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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri
December 8, 2010

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KANSAS CITY POWER & LIGHT COMPANY

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Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Cary G. Featherstone who filed direct testimony in this proceeding?

A. Yes, I am. I, with Curt Wells, filed direct testimony in this case on November 10, 2010 sponsoring Staff's cost of service report (COS Report) for Kansas City Power & Light Company's (KCPL or Company) rate case filed on June 4, 2010.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to address the direct testimony filed by KCPL witness Larry W. Loos, a Black & Veatch consultant hired by KCPL, relating to the Company's proposal for jurisdictional allocations. Specifically, Mr. Loos proposes to allocate the profit from KCPL's off-system sales (off-system sales margins) in a uniquely different manner from how the parties and this Commission in past cases have assigned off-system

margins to the different jurisdictions where KCPL operates its electrical system—Missouri and Kansas. The result of Mr. Loos' allocation method is to allocate a disproportionate share of off-system sales margin to KCPL's other state jurisdiction—Kansas, using what is called the demand allocator. This proposal allocates a smaller amount of off-system sales margin to Missouri resulting in a higher revenue requirement to Missouri retail customers. KCPL has implemented the results of Mr. Loos' recommendations in its case for off-system sales.

Mr. Loos makes other proposals in his direct testimony regarding jurisdictional allocations that KCPL has chosen not to implement in this case. While the Missouri Public Service Commission Staff ("Staff") is generally opposed to Mr. Loos' proposals regarding the allocation of certain environmental plant differently than how all other production equipment is allocated, Staff will not spend time rebutting these proposals as the Company itself rejected them by not including them in its own case. Staff has not reflected any of KCPL's jurisdictional allocations recommendations in its case, and has specifically not adopted the use of the demand allocator to allocate off-system sales margins to KCPL's Kansas and Missouri jurisdictions.

EXECUTIVE SUMMARY

Q. Would you please summarize your rebuttal testimony?

A. The Commission should reject KCPL's proposed method of allocating off-system sales margin using a demand allocator. In this case KCPL is proposing to allocate its off-system sales margins using what is referred to as the demand allocation method. This method is used at the expense of KCPL's Missouri customers, and will benefit KCPL because of a conflicting allocation method currently being used by the Kansas jurisdiction, which KCPL initially proposed but now criticizes. The Kansas Corporation Commission recently rejected this very

same demand method KCPL proposed in Kansas and, instead, is continuing to apply the method KCPL proposed and championed in an agreement it made in Kansas just four years ago, in 2006.

KCPL argues it will under recover over $5 million because the Kansas and Missouri state jurisdictions use different allocation methods to allocate off-system sales margins. The argument ignores that each jurisdiction considers all relevant factors and that the state jurisdictional allocators are but one of a myriad of factors the commission in each jurisdiction considers when determining KCPL's revenue requirements. Each jurisdiction handle a variety of rate matters differently from rate of return and capital structure to depreciation methods. Kansas allows certain levels of construction work in progress in rate base while Missouri has a prohibition from such inclusion in rates. Each state considers aspects to the ratemaking process uniquely to that state's particular circumstances and approaches setting of rates. For reasons provided in its COS Report, direct testimony and here, Staff is continuing to use an energy allocator to allocate KCPL's off-system sales margins to Missouri and Staff recommends the Commission do so as well.

JURISDICTION ALLOCATION FAIRNESS

Q. In his direct testimony at pages 6 through 8, KCPL witness Loos, a hired consultant, generally discusses his view, that due to the difference in how the Kansas and Missouri Commission allocate costs and revenues between the state jurisdictions, KCPL is denied the opportunity to recover all of its costs of serving customers in Kansas and Missouri, and specifically that KCPL returns to its retail customers for off-system sales margins more than the off-system sales margins themselves. What is the basis for Mr. Loos' view?

A. For many years the two state jurisdictions—Kansas and Missouri—have used different methods to allocate to the state jurisdictions plant costs together with related operating

and maintenance expenses. In addition, both states use of different methods to allocate off-system sales margins to the state jurisdictions.

With respect to the allocation of off-system sales margins between the two states, Kansas uses what is referred to as an unused energy allocator (unused energy allocator) which KCPL first proposed be used in both Kansas and Missouri in 2006. As Mr. Loos correctly points out at page 4 of his direct testimony, the Missouri Commission rejected the use of the unused energy allocator to allocate off-system sales margins in Case No. ER-2006-0314. KCPL's purported under recovery of off-system sales margins is largely, if not wholly, due to the Kansas Corporation Commission ("KCC or the Kansas Commission") continuing to use the unused energy allocator KPCL proposed in 2006—the same allocator KCPL now criticizes.

To allocate costs between the Kansas and Missouri jurisdictions, the Kansas Corporation Commission uses a 12 CP allocation method. The Kansas Commission uses that method because KCPL proposed that method in its 2006 Kansas rate case, and KCPL has entered into stipulations and agreements that, among other things, provide for using the 12 CP allocation method. The 12 CP method has been used in Kansas in each of the four rate cases filed under the Kansas Regulatory Plan in that state, including the most recent rate case file in December 2009 and recently decided by the Kansas Corporation Commission—Docket No. 10-KCPE-415-RTS. Since KCPL entered into these stipulation and agreements, which it must have determined to be overall beneficial to it, KCPL is in no position to complain that it is unfair to it for the KCC to use a 12 CP allocation method and this Commission to use a 4 CP allocation method—the two methods KCPL argues result in it under recovering its plant investment and related operating and maintenance costs.

This Commission should not be misled where the root cause of the problem with KCPL's allocation of plant investment, costs to operate and maintain the plant investment and the allocation of the off-system sales margins, is of its own doing. Ultimately, the responsibility for correcting any such "under recovery" of any of these operational issues should lie squarely on the shoulders of the Company itself for proposing differing methods and agreeing to those methods in settlement agreements made in both jurisdictions.

It is clear that the Company benefited from each of the settlement agreements it reached in both Kansas and Missouri. The Regulatory Plan agreements provided the Company value from each of the states where it operates and each agreement was unique to the circumstances of those operations. Thus, while one aspect of the agreement in Kansas (Missouri's Regulatory Plan was silent on the subject of allocations) regarding allocations may have not resulted in benefits to KCPL, other parts of the agreement must have provided value to KCPL, otherwise it would have been imprudent for KCPL to have entered into the agreement.

OFF-SYSTEM SALES ALLOCATIONS

Q. How does Staff allocate off-system sales margins?

A. Staff uses an energy allocator. The energy allocator Staff is using in this case is 56.94%.

Q. What are off-system sales margins?

A. Off-system sales are sales of electricity made at times when utilities have met all obligations to serve native load customers and have excess energy to sell to other utilities or entities. The off-system sale transactions occur between utilities, resulting in profits (net margins) to the selling entity, in this case, KCPL. These net margins are called "off-system sales margins."

The Company has two primary sources of off-system sales—non-firm off-system sales, which make up the majority of these revenues, and capacity sales (bulk sales), which represent firm sales made under contract between entities over an agreed upon period of time.

Q. How are off-system sales margins determined?

A. Off-system sales margins are determined by identifying the level of off-system sales revenues and subtracting related fuel costs and purchased power costs. In its case, Staff has included a level of off-system sale revenues, and the related fuel and purchased power costs, resulting in the "margins," sometimes referred to as contribution from off-system sales. The off-system sales margins are included in the overall determination of KCPL's Missouri revenue requirement. Staff witness V. William Harris supports the Staff's adjustment for off-system sales in his section of the Staff's Cost of Service Report and in his rebuttal testimony.

Q. How did KCPL allocate its off-system sales margins among the various jurisdictions?

A. Based on the recommendation of Mr. Loos (page 51 of his direct testimony), KCPL uses a demand allocator to allocate off-system sales margins in this case. This is a non-traditional and inconsistent method for allocating off-system sales margins.

Q. Why is using a demand allocator to allocate off-system sales margins an inconsistent method?

A. Off-system sales are made when a company has excess idle capacity available to use to sell power in the energy markets to other utilities. The obligation of any utility is to meet the system load requirements of its customers—commonly referred to as the native load customers. Fundamental to this obligation to serve concept, is designing a system to meet the needs of the customers on an economic basis that is as lease cost as possible. The design of an

electric system requires expensive base load generation, such large coal-fired generation, as well as less expensive but higher cost to operate peaking units. Whenever these generating units are available to make other sales, utilities will generate electricity to sell in the power markets to make a profit. These additional sales of power are used of offset (reduce) the company's revenue requirement(s).

