Exhibit No.:	
Issue:	Allocations Bad Debts on Pro Forma Revenues
Witness:	Don A. Frerking
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2006-0314
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2006-0314

SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
October 2006

SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

Case No. ER-2006-0314

Q. Please state your name and business address.

A. My name is Don A. Frerking. My business address is 1201 Walnut, Kansas City, Missouri 64106.

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

A. I am employed by Kansas City Power & Light Company ("KCPL") as Senior Regulatory Analyst.

Q. Are you the same Don A. Frerking who pre-filed direct and rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose is to provide surrebuttal testimony regarding allocation methodologies, specifically the use of 4-CP vs. 12-CP for Demand allocation and the use of the Company's proposed "Unused Energy" allocator for allocating the margin component of non-firm off-system energy sales. I will be responding individually or collectively, where multiple witnesses made the same or similar points, to the rebuttal testimony of witnesses: Cary G. Featherstone, Steve M. Traxler, Lena M. Mantle, and Erin L. Maloney of the Missouri Public Service Commission (MSPC) Staff (Staff); Ralph C. Smith on behalf of the Office of the Public Counsel (OPC); James R. Dittmer

and Gary C. Price on behalf of the Department of Energy – National Nuclear Security Administration (DOE); and Maurice Brubaker on behalf of the Praxair, Inc. and Missouri Industrial Energy Consumers (Praxair/MIEC).

Q. Are there any other topics that you will be addressing?

A. Yes, I will be addressing the issue of bad debts on pro forma revenues.

I. ALLOCATIONS

4-CP vs. 12-CP Demand Allocation

Q. What is the Company's proposed Demand allocation methodology for the allocation of plant and other fixed costs associated with production and transmission assets?

A. The Company is proposing the use of a 12-Coincident Peak (CP) Demand allocation methodology for allocating the plant and other fixed costs associated with production and transmission assets. The Staff and other parties are proposing the use of a 4-CP Demand allocation methodology.

Q. Have any of the other parties to this case addressed the issue of 4-CP vs. 12-CP Demand allocation in their rebuttal testimonies?

A. Yes, Staff witnesses Maloney and Featherstone and Praxair/MIEC witness Brubaker addressed the issue in their rebuttal testimonies.

Q. Can you describe, based on your understanding, the positions expressed by these witnesses on the issue of Demand allocation?

A. Yes, Staff witness Maloney and Praxair/MIEC witness Brubaker have suggested that the Company's relatively higher peak loads for the Missouri and Kansas retail and FERC jurisdictional wholesale customers during the summer months suggest that the use of the 4-CP Demand methodology is more appropriate than the Company's proposed 12-CP

Demand allocation methodology for allocating the plant and other fixed costs associated with production and transmission assets. In addition, Staff witnesses Maloney and Featherstone note that the 4-CP Demand allocation methodology was either agreed to by the parties or ordered by the MPSC in one or more KCPL cases in the 1980s.

Q. Does the Company agree that Company's relatively higher peak loads for the Missouri and Kansas retail and FERC jurisdictional wholesale customers during the summer months suggest that the use of the 4-CP Demand methodology is more appropriate than the Company's proposed 12-CP Demand allocation methodology for allocating the plant and other fixed costs associated with production and transmission assets?

A. No, it does not. The Company believes that the 12-CP Demand allocation methodology is more appropriate.

Q. Please summarize the Company's rationale for using the 12-CP Demand allocation methodology.

A. The Company's rationale for the use of the 12-CP Demand allocation methodology is based on the operating and capacity planning realities of the Company's generation portfolio. The Company's capacity planning process takes into account all the hours of the year, not just the peak hour or any seasonal peaks. In addition, the Company utilizes periods of the year, typically in the spring and fall, with lower retail and FERC jurisdictional wholesale peak loads to perform necessary maintenance on its generating facilities and to pursue off-system sales while still maintaining adequate reserve margins. All of these operating and capacity planning realities are suggestive that a year-round view, or a 12-CP methodology, is more appropriate with respect to Demand allocation

than simply relying on the summer month peaks. The rationale is more fully addressed in my rebuttal testimony in this case.

