EXHIBIT

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

BEFORE THE

PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

FILED
NOV 13 2006
Missouri Public Service Commission

REBUTTAL TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF

THE OFFICE OF PUBLIC COUNSEL

"NP" Version

** CONTAINS KCPL-DESIGNATED "HIGHLY CONFIDENTIAL" INFORMATION WHICH HAS BEEN REDACTED**

September 8, 2006

OPC Exhibit No. 211
Case No(s). ER-2006-0314
Date 10-16-06 Rptr XF

NP

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF RALPH C. SMITH

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

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

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

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 8, Attachment RCS-R1, and Schedule RCS-R1.

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

Ralph C. Smith
Ralph C. Smith
Senior Regulatory Consultant

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

Hugh Larkin, Jr.
Notary Public

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

My commission expires ________________.

I. INTRODUCTION

Q. Please state your name and business address.

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

Q. Are you the same Ralph C. Smith who filed direct testimony on behalf of the Missouri Office of Public Counsel ("OPC") concerning issues affecting the revenue requirement of Kansas City Power & Light Company ("KCPL" or "Company") in this case?

A. Yes.

Q. Have you included any Attachments with your rebuttal testimony?

A. Yes. Attachment RCS-R1 presents KCPL's response to Staff DR 0502.

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

A. Yes. I prepared Schedule RCS-R1.

II. JURISDICTIONAL ALLOCATION OF OFF-SYSTEM SALES MARGIN

Q. What issues are addressed in your rebuttal testimony?

A. I address an issue concerning the allocation of off-system sales margins to the Missouri retail jurisdiction.

Q. How did that issue come to your attention?

A. The issue concerning the allocation of off-system sales margins to the Missouri retail jurisdiction came to my attention as the result of reading Staff's testimony, reviewing a Reconcilement of Off-System Sales Margin[1] that identified and quantified differences between Staff and KCPL including a significant jurisdictional allocation difference, and from reviewing responses to discovery requests, including KCPL's response to Staff DR 0502.

Q. Please explain your understanding of the difference between KCPL's and Staff's approach to determining the Missouri retail jurisdictional allocation of off-system sales margin.

A. KCPL proposes using in the current case, a new "Unused Energy Allocator" of 46.97% for the Missouri retail jurisdictional allocation of its proposed amount of off-system sales margin. The basis for KCPL's use of that "Unused Energy Allocator" factor is described in the Company's response to Staff DR 0502(1)[2].

In contrast with the application of this new KCPL "Unused Energy Allocator" factor, the information provided by KCPL indicates that the Missouri retail jurisdictional allocation using KCPL's Energy Allocator is 57.12%. Staff's filing used a slightly different energy-based factor of 56.68% to allocate the off-system sales margin (off-system revenues and off-

[1] In response to a request from OPC, PSC Staff witness Steve Traxler provided a copy of the Reconcilement that had previously been provided to KCPL.
[2] A copy of that response is provided for ease of reference in Attachment RCS-R1.

system cost of sales) to the Missouri retail jurisdiction. The Staff's energy allocator is presented in the Direct Testimony of Staff witness Erin Maloney beginning at page 10.

Q. Has KCPL ever previously proposed using an Unused Energy Factor for the jurisdictional allocation of off-system sales margins?

A. No. The Company's response to Staff DR 0502(1) indicates that the Unused Energy allocation methodology for non-firm energy sales "margin" has not previously been proposed or adopted in any KCPL rate proceedings in Missouri or Kansas. KCPL is proposing such an allocation method for the first time in its current rate case filing in Missouri, and in its current rate case filing in Kansas.

Q. Prior to the current case, what method of allocation did KCPL use for jurisdictional allocation of non-firm energy revenues?

A. As stated in the Company's response to Staff DR 0502(1), in KCPL's previous rate case filings and KCPL's annual surveillance reporting, KCPL dealt with the gross level of off-system revenues without a breakout of margin and cost components embedded in those gross revenues, and <u>KCPL jurisdictionally allocated the gross level of non-firm energy revenues using an Energy allocator</u>.