Also, KCPL purchases power to sell back into the energy market for a profit. Both the costs of fuel and purchased power are deducted from the off-system sales revenues to arrive at the off-system sales margins or contributions. The off-system sales revenues, and related fuel and purchased power costs, are allocated based on the energy factor. While Staff uses an energy allocator to allocate the entire component of off-system sales—the revenues, fuel and purchased power costs and the margins, what KCPL is attempting to do is to allocate only the margins using a demand allocator-resulting in a lower percentage of these margins being assigned to Missouri. Allocating the variable components of off-system sales margins using the demand allocator is not consistent with the way other fuel components are allocated (off-system sales margins is comprised of the netting of off-system sales revenues with the related fuel and purchased power costs). Fuel costs are variable, and increase with each additional megawatt generated. KCPL recognizes the proper way to allocate fuel costs is to use the energy allocator. The only time a demand allocator is used in the area of fuel is to allocate the demand component of a purchased power contract. Both KCPL and Staff used the demand allocator to allocate the demand charges in this and all past cases in which I have been involved. Yet, despite the nature of the demand allocator—a capacity driven allocation developed using the four summer peak demands—KCPL proposes to use this allocator to allocate the off-system sales margins.

Q. Why does using the demand allocator to allocate off-system sales margins result in KCPL allocating higher revenue requirements to Missouri than Staff?

A. KCPL uses the lower demand allocator to allocate off-system sales margins to Missouri compared to the higher energy allocator Staff uses. In this case, KCPL's energy allocator is 57.08% compared to Staff's 56.94% energy allocator. Both Company and Staff use the energy allocator to allocate all variable fuel and purchased power costs to the respective Kansas and Missouri jurisdictions. Both Company and Staff use the demand allocator developed by the 4 CP method to allocate the fixed nature demand costs associated with capacity sales and purchased power. However, while Staff uses the energy allocator to properly allocate off-system sales, KCPL proposes to allocate the off-system sales margins to Missouri using the demand allocator. KCPL's demand allocator in this case is 53.38% compared to Staff's 56.94% energy allocator. Thus, KCPL allocates lower off-system sales margins to Missouri by virtue of using the demand allocator.

An example of how this works to allocate less off-system sales margins to Missouri is illustrated below:

	KCPL	**Staff**
Off-system sales revenues	$1,000	$1,000
Less: fuel & purchased power	500	500
Allocated energy factor		
Margins	500	500
KCPL allocated using demand	**53.38%**	
Staff allocated using energy		**56.94%**
Allocation of margin to Missouri	**$267**	**$285**

[Note: For illustration, in this example the fuel & purchased power costs assumed are based on use of the same energy allocator to show differences between KCPL and Staff on the allocation of off-system sales margins]

The use of the demand allocator by KCPL to allocate off-system sales margins to the Missouri jurisdiction results in lower amount being included in KCPL's revenue requirement for the Missouri retail jurisdiction compared to if the energy allocator factor of Staff is used.

Q. Is it appropriate to use a demand allocator to allocate non-firm off-system sales margins?

A. No. Unlike capacity sales, non-firm off-system sales do not have dedicated generation and transmission facilities assigned to that operation. Capacity sales are made under contract for a finite period that is longer than the period for short-term non-firm off-system sales. Capacity sales pricing has two parts-- a demand charge for the fixed costs and an energy charge for the variable costs. The demand charge is to cover fixed costs of plant facilities needed to make the sale. The energy charges are for the variable (fuel) costs to produce the non-firm off-system sale. The demand allocator is used to allocate the demand charge portion of the capacity sale, while the energy allocator is used to allocate the energy portion (the fuel and purchased power costs).

Unlike capacity sales, the pricing of non-firm off-system sales do not have a demand component. These sales have historically been allocated using an energy allocator, since the only cost component assigned to these sales is the variable costs to produce the sales—the fuel and purchased power costs.

Q. Mr. Loos states at page 7, line 15 (and again at page 36, line 12) of his direct testimony that off-system sales "margin represents a contribution to fixed costs of the

generation resources used to make such sales." He also states at page 41, line 15, that "margin represents a contribution to power supply fixed costs." Do you agree with these statements?

A. No. Off-system sales margins do not just represent offsets to fixed power supply costs. Off-system sales margins also represent a contribution to the overall revenue requirement cost structure of the Company, not only to any one set of costs. A utility's system is designed to meet the utility's native load demand responsibilities. The system is designed to meet the system load requirements of the customers. Once those generating needs are met, any excess generation will be available to sell power to meet needs in the region. While the primary sources used to supply the excess generation for off-system sales are the generating units and transmission system, it is the entirety of the system that is required to meet the customer demand from the operations of the power plant and the transmission, and accounting along with a host of other operational needs of the utility to deliver reliable electric service on a safe and reasonably priced basis to all of its customers. When opportunities exist, the utility will use the same system network and personnel to make off-system sales. This is simply another service the utility engages in. Since retail customers pay for all the costs relating to off-system sales they are entitled to the contributions made from these transactions to lower the overall revenue requirement, not just the fixed production facilities as Mr. Loos is suggesting by how he proposes to assign the margins from these sales.

Q. Is the approach taken by Staff in this case for allocating off-system sales margins to the jurisdictions similar to how the Staff has been allocating off-system sales margins to the jurisdictions for other electric companies regulated by this Commission?

A. Yes. Staff has been allocating off-system sales margins on the basis of an energy allocator for the past several years at other electric utilities, dating back to at least the

mid-1990's. This method has been used for The Empire District Electric Company and Aquila Networks - MPS and Aquila Networks – L & P (the former St. Joseph Light & Power Company) divisions (KCP&L Greater Missouri Operations Company) and their predecessors. KCPL has historically allocated off-system sales margins in this manner in the surveillance reports provided to Staff and other parties to previous rate cases on an annual basis since the late 1980's. In past KCPL rate cases, such as Case Nos. ER-83-49 and EO-85-185 (the Wolf Creek rate case), Staff did use a demand allocator to assign the off-system sales margins to the various jurisdictions. In those cases, capacity sales were generally allocated based on demand allocators. The levels of sales in the non-firm off-system sales market then were insignificant compared to the levels of this market today.

Q. How has Staff allocated KCPL's fixed production plant costs in this rate case?

A. The generating assets that produce the electricity which permit KCPL to meet its native load system requirements are historically allocated using a demand allocator. In this case, the demand allocator developed by KCPL is 53.38% (Weisensee direct, Schedule JPW2010-3) and the one Staff is using is 53.50% based on the 4 CP allocation method.

If KCPL's proposal to allocate non-firm off-system sales margins based on a demand allocator is adopted by the Commission, either using Staff's or KCPL's demand allocator, the Missouri retail jurisdiction would be required to pay a higher portion of plant investment compared to the other jurisdictions for the facilities required to generate these non-firm off-system sales. However, using this same demand factor, the Missouri jurisdiction would receive a lower portion of the benefit of the off-system sales. Put another way, KCPL would be allocating less costs to the Kansas jurisdiction based on the 12 CP method used by that

jurisdiction, yet would be benefiting from a greater share of off-system sales margins by virtue of using the unused energy allocator endorsed by the Kansas Commission.

Q. Does KCPL provide an explanation how it believes off-system sales margins should be allocated?

A. Yes. Mr. Loos addresses this point at page 4, line 18, of his direct testimony wherein he states:

> In KCP&P's Missouri rate case Case No. ER-2006-0314, the Company proposed to allocate margin associated with off-system sales on "unused energy." The PSC rejected KCP&L's proposal in favor of an energy allocator. In that case, I understand, much of the argument opposing the use of the unused energy allocator was that it is not an industry recognized method for allocating off-system sales margins, and that it had not been accepted for purposes of allocating off-system sales margins.
>
> In KCP&L's most recent Missouri rate case, No. ER-2009-0089, the Company proposed allocating off-system sales margin following my recommendation. In that case, I recommended allocating off-system sales margins in the same manner as the fixed costs associated with the generation resources KCP&L uses to generate the energy sold off-system. The case settled, so the issue was not resolved.

It should be noted that any time Mr. Loos uses references that he is "allocating off-system sales margins in the same manner as the fixed costs associated with the generation resources" the Company uses to generate the energy sold, he is using the demand allocator to allocate these margins to Kansas and Missouri.