Q. Does Staff agree that it is necessary to consider the full range of a company's operating realities including, in addition to system demand, scheduled maintenance, unscheduled outages, diversity, reserve requirements, and off-system sales commitments in determining the proper Demand allocation methodology?

A. That appears to be true, because Staff witness Maloney stated as much in her June 23, 2006 direct testimony in the Empire District Electric Case No. ER-2006-0315. However, for some unknown reason, in KCPL's current case Staff witness Maloney has not taken into consideration the full range of the Company's operating realities but rather has simply relied upon the FERC tests described in Chapter 5 of a publication entitled "A Guide to FERC Regulation and Ratemaking of Electric Utilities and Other Power Suppliers," Third Edition (1994), authored by Michael E. Small. Staff witness Maloney has ignored the Company's operating and capacity planning realities in her determination of the Demand allocation methodology for KCPL despite the fact that the publication that she utilized as the basis for her analysis clearly states the need to do so and that she stated the same in her direct testimony in the Empire case.

Q. You previously stated that Staff witnesses Maloney and Featherstone noted in their rebuttal testimonies that the 4-CP Demand allocation methodology was either agreed to by the parties or ordered by the MPSC in one or more KCPL cases in the 1980s. Why do you suppose they referenced these 1980s cases?

A. I suspect that they were attempting to imply that there was some sort of Commission precedent regarding the use of a 4-CP allocation methodology.

Q. Did Staff witness Featherstone include in his rebuttal testimony in this case the relevant section relating to Demand allocation methodology from the combined Report and Order in Case Nos. EO-85-185 and EO-85-224?

A. Staff witness Featherstone only included excerpts of this section in his rebuttal testimony.

Q. Can you provide the entire section relating to Demand allocation methodology from the combined Report and Order in Case Nos. EO-85-185 and EO-85-224?

A. Yes, the entire section is as follows:

> B. Production and Transmission System Demand Allocators
>
> Staff proposes that the one coincidental peak (1CP) methodology be used for purposes of determining system production and transmission demand allocators, while the Company proposes the four coincidental peak (4CP) method. The 1CP method produces production and transmission allocators of 65.10 and 59.81 respectively. The production and transmission allocators resulting from the 4CP method are 65.78 and 59.89 respectively.
>
> In the event the Commission determines the 1CP method to be appropriate, the Company recommends that non-fuel production expenses be classified as demand or energy related and that only demand related non-fuel production expenses be allocated by means of the 1CP allocator.
>
> Staff's 1CP method is based on the premise that sufficient plant capacity must be available to meet system peak and, therefore, the system peak is the primary determinant of plant cost.
>
> 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 the 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.
>
> KCPL argues that Staff is inconsistent in its allocation methods since it utilized the 12CP method for the last Union Electric rate case. Re: Union Electric Company, 27 Mo. P.S.C. (NS) 183 (1985). Company also argues that Staff uses inconsistent allocation methods for jurisdictional allocations and class allocations.

Staff's 1CP method is based on the peak responsibility theory of cost causation. Staff's time of use (TOU) allocation method, which Staff has advocated in this and other cost of service and rate design proceedings, is based on a rejection of the peak responsibility theory. Staff's TOU method is based on the theory that generation and bulk transmission plant is built to serve loads every hour of the year and not just the peak hour.

The Commission has rejected the theory that new capacity is added solely to meet system peak and peak responsibility allocation methods based on that theory. In rejecting the peak responsibility theory of cost causation, the Commission has accepted Staff's TOU method and its underlying theory of cost causation for the allocation of generation and bulk transmission plant among classes. Re: Arkansas Power & Light Company, 25 Mo. P.S.C. (NS) 101 (1982); Re: Kansas City Power & Light Company, 25 Mo. P.S.C. (N.S.) 605 (1983) and Re: Union Electric Company, 27 Mo. P.S.C. (N.S.) 183 (1985).

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 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.

Q. Does the combined Report and Order in Case Nos. EO-85-185 and EO-85-224 appear to you to establish a Commission precedent for the use of the 4-CP allocation methodology?