Q. Has KCPL indicated that it continues to endorse the allocation of the "cost" portion of the non-firm energy revenues using an Energy allocator?

A. Yes. The following statement is included in the Company's response to Staff DR 0502(1): "It was determined that <u>it is appropriate to allocate the 'cost' portion of non-firm energy revenues using the Energy allocator, because that is how the fuel and energy purchases that are used to generate the non-firm energy sales are allocated</u>." (Emphasis added.)

Q. Why does KCPL then propose using a different allocation in its current Missouri (and Kansas) rate cases?

A. KCPL's reason for changing its previously used jurisdictional allocation (that was based on an Energy factor) to its newly proposed Unused Energy Factor is described in its response to Staff DR 0502(1) where KCPL stated the following opinion: "Proper allocation of the margins is dependent upon and should be consistent with how the total generation costs, not just the fuel and energy purchases costs, are being allocated."

Q. What problems does the change in jurisdictional allocation proposed by KCPL in the current case present?

A. The change proposed by KCPL in the jurisdictional allocation of off-system sales revenues presents at least two fundamental problems:

(1) It results in an unreasonable and substantially <u>lower</u> amount of off-system sales margin being allocated to the Missouri retail jurisdiction than would result from the continued use of an Energy allocator. Staff's Reconcilement of Off-System Sales Margin workpaper quantifies the

amount of difference (using KCPL's proposed off-system sales margin of ** [redacted] **) at approximately ** [redacted] **. The difference would be even greater if OPC's proposed total system off-system sales margin was used. This results from the 10.15% difference between (a) KCPL's new Unused Energy Allocator, which produces a Missouri retail jurisdictional allocation of only 46.97%, and (b) KCPL's Energy allocator which would produce a Missouri retail jurisdictional allocation of 57.12%.

(2) It creates a potential inconsistency in the allocation of off-system sales margin between the jurisdictions. If the Missouri retail jurisdictional allocation is based on an Energy allocator, consistent with prior practice, as recommended by Staff, but no corresponding change is made to the Kansas retail jurisdictional allocation in KCPL's currently pending Kansas rate case, the use of inconsistent jurisdictional allocations between the two states and the FERC[3] share of a jurisdictional allocation could result in jurisdictional allocations for off-system sales margins that do not add up to 100%.

Q. What other concerns do you have regarding KCPL's proposed "Unused Energy Allocator"?

A. Other concerns include the fact that it is arbitrary and is flawed as a measure of available energy and as an allocator of off-system sales margin.

Q. Please explain how KCPL's proposed "Unused Energy Allocator" is arbitrary and flawed as

[3] A small portion of off-system sales margin (less than 1%) is allocated to the FERC jurisdiction.

a measure of available energy.

A. Any measure of true "available energy" should be based on generation availability, not a residual load computation. It is certainly not calculated by multiplying average coincident peak ("CP") load by 8760 hours. This value is an arbitrary number with no particular relationship to energy actually available from jurisdictional generation. It is a load-based derivation. An alternative, arbitrary computation could be done using, for example, summer peak load rather than the 12 month average CP load. Such an exercise would produce a higher "available energy", although just as arbitrary.

True available energy might be more accurately computed by looking at each of KCPL's generation resources, however, even that would be insufficient because it excludes purchased power resources. For example, KCPL's generation portfolio includes approximately 4,053 MW of nuclear, coal, oil and gas units, excluding any purchased power contracts, according to KCPL's most recent SEC 10K filing. Applying a conservatively assumed fleet average availability factor as low as 80% results in "available energy" of more than 28 million MWh, compared with KCPL's computed 23 million MWh that is shown in the Company's response to Staff DR 0502.

Q. Why is KCPL's proposed "Unused Energy Allocator" flawed as an allocator of off-system sales margin?

A. KCPL's "unused energy" allocator is flawed because, even if a person could accurately ascertain an "unused energy" measure (something which KCPL's allocator does not accomplish), it does not follow that such unused energy is proportionate to the fixed and variable costs of the generation used to make the off-system sales. In summary, KCPL's computed "unused energy" metric is a fiction, and the resulting allocation is both arbitrary and flawed.