Q. Is KCPL's basis for allocating off-system sales margins using a demand allocator connected to the different allocation methodologies for the demand allocator used in Missouri and Kansas—12-CP vs. 4-CP?

A. Staff believes it is. At page 6, line 3 of Mr. Loos' direct testimony, he states the problems relating to this very point:

> For multi-jurisdictional utilities, the use of different jurisdictional allocation bases usually results in the Company either not recovering its entire revenue requirement or over recovering its revenue requirement. This result (over or under recovery) is determined through the consequences of the actions of the Commissions. Currently, KCP&L does not recover its entire revenue requirement because of the different allocation basis.
>
> The Missouri jurisdiction operates at a higher load factor than the other jurisdictions (Kansas and FERC). A 4CP capacity (demand) allocator will nearly always allocate less cost to the higher load factor jurisdiction than use of a 12CP allocator. Likewise, the energy allocator allocates a higher portion of off-system sales margin to the higher load factor jurisdiction than an unused energy allocator will. As I will subsequently demonstrate, neither the unused energy allocator nor the energy allocator are appropriate for allocating off-system sales margins.
>
> The Company fails to recover about $5.5 million in costs because Missouri uses the energy allocator while Kansas uses the unused energy allocator to allocate off-system sales margins. The use of the unused energy allocator results in a higher overall level of margins allocated to the lower load factor jurisdiction than the use of an energy allocator and vice versa. The use of different allocation bases results in KCP&L returning approximately 105.38 percent of its off-system sales margin to customers. By that I mean that for every dollar of off-system sales margin that the Company realizes from selling energy off-system, it costs the Company $1.05, or a loss of five cents on the dollar. This does not make any sense and serves as an economic disincentive for the Company to pursue off-system sales.

Mr. Loos further identifies that the Company "fails to recover about $4.09 million" because Missouri uses a 4 CP method of allocating costs compared to the 12 CP method used by the Kansas jurisdiction. Mr. Loss identifies what he asserts is a total amount of under recovery of $9.71 million because the two jurisdictions use differ methods to allocate plant costs, expenses and the margin from off-system sales.

Q. How is it that KCPL is subjected to different allocation methods in the Missouri and Kansas jurisdictions?

A. KCPL has only itself to blame for this situation. KCPL entered into an agreement with the Kansas Commission to use the 12 CP allocation method, even though it knew the Missouri Commission used the 4 CP method and had done so since the early 1980s. Mr. Loos himself believes the 4 CP allocation method for his demand allocator before he modifies those allocators for the purpose of allocating certain plant and expenses in a very unique and non-traditional way.

Yet, despite the use of the 4 CP method in Missouri, KCPL agreed to use the 12 CP method in its rate cases filed in Kansas as part of that state's version of the regulatory plan that is complementary to KCPL's comprehensive energy plan. KCPL also agreed to use an allocation method for off-system sales margin--the unused energy allocator-- that in Kansas penalizes Missouri by allocating a greater share of those margins to Kansas. The Company first proposed this method of allocating off-system sales margin in the 2006 rate cases in both Missouri and Kansas, and in its last case before the KCC, KCPL agreed to continue to use the unused energy allocator in its newly implemented fuel clause. KCPL's also agreed to use this allocator for off-system sales in Kansas in an agreement in Docket No. 07-KCPE-905-RTS that was approved in November 2007.

Q. Has KCPL criticized using a demand allocation factor for off-system sales margins?

A. Yes. In KCPL's 2006 rate case before this Commission the Company witness for this issue identified the reason the demand allocator or the energy allocator should not be used to allocate off-system sales margin. Mr. Don Frerking described why the demand allocator cannot be used for non-firm off-system sales in his rebuttal testimony. Mr. Frerking indicated a belief that each state has a right "to call on a level of MWh [megawatt hour] output or

"Available Capacity" [Frerking rebuttal in Case No. ER-2006-0314, page 11, line 17]. This concept considers that each state has, or is, paying for certain capacity through the allocation of demand. Further, each state has at most times of the year during non-peak periods, excess capacity that can be used to transact off-system sales, either firm or non-firm. Mr. Frerking was supporting KCPL's unused energy allocation methodology instead of a demand allocator for off-system sales margins. The unused energy allocation method attempted to identify each state's excess capacity to determine its "Available Capacity" that does, from KCPL's point of view, result in unused energy.

Q. Did Staff support the use of the unused energy allocation method to allocate off-system sales margin to the various jurisdictions?

A. No. The issue was presented to the Commission and the Commission rejected this allocation method. Staff believes the unused energy allocation methodology fails to recognize that the two major jurisdictions are not the same in the way they each place demands on KCPL's electrical system. KCPL's Missouri operations have a better efficiency and utilization of the Company's existing facilities than does its Kansas operations. This is demonstrated by each state's load factor. The unused energy allocation methodology assumed that since Kansas had (and continues to have) a poorer load factor, that state's customers have more of its Available Capacity that results in greater "unused energy." This "freed-up" capacity is available to make off-system sales. What this concept fails to consider is that the better load factor state, Missouri, will have more opportunities to engage in off-system sales with its lower than average system fuel costs, which results from a better utilization of the existing fleet of generating units.

Q. What did the Commission say about the unused energy allocation methodology relating to off-system sales margins?

A. The Commission said the following at pages 38-40 of its Report and Order in Case No. ER-2006-0314:

> Staff recommends that the Commission continue to use the energy allocator for revenues from non-firm off-system sales of energy, including the margin component thereof. This is the time-tested and widely accepted method for allocating such revenues in this state because it is appropriate for allocating the revenues and associated costs that are purely variable with the amount of energy sold.
>
> The Staff opposes the Company's proposal, which would shift some $4.4 million in revenues from KCPL's Missouri jurisdiction to its Kansas jurisdiction. Other parties, such as OPC, Praxair, MIEC, and DOE, support the traditional energy allocation mechanism proposed by Staff.
>
> The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff. A primary concern is the underlying philosophy implied by utilization of the unused energy allocator. Specifically, the unused energy allocator rewards the lower load factor of KCPL's Kansas retail jurisdiction by allocating a greater percentage of the profit from non-firm off-system sales to that jurisdiction. Load Factor is average energy usage divided by peak demand. The lower load factor of KCPL's Kansas jurisdiction causes the Company to build higher energy cost combustion turbines, which provide KCPL with less opportunity to make off-system sales.
>
> In KCPL's recent Regulatory Plan case (Case No. EO-2005-0329), some $14 million in expenditures was authorized for demand response programs that should result in increasing KCPL's load factor, and hence, reducing KCPL's need to acquire higher energy cost combustion turbines. Yet, KCPL proposes to allocate a greater portion of the off-system sales margin to the lower load factor Kansas jurisdiction. Thus, use of the unused energy allocator creates a possible disincentive to implement projects aimed at increasing load factor. Furthermore, application of the unused energy allocator ignores the fact that, thanks to Missouri's higher load factor, Kansas is already benefiting to a greater extent than Missouri from a lower overall cost of energy.
>
> The only costs assigned to non-firm off-system sales is the fuel and purchased power costs- the variable costs- hence the appropriateness of

using the energy allocator. This is consistent with the way KCPL itself allocates the costs relating to the energy portion of firm capacity contracts-using the energy allocator. The reason is simple- the energy allocator is used to allocate variable costs of fuel and purchased power costs relating to retail sales. Using the same rationale, the energy allocator is equally appropriate to use as the allocator factor for both energy of firm (as KCPL does) and non-firm off-system sales. The demand based unused energy allocator should not be used to allocate off-system sales-- either energy from firm capacity sale contracts or non-firm off-system sales. Because plant is not dedicated to support non-firm off-system sales, there is no associated demand charge.

KCPL's settlement of its Kansas case, recently approved by the Kansas Corporation Commission, is a "black box" settlement, meaning that the Commission cannot tell what level of off-system sales are built into KCPL's Kansas rates. This means that any off-system margins that this Report and Order would ostensibly assign to Kansas would not go to Kansas ratepayers, but instead would go to KCPL shareholders. This Report and Order sets KCPL's Missouri rates at a just and reasonable level; any assignment of off-system sales margin away from Missouri using KCPL's proposed allocator would result in a windfall for KCPL shareholders. Thus, the Commission will reject KCPL's novel unused energy allocator, and will use the energy allocator proposed by Staff and other parties.