A. No, it appears to me that quite the contrary is true. It appears that the Commission in that case went out of its way to make it clear that it was choosing the 4-CP allocation methodology more as a rejection of the 1-CP allocation proposed by Staff in that case

rather than an implicit endorsement of the 4-CP allocation methodology. It appears clear that the Commission in that case endorsed the theory that generation and transmission assets are built to serve load throughout the year rather than just at the single peak or summer peaks. This would seem to be more supportive of the Company's proposed 12-CP Demand methodology rather than the 4-CP Demand allocation methodology proposed by Staff and other parties in this case.

Allocation of Non-Firm Off-System Energy Sales Margins

Q. What is the Company's proposed methodology for the allocation of non-firm off-system energy sales margins?

A. The Company is proposing the use of the "Unused Energy" allocator, as corrected and described in my rebuttal testimony in this case, for the allocation of the margins on non-firm off-system energy sales.

Q. Have any of the other parties to this case addressed the issue of allocation of non-firm off-system energy sales margins in their rebuttal testimonies?

A. Yes, Staff witnesses Featherstone, Mantle, Traxler, and Maloney; OPC witness Smith, DOE witnesses Dittmer and Price; and Praxair/MIEC witness Brubaker addressed the issue in their rebuttal testimonies.

Q. Can you describe, based on your understanding, the positions expressed by these witnesses on the issue of allocation of non-firm off-system energy sales margins?

A. Yes, the other parties to this case are recommending that the margins on non-firm off-system energy sales be allocated using an Energy allocation methodology. In addition, one or more of the witnesses have addressed the following points as their criticisms

regarding the Company's proposed "Unused Energy" allocation methodology. The parties claim that the "Unused Energy" allocation methodology:

- is inconsistent with allocation methodologies used in the past to allocate non-firm off-system energy sales.
- is inconsistent with the allocation methodology used by the Company for firm off-system energy sales.
- unfairly benefits jurisdictions with lower load factors and harms jurisdictions with higher load factors.
- is too simplistic to validate its use.
- results in calculated "unused energy" which is much greater than the energy actually sold off-system, thus, invalidating its use.

Q. Does the Company believe that using an Energy allocation methodology, as recommended by Staff and other parties, to allocate the margins on non-firm off-system energy sales is appropriate?

A. No, it does not. Based on the way that the plant and other fixed costs associated with generation are allocated, it is inappropriate to allocate the margins on non-firm off-system energy sales using an Energy allocator.

Q. Did Staff or any of the other parties provide direct or rebuttal testimony explaining their rationale for why they might think it is theoretically appropriate to utilize an Energy allocator to allocate the margins on non-firm off-system energy sales?

A. No, they did not. Neither Staff nor any of the other parties have attempted to explain why it would be theoretically appropriate to allocate the margins on non-firm off-system energy sales using an Energy allocation methodology. The Staff and other parties have

simply claimed that the margins on non-firm off-system energy sales have historically been allocated using an Energy allocator.

Q. Is it true that the margins on non-firm off-system energy sales have historically been allocated using an Energy allocator?

A. It is partially true. The "total revenues" associated with non-firm off-system energy sales were allocated using an Energy allocator. The Company had not, prior to this case, segregated the "margin" and "cost" components of the "total revenues" on non-firm off-system energy sales. Thus, to suggest that "margins" on non-firm off-system energy sales have historically been allocated using an Energy allocator is misleading, because the "margin" component has not previously been segregated.

Q. Can you explain why it is inappropriate to allocate the margin on non-firm off-system energy sales using an Energy allocator?

A. Yes. The "margins" or "profits" on non-firm off-system energy sales are like profits on sales in any business. The profit on sales, or in other words the revenues in excess of the marginal cost of sales, is used to help defray the fixed costs associated with plant investment and the other fixed costs of the business. Thus, as a base assumption, the "margins" or "contributions to fixed costs" need to be allocated on a consistent basis with how the plant investment and other fixed costs have been allocated. In the case of non-firm off-system energy sales, the plant investment and other fixed cost used to generate the non-firm off-system energy sales have been allocated using a Demand allocator, not an Energy allocator.

Q. Can you think of any situation in which it would be appropriate to use an Energy allocator to allocate margins on non-firm off-system energy sales?

A. The only situation in which it would be appropriate to use an Energy allocator to allocate the margins on non-firm off-system energy sales would be if the generation plant investment and other fixed generation costs were also allocated using an Energy allocator. None of the parties have suggested using an Energy allocator to allocate the generation plant investment and other fixed generation costs. Thus, the recommendation by the other parties to use an Energy allocator to allocate the margins on non-firm off-system energy sales is inappropriate.

