

CONFIDENTIAL VERSION

“[REDACTED]**” Designates Confidential Information.
Certain Schedules Attached to this Testimony Designated
“Confidential” Also Contain Confidential Information.
All Such Information Should Be Treated Confidentially.**

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

REBUTTAL TESTIMONY OF

DON A. FRERKING

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO BEGIN THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 06-KCPE-828-RTS

- 1 **Q: Please state your name and business address.**
- 2 A: My name is Don A. Frerking. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106-2124.
- 4 **Q: By whom and in what capacity are you employed?**
- 5 A: I am employed by Kansas City Power & Light Company (“KCPL” or the
6 “Company”) as a Senior Regulatory Analyst.
- 7 **Q: Are you the same Don A. Frerking who pre-filed direct testimony in this case?**
- 8 A: Yes, I am.
- 9 **Q: What is the purpose of your testimony?**

1 A: I would like to correct an error in the calculation of the “Unused Energy” allocator,
2 which KCPL proposed as the basis for allocating off-system sales “margins.” I am
3 also summarizing a number of errors KCPL believes should be corrected in the case
4 filed by the Staff of the Kansas Corporation Commission (“KCC”).

5 **Q: Did KCPL use the “Unused Energy” allocator, which you believe was incorrectly**
6 **calculated, to allocate off-system sales “margins” in its direct filing in this case?**

7 A: Yes. KCPL used the incorrect calculation of the “Unused Energy” in its direct filing
8 in this case and all subsequent submissions in this case.

9 **Q: Did the KCC Staff also use the “Unused Energy” allocator, which you believe**
10 **was incorrectly calculated, to allocate off-system sales “margins” in its direct**
11 **filing in this case?**

12 A: Yes. The KCC Staff made adjustments to the Company’s proposed level of
13 off-system energy sales “margins” in the Staff direct filing, but the Staff did not
14 adjust the Company’s filed allocation factor.

15 **Q: Why are you proposing this correction at this time?**

16 A: I am proposing this correction at this time, because I just uncovered the error while
17 attempting to reconfirm the validity of the theory with regard to this allocation
18 methodology.

19 **Q: What is the calculation error that needs to be corrected?**

20 A: The “Available Energy” component of the calculation was incorrectly calculated by
21 utilizing the average CP loads. The correct megawatts for calculation of the
22 “Available Energy” should have been based on the total “Available Capacity,” as
23 allocated using the jurisdictional Demand allocation factors. The corrected

1 calculation of the “Unused Energy” allocator is attached to this testimony as
2 Exhibit DAF-6.

3 **Q: What was the impact of the corrected calculation on the “Unused Energy”**
4 **allocator?**

5 A: Based on the load, energy usage, and Demand allocation methodology assumptions in
6 the Company’s February direct rate case filing, the Kansas jurisdictional “Unused
7 Energy” allocation factor went from 53.00% prior to the correction to 47.90% after
8 the correction. Had the Company used what it believes now to be the correct
9 calculation of the “Unused Energy” allocation factor in its revenue requirement
10 calculation for its direct filing in this case, the requested revenue increase would have
11 been \$46,150,000 (11.53%) instead of the \$42,270,270 (10.56%) that was originally
12 requested.

13 **Q: You stated previously that you “uncovered the error while attempting to**
14 **reconfirm the validity of the theory with regard to this allocation methodology”.**
15 **Is the methodology that you are proposing new or somehow different than what**
16 **has historically been used for allocating off-system energy sales “margins”?**

17 A: Yes. Prior to this case the Company had not segregated the “cost” component and
18 “margin” component of “total revenues” on off-system energy sales. Thus, prior to
19 this case, since they were not segregated, the “cost” and “margin” components were
20 allocated on the same basis. When the “cost” and “margin” components of the “total
21 revenues” on off-system energy sales were segregated in the direct filing in this case,
22 the Company attempted to assign the theoretically correct allocation methodology to
23 each of the components. The Energy allocator was used to allocate the “cost”

1 component, and the “Unused Energy” allocator, which KCPL developed specifically
2 for this purpose, was used to allocate the “margin” component.