Q. Does KCPL still use the unused energy allocator in Kansas?

A. Yes. While the Company only proposed to use the unused energy factor in Missouri in 2006, KCPL continued to use this method in Kansas starting with the 2006 Kansas rate case up until the case it filed on December 17, 2009 in Kansas Docket No. 10-KCPE-415-RTS. In the past, KCPL entered into an agreement to use this method in Kansas while it litigated this issue in Missouri. It was not surprising that Kansas and the Company could reach an agreement on this issue, since Kansas benefited from the allocation of more of the off-system sales margins, resulting in a decrease to KCPL's overall revenue requirement for the 2006 Kansas rate case. KCPL has been using this method in Kansas since, and just recently agreed to use the unused energy allocation of off-system sales margins for its fuel clause in Kansas.

Missouri has always been the largest jurisdiction for KCPL's operations, yet the Company supports allocation methods that penalize this state by attempting to allocate in past rate cases a greater share of costs and a reduced share of off-system sales margins, which, if implemented, would result in higher rates to Missouri retail customers.

Even though KCPL made the decision to agree to the 12 CP allocation method and the unused energy allocation method in Kansas as part of a larger settlement, it now expects the Missouri Commission to solve the alleged problem of under recovery of revenue requirements from the different allocation methods by increasing rates in this state. Staff cannot support such a proposal. KCPL had as much responsibility to this state as it does to Kansas. In fact, with Missouri being the larger of the two states and with its better load factor it should have been in Missouri that KCPL entered an agreement to use the long-standing 4 CP method to allocate costs to the jurisdictions. KCPL should have gone to Kansas with the 4 CP method and attempted to get that jurisdiction to adopt in an agreement or, in the alternative, litigate the issue before the Kansas Corporation Commission.

Q. How did KCPL present its most recent rate case in Kansas relating to jurisdictional allocations?

A. Mr. Loos was the witness for the Company and he recommended the discontinuance of the unused energy allocator, despite KCPL's insistence that it be used in Missouri and Kansas in both of its 2006 rate cases in those states. As Mr. Loos noted in several places in his direct testimony, using the unused energy allocator to allocate off-system sales margins results in higher amounts of costs being allocated to the lower load factor state—in this case Kansas. When KCPL presented the unused energy allocator to the Missouri Commission in its 2006 rate case, it was clear that using this method allocated much fewer off-system sales

margins to Missouri. The Commission wisely rejected this proposal. However, it is ironic that the very method KCPL endorsed to allocate off-system sales margins in the first of the four rate cases to be filed under its Regulatory Plan is no longer method KCPL wants to be used. It was KCPL, not the state commissions that came up with the use of the unused energy allocation method. Just four years later the Company now wants to abandon the unused energy allocation method in favor of adopting the new approach it first presented in its last Missouri rate case—the demand allocation method.

Q. What method of allocation for off-system sales did the Kansas Corporation Commission use in KCPL's most recent rate case in Kansas?

A. The Kansas Commission rejected KCPL's recommendation of using the demand allocation method in favor of continuing to use the unused energy allocation method. The Kansas Commission stated, at page 127 of its November 22, 2010 decision in Docket No. 10-KCPE-415-RTS, the following regarding the allocation of off-system sales margins:

> ...the [Kansas] Commission finds that the arrangement agreed to by the parties just over two years ago, and which KCPL then found acceptable, is still a meaningful way to handle this allocation. We are also persuaded by Crane's testimony and find that the unused allocator was an important consideration to CURB in settling this issue in one of the prior rate cases. We stated elsewhere that absent a sound justification for ruling otherwise, binding parties to their bargains is sound policy and consistent with signaling regulatory certainty. Until KCPL cites us any case on point, we reject any notion that in a multi-jurisdictional setting, one jurisdiction can be the sole cause of alleged confiscatory action when the utility itself admits that the shortfall is due to different allocation methodologies. Such claims are best reserved for challenging the return on equity, not accounting methods, especially when our Legislature has specifically provided us with broad discretion in choosing ratemaking formulas.
>
> [Kansas Commission Docket No. 10-KCPE-415-RTS]

Q. What is KCPL's view of its unused energy allocation method for allocating off-system sales margins now?

A. Clearly the Company's consultant Mr. Loos believes KCPL's unused energy allocation method for allocating off-system sales margins should never have been adopted in any jurisdiction. At page 37 of his direct testimony he addresses this point as follows:

> ... KCP&L proposed the unused energy allocator without sufficient study of its implications and reasonableness. Since the unused energy allocator allocates more off-system sales margins (and hence lower overall costs) to Kansas jurisdiction, the other parties may not have devoted the resources to study its reasonableness. Based on the analysis that I present here, I believe that the unused energy allocator is not an appropriate method for allocating off-system sales margins.
>
> The result in both Missouri and Kansas is that the allocation of off-system sales margins does not align with the responsibility for power supply fixed costs. This problem is magnified because Missouri allocates these margins based on energy sales, while Kansas uses the unused energy allocator.

Q. Why are the unused energy allocator and the 12 CP method used in Kansas important?

A. Mr. Loos references the issues raised by the two state jurisdictions using different allocation methods several times in his direct testimony. Mr. Loos identifies in his direct testimony that KCPL is losing over $5 million because of the different allocation methods used in the two states. In footnote 3 appearing at page 7 of his direct testimony he states very clearly the problem KCPL finds itself regarding the allocation of off-system sales margins:

> An energy allocation of off-system sales margin will result in a higher level of margin allocated to the higher load factor jurisdiction (Missouri). An unused energy allocation of off-system sales margin will result in a higher level of margin allocated to the lower load factor jurisdiction (Kansas). Since off-system sales and sales margins are credited to cost of service, the use of these allocation bases results in both jurisdictions enjoying use of the allocation that minimizes cost to that jurisdiction. Obviously, if both Missouri and Kansas jurisdictions are

allocated costs in a manner that minimizes cost to that jurisdiction, the Company subsidizes retail customers.

Q. Is KCPL subsidizing Missouri retail customers?

A. No. From Staff's perspective Missouri is using the proper allocation method for off-system sales, and also for plant costs and related expenses. Certainly, using different allocation methods in Kansas and Missouri create differences in cost recovery. But to cause a substantial shift in method by forcing Missouri retail customers to pay higher rates to correct this disparity is not an equitable solution. As I discuss later in this rebuttal testimony, this Commission, recognizing some merit in the issue of state jurisdictional allocations in the past changed its allocation approach in an effort to ameliorate this perceived problem, yet no other KCPL jurisdiction has made a similar effort.

JURISDICTIONAL ALLOCATION FACTORS METHODOLOGY

Q. What is a 4 CP allocation method?

A. A coincident peak (CP) is the maximum hourly peak load that an electric utility experiences on its system. For KCPL it is the maximum hourly peak load KCPL experiences on its system among the three jurisdictions it serves—Missouri, Kansas and the wholesale firm load regulated by the Federal Energy Regulatory Commission (FERC)—the FERC jurisdiction. Coincident peak is the load of each jurisdiction that coincides with the hour of the utility's peak load. A 4 CP allocation method uses the highest hourly peaks from each of the 4 summer months of June, July, August and September.

The use of the peak demand to allocate costs among the various jurisdictions represents the largest electric load requirement that occurs on KCPL's system for a specific period, generally the maximum hourly loads for each of the four summer months—a 4 CP allocation

method. KCPL, like most electric utilities, designs and constructs its electrical systems in part to meet maximum peak loads, in particular during the high demand periods of the summer and winter loads. KCPL is considered a summer peaking utility and, as such, the use of the 4 CP method is the most appropriate method to use.

Q. Does the Company concur with the use of the 4 CP method to develop the demand allocator?

A. Yes. Mr. Loos states at page 50 of his direct testimony that the 4 CP method produces reasonable results and "best reflects the load characteristics and cost drivers of KCP&L." He does indicate that the 4 CP results are reasonable given there is a proper treating of "off-system sales margin, environmental, and boiler maintenance costs..." (page 51 of Loos direct). Mr. Loos attempts to mitigate what he believes is a shortfall of cost recovery and over recovery of off-system sales margins between the two states by proposing some unusual methods of allocating plant costs and related expenses. Much of his direct testimony is devoted to presenting such proposals; however, the only proposal Mr. Loos present that KCPL adopts in this case relates to off-system sales. This proposal is addressed separately in another section of this rebuttal testimony.