Q. You stated that, as a base assumption, margins must be allocated on a consistent basis with how the plant investment and other fixed costs have been allocated. If the generation plant investment and other fixed cost used to generate the non-firm off-system energy sales have been allocated using a Demand allocator, why, then, did you not simply utilize a Demand allocator rather than the "Unused Energy" allocator to allocate the margins on non-firm off-system energy sales?

A. The "Unused Energy" allocator could also be characterized as an "Adjusted Demand" allocator. The "Unused Energy" allocator is, at its root, a Demand allocator. The reason the "adjustment" to the base Demand allocator is necessary has to do with how non-firm off-system energy is available for sale in the first place. Non-firm off-system energy is available for sale, because the jurisdictions have not used all of their "Available Energy". If the jurisdictions did use all of their "Available Energy," there would be no energy available to sell off-system. Because of this fact the relevant factor is not just the "Available Capacity" that the jurisdictions have paid for through the Demand allocation methodology, but rather the "Available Energy" that the jurisdictions have paid for but not used or, in other words, the "Unused Energy." Further detail on the rationale and

calculation of the "Unused Energy" allocator can be found in my rebuttal testimony in this case.

Q. You previously listed what you believed to be the criticisms regarding the use of the "Unused Energy" allocator that were addressed by one or more witnesses in their rebuttal testimonies. The first criticism leveled by the witnesses is that the use of the "Unused Energy" allocator is inconsistent with allocation methodologies that have been used in the past to allocate non-firm off-system energy sales. Can you address the fallacies in this criticism?

A. Yes. This criticism is unfounded because of the fact that the Company has not, prior to this case, segregated the "margin" component and the "cost" component of the "total revenues" associated with non-firm off-system energy sales. It is misleading to suggest that the "margin" on non-firm off-system energy sales has historically been allocated using an Energy allocator or that the Commission may have implicitly approved the use of the Energy allocator for allocating margins on non-firm off-system energy sales when the "margin" component has not previously been segregated from the "cost" component of "total revenues" on off-system energy sales.

Q. The second criticism leveled by the witnesses is that the use of the "Unused Energy" allocator is inconsistent with the allocation methodology used by the Company for firm off-system energy sales. Can you address the fallacies in this criticism?

A. Yes. It is true that, in this case, the Company has allocated "total revenues" associated with "firm" off-system energy sales using an Energy allocator. The only reason that the Company did not also allocate the "margin" component of the "total revenues" on firm off-system energy sales using the "Unused Energy" allocator is that the "margin" and

"cost" components of the "total revenues" on firm off-system energy sales, as included in this case, have not yet been specifically identified and segregated. To the extent that the "margin" and "cost" components of the "total revenues" on firm off-system energy sales are able to be specifically identified and segregated in the future, the "margin" component will be allocated using the "Unused Energy" allocator. It should be noted, however, that the margin on "firm" off-system energy sales is not as large as the margin on "non-firm" energy sales. That is because the "firm" off-system sales also include capacity revenues under the contracts. Those capacity revenues are allocated using a Demand allocator.

Q. The third criticism leveled by the witnesses is that the use of the "Unused Energy" allocator unfairly benefits jurisdictions with lower load factors and harms jurisdictions with higher load factors. Can you address the fallacies in this criticism?

A. First of all, it needs to be noted that the Company's generating assets have been constructed and operated for the joint requirements of the Missouri and Kansas retail customers and the FERC jurisdiction wholesale customers. That joint construction and operation has resulted in economies of scale and a diversity of generating assets that have resulted in lower "total" per MWh generation costs than would have been achieved had each of the jurisdictions had their own generation supply. That being said, a number of the witnesses suggested that a theoretical generation supply portfolio built for a jurisdiction with a higher load factor would result in lower average fuel costs than would result from theoretical generation supply portfolio built for a jurisdiction with lower load factor. This is true, but it is also true that the plant investment costs for a theoretical

