73%	-4.60%	-12.22%	-11.85%	-14.71%	-9.31%

KANSAS CITY POWER & LIGHT COMPANY - MISSOURI

Class Cost of Service Study for Missouri Customers
Traditional Average and Excess Peak Scenario
For the Test Year Ended September 30, 2005
(Dollars in Thousands)

Line	Description	Missouri Retail	Residential	Small General Service	Medium General Service	Large General Service	Large Power Service	Lighting
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Total Rate Base	$ 1,172,031	$ 555,970	$ 92,822	$ 138,141	$ 216,606	$ 162,807	$ 5,684
	Operating Revenues:							
2	Adjusted Sales Revenues	$ 483,656	$ 171,390	$ 36,586	$ 62,431	$ 108,729	$ 98,464	$ 6,057
3	Other Revenues	101,743	43,757	5,151	11,148	22,067	19,112	508
4	Total Operating Revenue	$ 585,399	$ 215,147	$ 41,737	$ 73,579	$ 130,796	$ 117,575	$ 6,564
5	Total Operating Expenses	$ 498,477	$ 195,644	$ 34,707	$ 59,260	$ 106,472	$ 96,596	$ 5,798
6	Operating Income	$ 86,922	$ 19,503	$ 7,030	$ 14,319	$ 24,324	$ 20,980	$ 767
7	Rate of Return	7.42%	3.51%	7.57%	10.37%	11.23%	12.89%	13.49%
8	Index Rate of Return	100	47	102	140	151	174	182
9	Change Needed to Equalize ROR	$ -	$ 35,513	$ (238)	$ (6,658)	$ (13,499)	$ (14,554)	$ (564)
10	Percent of Sales Revenue	0.00%	20.72%	-0.65%	-10.66%	-12.41%	-14.78%	-9.31%

KANSAS CITY POWER & LIGHT - MISSOURI

Allocation Of Reduction To KCPL Proposed Increase
Based On Average and Excess COSS

Line	Rate Class (1)	Revenue Deviation From CCOSS (Thousands) (2)	Revenue In Excess Of CCOSS (Thousands) (3)	Revenue In Excess Of CCOSS Allocation (4)	Revenue Reduction (Thousands) (5)	Rate Base (Thousands) (6)	Rate Base Allocation (7)
1	Residential	$35,513				$555,970	47.44%
2	Small General	($238)	$238	0.67%	$134	$92,822	7.92%
3	Medium General	($6,658)	$6,658	18.75%	$3,750	$138,141	11.79%
4	Large General	($13,499)	$13,499	38.01%	$7,602	$216,606	18.48%
5	Large Power	($14,554)	$14,554	40.98%	$8,196	$162,807	13.89%
7	Lighting	($564)	$564	1.59%	$318	$5,684	0.48%
8	Total	$0	$35,513	100.00%	$20,000	$1,172,030	100.00%

Note: Positive revenue deviation means that a class revenue is below cost of service.