Q. How do utilities meet their system load requirements?

A. To meet their system load requirements utilities use a combination of base load capacity, like the LaCygne and Iatan units operated by KCPL; intermediate capacity such as smaller, aged, coal-fired power plants, like KCPL's three Montrose units and combined cycle units like KCPL's Hawthorn 6 and 9 units; along with peaking units or combustion turbines, like KCPL's West Gardner units. Base load units use nuclear or coal for fuel, while combined cycle units typically use natural gas for fuel. Combustion turbines are fueled by natural gas or oil, and

have high operating costs, but lower installed capital costs. Base load units have very high installed capital costs, and lower operating costs. Combined cycle units have high capital costs compared to peaking units, but are more economical to operate compared to peaking units.

Utilities also make firm capacity purchases to supplement their own generation to meet their system load requirements.

Q. Why is the 4 CP method appropriate for deriving the demand allocator for KCPL?

A. The 4 CP method of allocation is proper for a utility like KCPL because of its customer mix—a high concentration of residential customers, particularly in Kansas, and the electricity demands those customers place on its system during the hot mid-western summers. KCPL has high peak demands in the summer months of June through September compared to the remaining non-peak, non-summer months of the year.

Q. What is a "demand allocator"?

A. A demand allocator is a factor used to allocate fixed costs such as capital costs of generation (production) and transmission facilities among various jurisdictions, for KCPL among the Kansas, Missouri and FERC jurisdictions. Demand factors are used to allocate fixed costs because a utility incurs those fixed costs to meet its maximum loads—the coincident peaks—for which utilities must design and construct their electric systems to meet. Utilities must also have additional capacity available to meet capacity requirements above the system requirements--known as reserve margins-- as contingency capacity should generating units go out of service, or demand exceed historical maximums. A demand allocator is also used to allocate operation and maintenance expenses related to production and transmission plant. It is reasonably assumed that there is a direct relationship between the operation and maintenance expenses relating to the production and transmission facilities and those facilities, so the same

allocator is used to allocate those expenses as the allocator used to allocate plant investment costs.

A typical demand allocator is computed by dividing the peak hourly loads for each jurisdiction by the total system peak hourly load in the summer months. The resulting demand allocation percentage is used to allocate the costs of the production and transmission facilities to each jurisdiction. The sum of the jurisdictional demand allocation allocators equals one.

Q. What is an "energy allocator"?

A. An energy allocator is used to allocate variable costs such as fuel and purchased power costs. Since these costs vary directly with increases and decreases in electric load requirements, the energy allocator provides an appropriate way in which to allocate these costs. Both KCPL and Staff use an energy allocator to allocate fuel and energy related purchased power costs, consistent with the way these costs have been allocated in the past by other utilities. This allocation method uses the kilowatt hour sales on an annual basis to form a relationship of the various jurisdictions to total annual kilowatt hour sales, which is used to allocate the variable costs components of the utilities' operations.

It is also used historically to allocate off-system sales margins. Because the electricity sold as off-system sales are either generated by the Company's generating fleet or purchased from other utilities to re-sell to other entities, the fuel and purchased power components of off-system sales are allocated using an energy allocator. Because no other costs are deducted from off-system sales the resulting margins (or contributions) is allocated to the various jurisdictions using the energy allocator. The energy allocator is the ratio of the adjusted annual kilowatt-hour (kWh) usage specific to each jurisdiction served by the utility to the total adjusted kWh usage in all jurisdictions. The sum of the jurisdictional energy allocators equals one.

Q. Does KCPL use the energy allocator to allocate off-system sales margins?

A. No. KCPL has chosen to allocate the off-system sales margins using a demand allocator—an allocator Staff opposes in this context. I elaborate Staff's position later in this rebuttal testimony.

Q. Have parties used the 4 CP allocation method in prior KCPL rate cases to derive a demand allocator?

A. Yes. This method was used in KCPL's 1983 rate case. In that case, designated as Case No. ER-83-49, in its Report and Order the Commission stated, at page 50, that "DOE [Department of Energy], Staff and the Company have agreed to use a four coincidental peak method to develop the Missouri jurisdictional demand allocation factor."

KCPL proposed in its 1985 Wolf Creek rate case a 4 CP allocation method for production and transmission jurisdictional allocators. Staff proposed a 1 CP allocation method for deriving the allocators for the costs of these assets in that case. The Commission adopted KCPL's 4 CP method. In its Report and Order in Case Nos. ER-85-128 and EO-85-185 the Commission stated the following:

> Company asserts that 4CP is the appropriate allocation method since it represents a compromise position between what it views as two extremes: the 1CP approach taken by the Missouri Staff and the 12 CP approach taken by the Kansas Corporation Commission Staff. In addition, Company argues that 4CP better reflects the duration of the Company's summer peak load resulting in cost allocation stability. Finally, KCPL asserts that the 4CP method allocates non-fuel production costs without the need to classify those costs as demand or energy related.
>
> In the instant case, the Commission has only two proposals before it and both are peak responsibility methods. The Commission cannot adopt Staff's 1CP method in this case. The Commission stated in this Company's rate design investigation:
>
> The coincidental peak method is the least equitable of the peak responsibility methods proposed in that it places total dependence on the

> single hour of system peak demand. Re: Kansas City Power & Light Company, 25 Mo. P.S.C. (N.S.) 605, 614 (1983).
>
> The Commission determines that the 4CP method as proposed by the Company should be used for purposes of this case since the utilization of multiple peaks does recognize some plant usage occurring at times other than the single system peak.
>
> Based on the foregoing the Commission determines that the production and transmission allocators to be used for purposes of this case shall be 65.78[%] and 59.89[%] respectively.
>
> [28 Mo. P.S.C. (N.S.) 236 (1986)]

Q. Did the Commission recently again consider the use of the 4 CP allocation method for allocating the costs of KCPL's production and transmission plant?

A. Yes. In KCPL's 2006 rate case the Commission reaffirmed the use of the 4 CP method. At page 75 of its Report and Order in Case No. ER-2006-0314, the Commission stated:

> ...not only the Staff, but Praxair, Ford, and Missouri Industrial Energy Consumers support the 4 CP methodology. Their evidence showed that a 4 CP methodology for a utility such as KCPL is appropriate because its non-summer peak demands are significantly lower than the summer peak demands. Moreover, Praxair witness, Maurice Brubaker, has testified hundreds of times on cost allocation issues, and his testimony was that the Commission should use the 4 CP method. In addition, Staff witness Maloney convincingly disputed KCPL's claim that its system is similar to The Empire District Electric Company's system, for which Staff recommends a 12 CP method. Maloney testified that Empire 's winter peaks are higher in relation to its summer peaks than are KCPL's peaks. The less developed gas distribution system in Empire's more rural service area results in more electric space-heating use in Empire's area, accounting for a higher winter load for Empire than for KCPL. KCPL's lower winter load suggests that a 4 CP allocation is more appropriate that a 12 CP method.

Q. Were jurisdictional allocations at issue in KCPL's 2007 case?

A. No. Jurisdictional allocations were not presented to the Commission for decision in Case No. ER-2007-0291.

Q. Were jurisdictional allocations at issue in KCPL's last rate case?

A. Yes. In Case No. ER-2009-0089, KCPL used the same consultant, Mr. Loos, to develop proposals very similar to those he recommends in this case. The difference from the last case to this one is that the Company implemented in its revenue requirement model the proposals Mr. Loos presented in KCPL's last rate case, Case No. ER-2009-0089, for allocating plant, operation and maintenance costs. In this case (the 2010 rate case), KCPL has chosen to only implement Mr. Loos' recommendation regarding the allocation of off-system sales margins to Kansas and Missouri.

Q. Would you summarize the different demand allocation methods and off-system sales margins allocation methods KCPL has proposed in its rate cases before this Commission over the past thirty years or so?