generation supply portfolio built for a jurisdiction with a higher load factor would be greater than the plant investment costs for a theoretical generation supply portfolio built for a jurisdiction with lower load factor. The real issue that we are dealing with is not theoretical generation supply portfolios, but rather how the Company's actual jointly constructed and operated generation supply portfolio is being allocated. The Missouri jurisdiction, with its higher load factor, is not being unfairly harmed. That is because of the way that total generation costs are allocated. Missouri's higher load factor results in a Demand allocation factor for Missouri that is lower than the Energy allocation factor for Missouri. Conversely, Kansas' lower load factor results in a Demand allocation factor for Kansas that is higher than the Energy allocation factor for Kansas. Because of this, the Kansas jurisdiction is being fairly "charged" for its lower load factor. The "Unused Energy" allocator simply takes into account what the lower load factor jurisdiction has already been "charged" for.

Q. The fourth criticism leveled by the witnesses is that the use of the "Unused Energy" allocator is too simplistic to validate its use. Can you address the fallacies in this criticism?

A. The Company does not dispute that there could possibly be more-sophisticated, but to-date-undefined, algorithms for determining the "unused energy" used in the calculation of the "Unused Energy" allocator. The possibility of increased sophistication in the future, however, does not invalidate the rationale for the use of the "Unused Energy" allocator, and it certainly does not change the fact that the "Unused Energy" allocator is, at its root, a Demand allocator. Even if you did not adjust the Demand allocator to reflect "unused

energy", the Demand allocator is much more appropriate than the Energy allocator for allocating non-firm off-system energy sales margins.

Q. The fifth criticism leveled by the witnesses is that the use of the "Unused Energy" allocator results in calculated "unused energy" which is much greater than the energy actually sold off-system, thus, invalidating it use. Can you address the fallacies in this criticism?

A. The fact that there is a significant level of calculated "unused energy" that is not actually sold does not, somehow, invalidate the rationale for the use of the "Unused Energy" allocator. The impact of greater amounts of "unused energy" in the calculation is simply to drive the "Unused Energy" allocator closer to an "unadjusted" Demand allocator. As noted previously, an "unadjusted" Demand allocator is much more appropriate than an Energy allocator for allocating non-firm off-system energy sales margins.

Q. Did any of the witnesses make any other recommendations related to the use of the "Unused Energy" allocator that you would like to address?

A. Yes. Staff witness Traxler made the following recommendation on Page 15 of his rebuttal testimony:

> "However, if the Commission were to decide to adopt KCPL's Unused Energy allocator, the Staff believes that the highest level of off-system sales margin supported by evidence should be adopted by the Commission in order to mitigate this significant negative impact on Missouri retail customers."

This rather remarkable and disturbing statement seems to imply that if the Commission adopts the Company's "Unused Energy" and, thus, deems it appropriate, then the Commission should inflate the off-system sales margins to a greater level than it would have otherwise deemed appropriate. Staff witness Traxler suggests that this is to

"mitigate this significant negative impact on Missouri retail customers." If the Commission deems that the Company's proposed "Unused Energy" allocator is appropriate, there would be no negative impact on Missouri retail, at least not one that wasn't appropriate.

II. BAD DEBTS ON PRO FORMA REVENUES

Q. What is the issue regarding bad debs on pro forma revenues?

A. The Staff has not adjusted its pro forma revenue requirement calculation to reflect that there will be an increased level of bad debts corresponding to the pro forma revenue increase. The Company believes that the omission of bad debt expense corresponding to the pro forma revenue increase inappropriately understates the pro forma revenue requirement.

III. SUMMARY OF RECOMMENDATIONS

Q. Please summarize the recommendations from your testimony.

A. I recommend the following as detailed previously in my testimony:

- The 12-CP methodology should be used for the Demand allocator.
- The "Unused Energy" allocator should be used for the allocation of the "margin" component of the "total revenues" on non-firm off-system energy sales.
- The pro forma revenue requirement needs to reflect that there will be an increased level of bad debts corresponding to the pro forma revenue increase.

Q. Does that conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF DON A. FRERKING

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

Don A. Frerking, being first duly sworn on his oath, states:

1. My name is Don A. Frerking. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Regulatory Analyst.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fifteen (15) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Don A. Frerking

Subscribed and sworn before me this 6th day of October 2006.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2007

NICOLE A. WEHRY
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
My Commission Expires: Feb. 4, 2007