Q. What impact would using an Energy allocator have on the recommendation that you previously presented on behalf of the OPC concerning the amount of off-system sales margin that should be reflected in the determination of the KCPL Missouri jurisdictional revenue requirement in this case?

A. The use of an Energy allocator would have a material impact on the amount of off-system sales margin that should be reflected in the determination of the KCPL Missouri jurisdictional revenue requirement in this case. Schedule RCS-R1 presents a calculation to illustrate this impact, using both the 56.68% Energy factor proposed by Staff and the 57.12% Energy factor identified by KCPL. As shown on Schedule RCS-R1, the use of Staff's 56.68% Energy factor would increase the OPC adjustment for off-system sales margins allocated to the Missouri retail jurisdiction to ** [redacted] ** This is an increase of ** [redacted] ** over the ** [redacted] ** Missouri jurisdictional amount in my direct testimony. As also shown on Schedule RCS-R1, the use of KCPL's 57.12% Energy factor would increase the OPC adjustment to ** [redacted] **, which is an increase of ** [redacted] ** on a Missouri retail basis over the ** [redacted] ** amount in my direct testimony.

Q. Does this complete your rebuttal testimony at this time?

A. Yes, it does.

DATA REQUEST– Set MPSC_20060822
Case: ER-2006-0314
Date of Response: 08/30/2006
Information Provided By: Lois Liechti
Requested by: Traxler Steve

Question No. : 0502
1) Identify all prior rate orders in Missouri or Kansas where KCPL's proposed Unused Energy method for allocating Non Firm Interchange Sales Margin has been adopted. 2) How long has KCPL been using the Unused Energy allocation method for allocating Non Firm Interchange Sales Margin in calculating the Fuel Adjustment Clause in Kansas? 3) Provide the allocation factor used, for Non Firm Interchange Sales Margin in the Kansas fuel adjustment clause calculations for the last three years by month. 4) Identify any rate orders in any other jurisdiction where KCPL's method for allocating Non Firm Interchange Sales Margin has been adopted. 5) Confirm Staff's understanding that KCPL's current rate case in Kansas allocated the Non Firm Interchange Sales Margin on 53.0325% allocation factor consistent with the factor being proposed for Missouri in KCPL's June 30 updated cost of service.

Response:

1) The Unused Energy allocation methodology for non-firm energy sales "margin" has not previously been proposed or adopted in any KCPL rate proceedings in Missouri or Kansas. KCPL first proposed the use of the Unused Energy allocation methodology for non-firm sales "margin" in the current rate case filings in Missouri and Kansas.

   Prior to these cases the Company's rate case filings and annual surveillance reporting dealt only with the gross level of off-system revenues without a breakout of the "margin" and "cost" components embedded in those gross revenues. KCPL's prior surveillance reporting allocated the gross level of non-firm energy revenues using the Energy allocator. This allocation method did not focus on the margins.

   In preparing the cases to file in both Missouri and Kansas, the Company re-evaluated the allocation methodology being utilized. It was determined that it is appropriate to allocate the "cost" portion of non-firm energy revenues using the Energy allocator, because that is how the fuel and energy purchases that are used to generate the non-firm energy sales are allocated.

   When evaluating what the proper methodology for allocating the "margin" portion of the non-firm energy sales should be, however, it quickly became obvious that it is inappropriate to allocate the margins using only the Energy allocator. Proper allocation of the margins is dependent upon and should be consistent with how the total generation costs, not just the fuel and energy purchases costs, are being allocated. The Unused Energy allocation methodology that the Company is proposing incorporates both the Demand and Energy allocators, which are used to allocate the fixed and variable costs of generation, respectively. The first step in the calculation of the Unused Energy allocator is to calculate the "Available Energy" that the jurisdictions have paid for through the Demand allocation methodology. The actual energy used, which is the basis for the Energy allocator, is then subtracted from the "Available Energy" to arrive at the "Unused Energy". The "Unused Energy" is essentially a measure of the portion the fixed costs that the jurisdictions have paid for but not used and is, thus, also a measure of the energy available to make off-system energy sales. A calculation of the Unused Energy allocator is contained in the attached file, "Unused Energy Allocator.xls".