A. Yes. The following table provides a summary of the different demand allocation methods and off-system sales margins allocation methods KCPL has proposed in its rate cases over the past thirty years, along with the methods Staff proposed and what the Commission did:

Missouri Demand Allocation Methods Proposed by KCPL and Staff			
Missouri Rate Case	**Demand Allocation Method Proposed by KCPL**	**Demand Allocation Method Proposed by Staff**	**Commission's Decision on Allocation Method**
ER-83-49	4 CP		Commission adopted
ER-85-185 (Wolf Creek rate case)	4 CP	1 CP	Commission adopted 4 CP
ER-2006-0314	12 CP	4 CP	Commission rejected 12 CP – adopted 4 CP
ER-2007-0291	4 CP	4 CP	Commission adopted 4 CP
ER-2009-0089	12 CP	4 CP	Case settled
ER-2010-0355	4 CP	4 CP	Pending

Missouri Off-system Sales Allocation Methods Proposed by KCPL and Staff			
Missouri Rate Case	**Allocation Method for Off-system Sales Proposed by KCPL**	**Demand Allocation Method Proposed by Staff**	**Commission's Decision on Allocation Method**
ER-83-49	Unknown	Demand Allocation Factor	Commission adopted
ER-85-185 (Wolf Creek rate case)	Unknown	Demand Allocation Factor	Commission adopted
ER-2006-0314	Unused Energy	Energy Allocation Factor	Commission adopted Energy Allocation Factor
ER-2007-0291	Energy Allocation Factor	Energy Allocation Factor	Commission adopted Energy Allocation Factor
ER-2009-0089	Demand Allocation Factor	Energy Allocation Factor	Case settled
ER-2010-0355	Demand Allocation Factor	Energy Allocation Factor	Pending

In Kansas, since 2006 KCPL consistently used the unused energy allocator to allocate off-system sales margins until its most recent 2010 rate case where it, instead, used a demand allocation method. The Kansas Commission rejected KCPL's proposal and continued to use the unused energy factor.

KCPL has consistently proposed using the 12 CP allocation method to allocate plant costs and expenses in Kansas, and this has been the method adopted by the Kansas Commission for many years.

KCPL DIFFERENT ALLOCATION METHODS

Q. Has Mr. Loos addressed the importance of state commissions being consistent in the methods they employ for jurisdictional allocations?

A. Yes. Much of his direct testimony discusses the inherent differences between the way Kansas and Missouri have approached jurisdictional allocations in the present, and in the past. Mr. Loos addressed this important matter in his direct testimony (page 5) filed in

Case ER-2009-0089 wherein he stated the following regarding the importance of regulatory consistency:

> Once an allocation basis is established and adopted by all jurisdictions that method should continue to be applied until circumstances change. Allocations that produce substantially different results from year to year may result in substantial shifts in costs that are unduly disruptive and inherently inequitable to customers and the Company. Further, changes in jurisdictional allocation bases should not be unduly disruptive to customers in any jurisdiction.

A review of KCPL's record on this issue in Missouri proves KCPL has not approached this allocation issue with consistency over many years in Missouri. My table above demonstrates this. I agree with Mr. Loos that consistency between jurisdictions in using the proper allocation methods is important. Over the years, Missouri has attempted to compromise on the differences between how Kansas and Missouri approach allocation methodologies. Once Missouri used a 1 CP approach, but, expressly in an effort to ameliorate the impacts and as an effort to compromise went to a 4 CP method when Kansas used a 12 CP method, a method it continues to use despite this Commission effort. Kansas has not made any movement regarding the jurisdiction allocation approach, but KCPL is asking, and expecting this Commission to make further moves to attain conformity between the jurisdictional allocation methods used in Kansas and in Missouri. Staff has consistently used a 4 CP allocation method since the early 1980s.

Q. Does Mr. Loos support the use of a 12 CP allocation method?

A. No. Mr. Loos has stated in the past he could not support the use of the 12 CP method, yet this is the method KCPL has presented and supported in both Kansas and Missouri rate cases, as recently as the 2006 rate case in Missouri. Mr. Loos has said that he would not recommend in Kansas or Missouri use of the 12 CP method to allocate KCPL's costs

among the Missouri, Kansas and FERC jurisdictions. In his deposition taken on March 18, 2009, Mr. Loos testified he did not support and would not use the 12 CP allocation method to determine the demand allocator as follows:

Q. In this case, NO. ER-2009-0089, did you recommend the use of the twelve coincident peak allocation basis to allocate KCPL costs between the Missouri, Kansas and FERC jurisdictions?

A. I did not.

Q. Why not?

A. As I indicated before, I prefer an allocation that better recognizes the maximum demand place on the system by customers, which is single CP, 4 CP, sometimes 3 CP.

Q. In your opinion would the twelve coincident peak allocation basis be an appropriate basis for allocating KCPL costs between Missouri, Kansas and FERC jurisdictions for a rate case before the Kansas Corporation Commission?

A. I wouldn't recommend it.

Q. And why not?

A. Because I believe that there are methods that are preferable to it, either single or 4 CP, yeah.

Q. The same reasons that you wouldn't recommend it in this case?

A. Uh-huh. Yes.

Q. Do you know the circumstance where you would ever recommend the use of the twelve coincident peak allocation basis for allocating costs among State and Federal jurisdictions for ratemaking purposes?

A. If the -- if the utility loads are relatively constant -- or essentially constant over twelve months, it would make a little difference. And under that situation it could capture and allocate additional amounts to perhaps some classes we didn't want to allocate it to.

[Loos March 18, 2009 deposition, page 31 and 32]

Q. Why is Mr. Loos' above testimony on the use of the 12 CP method significant?

A. Mr. Loos, in effect, through his testimony, has identified the real issue as it relates to jurisdictional allocations that has created numerous issues in cases before this Commission. Because the Kansas and Missouri commissions use two different approaches for jurisdictional allocations, there is potential for the sum of the parts not to equal the whole.

Because the Company has agreed to use in Kansas the allocation method its own witness, Mr. Loos opines is wrong, KCPL through its own voluntary actions, appears to place at risk rate recovery of some of its costs. Since KCPL voluntarily agreed to the 12-CP allocation method as part of an overall settlement in Kansas, one cannot conclude KCPL is not recovering all of its Kansas costs through rates in Kansas. The Missouri Commission should not be sympathetic to KCPL relating to the jurisdictional allocation situation it finds itself in, as, if it is in a predicament; it is the Company who has put itself into that predicament.

Ironically, KCPL agreed to use the 12-CP method in its version of the regulatory plan in Kansas which requires the Company to use this improper allocation method for all four of the rate cases contemplated in that Kansas plan. As noted previously, Mr. Loos' analysis of KCPL's customers use of its electrical system provides the best evidence of what type of allocation method to use to assign plant costs and expenses—the 4-CP method.

Q. Mr. Loos states at page 13, line 18, of his direct testimony that "regardless of the nature of costs and cost drivers, an allocation that does not permit the utility a reasonable

opportunity to earn its allowed rate of return" is "patently unfair." Do you agree with this statement?

A. Yes. However, I disagree that KCPL has been denied an opportunity to earn its allowed rate of return. KCPL agreed to the use of the 12-CP allocation method in Kansas as part of global settlements reached with parties in that jurisdiction. KCPL had its reasons to settle those cases, and believed it was in its best interests to do so. One must assume that when KCPL accepted the terms of the agreements in Kansas it believed it was obtaining an opportunity to earn its authorized return. Simply because the Kansas Commission uses another allocation method should in no way influence this Commission to adopt proposals that are contrary to the public interest in Missouri, and even detrimental to Missouri customers. Use of the 12-CP allocation method in Kansas is irrelevant to this case. KCPL is to blame for the position it finds itself regarding the differences in the allocation methods used by the Kansas and Missouri commission. KCPL and Mr. Loos apparently believe it is up to Missouri retail customers to "fix" the crack that exists between the two different state methods for allocating costs. I suggest that KCPL stop agreeing to a method in Kansas that it knows full well is not acceptable in Missouri, the dominate jurisdiction. Missouri has always been the majority of KCPL's business, but it is even more so with the acquisition of the former Aquila Missouri electric properties, now referred to as properties of KCP&L Greater Missouri Operations Company.

If Kansas used the same 4-CP method of allocating costs that is used in Missouri, then the Company would get 100% of its costs recovered through consistent allocation methods, as suggested by Mr. Loos at page 14, line 15 of his direct testimony. The real problem with what Mr. Loos and KCPL have proposed in the past and are likely to propose in the future is that their proposal puts all the burden on the Missouri retail jurisdiction to fix whatever problems are

caused by the differing methods between the Missouri and Kansas commissions for allocating costs and revenues. Apparently, KCPL believes that Missouri has caused this issue and is now obligated to fix the problem relating to the jurisdictional allocations and, therefore, must take the responsibility to provide the solution, regardless of its impact on rates to the Missouri customers.

Q. Has KCPL been consistent in its use of allocation methodologies in its rate cases?

A. No. KCPL continues to present ever changing and inconsistent methods of allocations used to assign plant costs and various expenses to its three regulated jurisdictions. In the 2006 rate case, the Company proposed the use of a 12-CP method knowing full well that Missouri employed a 4 CP methodology, and had for many years dating back to the early 1980s.

In the 2007 rate case, KCPL adopted the 4-CP method of allocating costs to Missouri and used the energy allocator to assign the margin from off-system sales.

In the 2009 rate case, while the Company said it was using the 4-CP method of developing the allocation factors, it applied them inconsistently by using a combination of demand and energy allocators to certain plant and non-wage maintenance costs. It used the demand allocator to allocate a smaller share of off-system sales margins to Missouri than it did in its 2007 rate case.

Q. Has the Company used inconsistent allocation methods in Kansas?

A. No. In Kansas, KCPL uses and has used a consistent allocation methodology called the 12-CP method, or the maximum hourly peak demand for the full calendar year—12-months peak demands. Even though KCPL now opposes the use of its own creation, the Company uses in Kansas what it refers to as an "Unused Energy Allocator" method to assign to the Kansas jurisdiction a disproportionate share of off-system sales margins.

Both the use of 12-CP method and the unused energy allocator result in assigning less plant costs and expenses to Kansas, even though they are the less efficient operations of KCPL. At the same time, KCPL assigns more of the off-system sales margins to the Kansas jurisdiction through the use of the unused energy allocator. In essence, Kansas retail customers pay for less plant and get more off-system sales profit. All of these approaches presented by KCPL in the past would have resulted in higher revenue requirement shifts to Missouri and ever higher rates.

System Load Factors

Q. Is KCPL as efficient in Missouri as it is in Kansas in supplying electricity to meet its customers' demands for electricity?

A. It is more efficient in Missouri. A common measure of how efficiently a utility is meeting its system load requirements is its load factor. The load factor in Missouri has consistently been higher than in Kansas. And despite KCPL's load factor for Missouri being better than it is for Kansas, the Company proposes to allocate to Kansas a disproportionate share of off-system sales margins. The higher Missouri rates will be even higher if KCPL's proposals for jurisdictional allocations are adopted in this case.

Q. What is load factor?

A. Load factor is a measure of the efficiency of the use of the physical facilities to deliver electricity to customers. More specifically, it is the ratio of the system output to peak demand during a specific period of time, either monthly or, more typically, on an annual basis. Load factor is expressed as a percentage. The higher the load factor, the more efficient the system. An electric utility like KCPL, serving three different jurisdictions, Missouri retail, Kansas retail and FERC wholesale, has separate load factors for each jurisdiction. Historically,

Missouri has had the best load factor; therefore, it is KCPL's most efficient operation compared to the other two jurisdictions.

Q. How are load factors determined?

A. The load factor is calculated by dividing the average hourly load by the maximum hourly load for the given year. For 2005, the average hourly load was for Missouri was 1,038.5 megawatts with the maximum hourly load (annual peak load) of 1,856.1 megawatts, resulting in the 56% load factor above [Date Request 513, Case No. ER-2006-0314].

Q. Why does KCPL's Missouri jurisdiction have a better load factor than its Kansas jurisdiction?

A. KCPL has a better "mix" of customers between the different rate classes in Missouri than it does in Kansas. KCPL's Missouri operations comprises a more diverse mix of residential, commercial and industrial (large users) classes of customers which allows it to more efficiently use its facilities, which in turn results in lower overall costs. KCPL's customers in Missouri are a better mix of small, medium and large customers that provide better use of KCPL's facilities, and a higher load factor.

Q. Has KCPL had a better load factor in its Missouri jurisdiction than its Kansas jurisdiction in the past?

A. Yes. Since I have been involved with KCPL rate cases dating back to the early 1980s, KCPL's Missouri jurisdiction has had the better load factor of the two states.

Q. Would you provide KCPL's historical load factors in its Missouri, Kansas and FERC jurisdictions?

A. Yes. The following represents the load factors in the two state jurisdictions, along with the wholesale jurisdiction:

Year	Missouri	Kansas	Wholesale
2009	59%	44%	51%
2008	57%	49%	46%
2007	56%	48%	46%
2006	52%	45%	62%
2005	56%	47%	59%
2004	55%	46%	56%
2003	51%	44%	54%
2002	55%	47%	56%
2001	54%	46%	56%
2000	56%	46%	53%
1999	55%	44%	53%

[Source: Data Request 416 in Case No. ER-2010-0355; Data Request 513 in Case No. ER-2006-0314]

KCPL's Missouri jurisdiction load factor has consistently been better than its load factor for its Kansas jurisdiction. The above load factors are very similar for each jurisdiction dating back to 1987, the earliest information KCPL provided to Staff. During this time, the Missouri jurisdiction has been in the mid- to lower 50% range while the Kansas jurisdiction has always had a load factor ranging from a low of 37% in 1986 to a high of 47% in 2002 and 2005.

KCPL's wholesale jurisdiction has a comparable load factor to the Missouri jurisdiction, however, the wholesale jurisdiction is a very small part of KCPL's total operations.

Q. Are there benefits to having a better load factor?

A. Yes. The more efficient operations result in lower costs to serve Missouri customers, but KCPL's customers in the other two jurisdictions also enjoy lower costs as a result

of Missouri's relatively high load factor. The reasons for the lower costs to serve Missouri customers is the better utilization of generating and transmission facilities, resulting in better than average system costs related to these facilities.

Q. How do KCPL's Kansas retail and wholesale customers benefit from Missouri's lower than average system costs?

A. Since Missouri has lower than average system fuel costs than the other two KCPL jurisdictions, the energy allocator KCPL used allocates the benefits of Missouri's lower fuel costs among all jurisdictions. Thus, Kansas, with a lower load factor than Missouri, benefits from Missouri's higher load factor because of the way fuel and purchased power costs are allocated to the various jurisdictions using the energy allocator. The wholesale customers benefit in the same way.

Q. How do KCPL's Kansas retail and wholesale customers benefit from Missouri's relatively high load factor?

A. The answer lies in how fuel and purchased power costs are determined in an electric rate case. Utilities, as well as other parties including Staff, use a computer model called a production cost model (commonly referred to as a fuel model) to simulate the operations of the utility's generating units in the production of electricity to meet the utility's system load requirements. Staff uses a model called RealTime. For a detailed discussion of the production cost model used by Staff in this case, see Staff witness Shawn Lange's description in the Staff's Cost of Service Report filed November 10, 2010 in this case. KCPL also uses a model to develop its fuel and purchased power costs for its generating requirements. Both models identify the costs of generation for the KCPL electric system on a total company basis, including all three jurisdictions, Missouri retail, Kansas retail and wholesale.

The electric loads of the total company system are met by producing and/or purchasing power. The fuel model determines the optimal way to meet the system load requirements using a set of assumptions and inputs. The fuel model identifies the least cost generation, or purchases, to meet the next block of demand of electricity. This process is known as joint dispatch. Since the fuel model is developed on a company-wide basis to meet the entire system demand, an allocation method must be used to allocate fuel costs to each jurisdiction.

Q. Does the use of joint dispatch for the system result in efficiencies?

A. Yes. All three jurisdictions benefit from operating the system on a "joint" basis. The generating and purchasing decisions can be made to maximize the benefit to all three operating service areas when all the system load requirements are considered together. However, the jurisdiction with the best system load factor (in this case, Missouri retail) provides benefit to the other two jurisdictions, (in this case, Kansas retail and FERC wholesale) because KCPL's average costs for its Missouri retail jurisdiction are lower than the total system average costs. In other words, the Kansas retail and FERC wholesale jurisdictions benefit from the Missouri retail jurisdiction's higher load factor. The Missouri retail jurisdiction, with its better load factor, could use KCPL's generating fleet more efficiently if it were a stand-alone system. KCPL's more efficient operations in its Missouri retail jurisdiction benefit KCPL's Kansas retail and FERC wholesale customers by lowering KCPL's overall fuel and purchased power costs, which would otherwise be higher on average than those KCPL would incur to serve its Missouri jurisdiction.

Q. Has KCPL made an adjustment in its case to reflect the lower average fuel and purchased power costs for its Missouri jurisdictional operations?