2) KCPL does not currently have a Fuel Adjustment Clause in Kansas, and KCPL did not include a Fuel Adjustment Clause in its filing for its current Kansas rate case. KCPL did, however, propose the same Unused Energy allocation methodology for non-firm sales "margin" in its current Kansas rate case filing that it proposed in its Missouri rate case. KCPL proposed all allocation methodologies on a consistent basis in its current Missouri and Kansas rate cases.

3) KCPL does not currently have, nor has it had in the past three years, a Fuel Adjustment Clause in Kansas.

4) The Company did not do any exhaustive research on the allocation methodologies approved in other jurisdictions, which relate specifically to the margin on non-firm energy sales.

   Many companies do not report the margin component of non-firm energy sales. Many jurisdictions allocation methodologies were developed at a time when non-firm energy sales were not priced at market but rather at cost plus a small margin.

5) As a point of clarification, the 53.0325% allocation factor is the "non-Missouri", or Kansas (52.2468%) plus FERC (0.7857%), allocation for non-firm sales margin being proposed in KCPL's June 30 updated cost of service. The methodology for all allocations, including allocation of the non-firm sales margin, is consistent between the Missouri and Kansas cases. In the Kansas case, the KCC Staff and KCPL are currently working from the original filing rather than from a June 30 update, so the actual value of the Kansas allocator for non-firm sales margin is slightly different than the 52.2468% above, but the methodology used to arrive at the factor is the same.

ATTACHMENT: Unused Energy Allocator.xls

Kansas City Power and Light Co **Unused Energy Allocator**

Unused Energy Allocator Used in KCPL's June Update

		Missouri	Kansas	FERC	Total
Demand Allocator (D1)					
Average CP Load (MW)		1,427.4	1,201.5	23.2	2,652.2
Demand Allocator	D1	53.82%	45.30%	0.88%	100.00%
Energy w/ Losses Allocator (E1)					
Energy Used (MWH)		8,960,193	6,583,077	144,287	15,687,557
Energy w/ Losses Allocator	E1	57.12%	41.96%	0.92%	100.00%
Unused Energy w/ Losses Allocator (UE1)					
Average CP Load (MW)		1,427.4	1,201.5	23.2	2,652.2
x Hours in Year		8760	8760	8760	8760
Available Energy (MWH)		12,504,203	10,525,441	203,572	23,233,216
- Energy Used (MWH)		8,960,193	6,583,077	144,287	15,687,557
Unused Energy (MWH)		3,544,010	3,942,364	59,285	7,545,659
Unused Energy w/ Losses Allocator	UE1	46.97%	52.25%	0.79%	100.00%

Rationale for Allocating Off-System Sales Margins based on Unused Energy Allocator

As can be seen in the calculation above, the Unused Energy Allocator is calculated based on the same underlying data as is used to calculate the Demand and Energy Allocators.

Plant, capacity purchases and other fixed costs are typically allocated to the jurisdictions using the Demand Allocator.

Total fuel cost and energy purchases (including fuel and energy purchases used for off-system sales) are typically allocated to the jurisdictions using the Energy Allocator.

Given how the generation costs, both fixed and variable, are being allocated to the jurisdictions, what is the appropriate way to allocate the credit to the jurisdictions for off-system sales?

First, it is clear that revenues from capacity sales should be allocated to the jurisdictions based on the Demand Allocator, because that is how the costs for plant, capacity purchases, and other fixed costs have been allocated to the jurisdictions. In other words, the jurisdictions are being reimbursed for the costs that have been charged to them

Second, it is also clear that the portion of the revenues from off-system energy sales that cover the costs to produce those sales (fuel and/or energy purchases) should be allocated to the jurisdictions based on the Energy Allocator, because that is how the costs for the fuel and energy purchases used to produce those off-system sales have been allocated to the jurisdictions. In other words, the jurisdictions are being reimbursed for the costs that have been chargec to them.

How then should the "margin" portion of the revenues on off-system energy sales be allocated to the jurisdictions? The allocation of the margins is dependent on and must be consistent with how the total generation costs are being allocatec to the jurisdictions (Demand and Energy Allocators). Through the Demand Allocator the jurisdictions have essentially paid for the "rights" to a certain level MWH output. This "Available Energy" is calculated by multiplying the average CP load by 8760 (the hours in a year). The "Unused Energy" is calculated by subtracting a jurisdiction's actual "Energy Used" from its "Available Energy". The "Unused Energy" is essentially a measure of the portion the fixed costs that the jurisdictions have paid for but not used, and is also a measure of the energy available to make off-system energy sales.

Demand Allocator Used in KCPL's June Update

	CoinMOPeak	CoinKSPeak	CoinResale	WNPeak
Jan	1,299	1,113	25	2,436
Feb	1,270	1,077	24	2,371
Mar	1,142	930	20	2,092
Apr	1,078	848	18	1,944
May	1,478	1,224	20	2,722
Jun	1,805	1,525	26	3,356
Jul	1,903	1,644	29	3,575
Aug	1,815	1,589	29	3,433
Sep	1,540	1,317	26	2,883
Oct	1,186	936	15	2,137
Nov	1,239	1,046	23	2,308
Dec	1,373	1,170	25	2,568
MAX	1,903	1,644	29	3,575
AVERAGE	1,427.4	1,201.5	23.2	2,652.2

Demand Allocator
Jurisdictional COS for Revenue (June 2006 Update)
Adjusted for Weather and Growth in Number of Customers

Production and Transmission Demand Allocators (D1, D2)

Jurisdiction	12-CP Loads	D1, D2 Allocator
Missouri	1,427.4	53.8204%
Kansas	1,201.5	45.3034%
SFR	23.2	0.8762%
Total	2,652.2	100.0000%

Energy Allocators Used in KCPL June Update

ENERGY WITH LOSSES (E1)

	MWH	E1 Allocator
MISSOURI	8,960,193	57.1166%
KANSAS	6,583,077	41.9637%
SALES FOR RESALE	144,287	0.9198%
TOTAL	15,687,557	100.0001%

ENERGY WITHOUT LOSSES (E2)

	MWH	E2 Allocator
MISSOURI	8,505,252	57.2379%
KANSAS	6,216,341	41.8342%
SALES FOR RESALE	137,889	0.9280%
TOTAL	14,859,482	100.0001%

NP

Kansas City Power & Light Company

Schedule RCS-R1

Adjustment for Off System Sales Margin

Line No.	Description	Amount ($000)	Reference
	I. Impact of Using Staff's Energy Allocator		
1	KCPL Median (50/50) amount	** **	C. Giles Testimony Page 24.
2	Staff proposed jurisdictional allocation	** **	Reconcilement of Off-System Sales Margin
3	Mo. Jurisdictional level of off-system sales margin	** **	Line 1 x Line 2
4	KCPL proposed test year amount	** **	Reconcilement of Off-System Sales Margin
5	Adjustment to Missouri jurisdictional amount	** **	Line 3 - Line 4
6	Previously presented adjustment	** **	Schedule RCS-1 filed with direct testimony
7	Increase in adjustment to Mo jurisdictional amount	** **	Line 5 - Line 6
	II. Impact of Using KCPL's Energy Allocator		
8	KCPL Median (50/50) amount	** **	C. Giles Testimony Page 24.
9	Jurisdictional allocation using KCPL Energy allocator	** **	Reconcilement of Off-System Sales Margin
10	Mo. Jurisdictional level of off-system sales margin	** **	Line 8 x Line 9
11	KCPL proposed test year amount	** **	Reconcilement of Off-System Sales Margin
12	Adjustment to Missouri jurisdictional amount	** **	Line 10 - Line 11
13	Previously presented adjustment	** **	Schedule RCS-1 filed with direct testimony
14	Increase in adjustment to Mo jurisdictional amount	** **	Line 12 - Line 13

NP