A. No. KCPL has neither reflected in its rate filing an adjustment nor included the results of Missouri operations having lower average system costs in its fuel and purchased power model. The joint dispatch and allocation methodology is such that any reduction to overall costs resulting from the Missouri retail jurisdiction's lower average costs is shared among the jurisdictions. As an example, with the Missouri retail jurisdiction having a better load factor, it would have lower average fuel and purchased power costs compared to the other two jurisdictions. These lower fuel and purchased power costs benefit not only the Missouri retail jurisdiction, but also the Kansas retail and FERC jurisdictions by virtue of the way these costs are allocated using the system energy allocator. Staff witness Bax developed the energy allocator which Staff used in this case. Through this allocation, all three jurisdiction benefit equally from the savings relating to using system average costs, as determined by the fuel model. Because the Missouri jurisdiction has a better load factor, its system average fuel costs are lower, yet it must "share" these savings with the higher than average fuel costs jurisdictions of Kansas retail and FERC wholesale.

KCPL is using the system average fuel and purchased power costs, which benefits Kansas retail customers when KCPL's Kansas retail jurisdiction does not have as good a load factor as its Missouri retail jurisdiction, and, therefore, has higher average fuel and purchased power costs.

Q. Does using system average costs to set rates adversely impact the jurisdiction that has the lowest average system costs?

A. Yes. Since, owing to its better load factor, the Missouri jurisdiction's average costs are lower than those of the other two jurisdictions, the Missouri retail jurisdiction should have greater opportunities to benefit from the interchange market because the Missouri

jurisdiction's average costs are lower than those of the other two jurisdictions. Having lower system average costs means that KCPL's Missouri operations would, on a stand-alone basis, have an opportunity to make more off-system sales, not less, at market-based prices, compared to higher cost companies such as the Kansas retail and wholesale jurisdictions of KCPL. These additional off-system sales would benefit KCPL's Missouri customers.

However, as noted earlier, KCPL's lower fuel costs in its Missouri retail jurisdiction get averaged in with the higher than average costs of the other two KCPL jurisdictions. Thus, the overall average system fuel costs are higher than Missouri jurisdiction's average fuel costs causing it to be less favorable to make off-system sales in the Missouri jurisdiction than would exist if the Missouri retail jurisdiction's average fuel costs could be used on a stand-alone basis.

Despite its Missouri jurisdiction having the better load factor, KCPL's method of allocating off-system sales in this case penalizes the very jurisdiction that should get the majority of the benefit from these sales. KCPL's Missouri retail customers should receive the benefit of Missouri's better load factor. Instead, KCPL proposes an adjustment through an allocation methodology to divert off-system sales profits from its Missouri retail customers to jurisdictions that have less favorable load factors.

JURISDICTIONAL ALLOCATORS USED FOR PRODUCTION PLANT INVESTMENT

Q. How should KCPL's investment in production plant be allocated among the Missouri retail, Kansas retail and FERC jurisdictions in this case?

A. As indicated earlier, a demand allocation factor has been traditionally used to allocate the costs of and investment in production (generating) facilities in rate cases before this Commission. Staff continues to believe this is the proper type of allocator for this plant

investment and for transmission facilities. Unlike KCPL, Staff drew no distinction between the environmental plant investment for production facilities and the other production investment at those facilities.

Q. What does KCPL propose in this case regarding the jurisdictional allocation of the costs of its production facilities?

A. While Mr. Loos recommends allocating environmental plant investment for steam production facilities (the coal-fired generating units) using an energy allocator, KCPL uses a demand allocator method to allocate all plant investment steam production facilities to the state and federal jurisdictions—just as Staff has done. KCPL did not adopt Mr. Loos' recommendations in this case, but states it plans to do so in a future rate case. Mr. Loos proposes that KCPL's production facilities be allocated to the jurisdictions by using a demand allocator, the same as Staff, except Mr. Loos treats KCPL's environmental plant investment and its production facilities differently, and would allocate the cost of those facilities using an energy allocator instead. This is the same treatment for these production facilities he proposed in KCPL last rate case, except in that case KCPL actually based its revenue requirement calculations using the breakdown of plant investment separating the generating equipment out between production plant and environmental plant. Despite Mr. Loos making the same proposal in this case, KCPL has chosen not to adopt Mr. Loos' proposal in this case.

Mr. Loos makes a distinction between investment in facilities used to generate electricity and investment in environmental equipment attached to those facilities used to generate electricity. This distinction is important to Mr. Loos since he proposes using the Company's 53.38% demand allocator for the actual generating facilities, such as the turbine generator and boiler, but proposes the Company's 57.08% energy factor be used to allocate to the remaining

environmental equipment. This approach results in higher plant costs in rate base, higher depreciation expenses and higher operating and non-wage maintenance costs for the steam production plant investment allocated to Missouri. In addition, Mr. Loos proposes allocating maintenance expense for the production plant on the same basis as the plant itself-- by using an allocator that is a hybrid of the plant investment demand and energy allocators.

Q. Why did Mr. Loos propose these allocation methods if KCPL did not intend on using them?

A. KCPL indicated it was not using Mr. Loos' proposals in this case but will in a future case. In response to Data Request 415, the Company stated that because the Kansas Regulatory Plan required the use of a 12 CP allocator for plant and related operation and maintenance expenses, it could not propose consistent allocation methodologies in both states. KCPL said Mr. Loos would propose the use of a 4 CP method in both jurisdictions in future rate cases.

Q. Is it appropriate to allocate production plant costs to a jurisdiction by an allocator that is based on a combination of demand and energy allocators?

A. No. Staff is aware of no facts or theory that support breaking out the costs of production facilities based on whether they are from non-environmental production facilities such as turbines and generators or environmental plant such as scrubbers and SCR equipment used at production facilities. In Staff's view, KCPL's proposal is nothing more than an attempt to obtain the same result KCPL was seeking in its 2006 rate case, but through a different avenue. KCPL is attempting to move costs to Missouri and equalize an asserted revenue short-fall that allegedly exists because the Kansas Commission uses a different allocation method in Kansas than this Commission uses in Missouri. KCPL has unsuccessfully raised this assertion for years.

Q. Why is it inappropriate to allocate the costs of production facilities differently based on whether the facilities are non-environmental or environmental?

A. Power plants are designed to meet certain load requirements in provisioning electricity to native load customers. As discussed earlier, large base load units have high capital costs with generally lower operating costs. KCPL has chosen to allocate its coal-fired steam production costs assigning different allocation factors depending on whether the part of the production plant is classified as "environmental" or "non-environmental."

KCPL does not operate its production facilities separately based on whether it classifies the components of those facilities as being environmental or non-environmental. KCPL is spending, and has spent, $100s of millions of dollars on environmental equipment that has increased its customer rates. Customers are paying significantly higher rates because of this equipment. KCPL is not investing these sums of money, and its customers are not paying increased rates, for this equipment to sit idle. The environmental equipment has caused significant increases in plant investment over the last several years, and will cause future increases in investment as other power plants are retrofitted with new environmental equipment. This environmental equipment is connected to the power plant and, while the power plant can generate electricity without it, KCPL will not be able to lawfully operate the plant without the environmental equipment. That environmental equipment is as important to the power plant as the steam turbine, generator and the steam boiler itself. No compelling distinction exists for allocating the costs of the environmental equipment on a different basis than the rest of KCPL's production facilities.

Like the costs of the rest of the power plant components, the costs of the environmental equipment should be allocated using a demand allocation factor.

Q. Overall, what effects do KCPL's jurisdictional allocation methods have on its cost of service in this case?

A. KCPL's proposed allocation methods, if adopted, would result in the allocation more of KCPL's production plant investment to the Missouri retail jurisdiction, along with increased depreciation expense and maintenance expenses. The effects of increasing the allocated costs will result in higher rates to Missouri retail customers.

Q. Does Staff continue to oppose Mr. Loos' recommendation regarding the allocation of production plant investment to the Missouri jurisdiction?

A. Yes. Despite KCPL not using Mr. Loos' recommendations in this case, Staff continues to not support this method of allocation. KCPL may request this allocation treatment in future rate cases, at which time the Commission can make a determination as to the merits of this recommendation. But since KCPL has not requested this allocation method in this case, the Commission does not have to make a decision on this subject in this case.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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 Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 44 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Subscribed and sworn to before me this 8th day of December, 2010.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Notary Public