3 **Q: How were the “total revenues” on off-system energy sales allocated prior to the**
4 **segregation of the components?**

5 A: Prior to the segregation of the “cost” and “margin” components and the development
6 of the “Unused Energy” allocator the “total revenues” on off-system energy sales
7 were allocated using the Energy allocator.

8 **Q: What was the impact in the Kansas jurisdictional revenue requirement of the**
9 **application of the “Unused Energy” allocator for allocating the “margin”**
10 **component of “total revenues” on off-system energy sales?**

11 A: Had the Company used the Energy allocator to allocate “total revenues” on
12 off-system energy sales in its revenue requirement calculation for its direct filing in
13 this case, the requested revenue increase would have been \$50,560,000 (12.63%)
14 instead of the \$42,270,270 (10.56%) that was originally requested or the \$46,150,000
15 (11.53%) with the corrected “Used Energy” allocator.

16 **Q: In reviewing Staff’s direct case, have you discovered any issues that KCPL**
17 **would consider to be errors?**

18 A: Yes, I have. The Company has identified eight (8) income statement issues and
19 two (2) rate base issues that it believes should be corrected in Staff’s direct case.
20 Exhibit DAF-7 shows the income statement corrections and labels them 1 through 8.

21 **Q: Please describe corrections 1 and 2.**

1 A: Correction 1 for \$1,056,682 and Correction 2 for \$46,115 are amounts from Staff's
2 lease adjustment IS-15 that were incorrectly excluded from expenses. These
3 corrections are described in the testimony of Company witness Ms. Lori Wright.

4 **Q: Please describe correction 3.**

5 A: Correction 3 for \$563,825 relates to Staff's rate case expense adjustment IS-18 and is
6 also described in the testimony of Company witness Ms. Lori Wright.

7 **Q: Corrections 4, 5 and 6 all relate to Bulk Power Sales. Please describe these**
8 **corrections.**

9 A: Exhibit DAF-8 supports the Bulk Power Sales corrections. Correction 4 relates to
10 Staff's adjustment IS-25 supported by Mr. Justin Grady. With this adjustment Staff
11 reversed a KCPL pro forma adjustment to bulk power sales and bulk power sales
12 margins. To correctly reflect Staff's desired adjustment to margin, the entire
13 correction should have been applied to Energy-Profit on Sales. Using the
14 corresponding Kansas jurisdictional allocator as filed with this correction **increases**
15 the Bulk Power Sales Revenue by \$2,084,217.

16 Correction 5 adjusts Bulk Power Sales to reflect the actual sales for 2005.
17 The KCPL case as filed projected Bulk Power Sales for the year to reach
18 \$206 million on a total Company basis. The actual total for KCPL was \$187 million
19 with margin on sales of approximately ****[REDACTED]****. Using the corresponding
20 Kansas jurisdictional allocator as filed **decreases** the Bulk Power Sales Revenue.
21 This adjustment is ****[REDACTED]****.

22 Correction 6 uses the corrected calculation of the "Unused Energy" allocator
23 discussed earlier in my testimony. The corrected Kansas jurisdictional "Unused

1 Energy" allocator is 47.90% and applying this allocator **decreases** the Kansas
2 jurisdictional Bulk Power Sales Revenue. This adjustment is **[REDACTED]**.

3 **Q: Please describe the adjustment to fuel in Correction 7.**

4 A: Correction 7 is related to Staff Income Statement Adjustments 21-24 supported by
5 Staff witness Mr. James Sanderson. The total of these adjustments **reduced** electric
6 revenues by \$8,019,102 and also reduced underlying sales volumes. Because the fuel
7 expense filed in the original case was based on the higher sales volume, there should
8 also be a corresponding reduction in fuel expense. This reduction would be
9 approximately (\$1,900,000).

10 **Q: What is contained in Correction 8?**

11 A: Correction 8 is the income tax effect of Corrections 1-7 calculated by using a federal
12 tax rate of 35% and Kansas tax rate of 7.35%. The combined effective tax rate used
13 for all of the adjustments was 39.78%.

14 **Q: Please describe the corrections you have identified to the Pro Forma Rate Base,**
15 **as shown in Exhibit DAF-9.**

16 A: The first correction is to increase rate base by \$738,567 for coal inventory as
17 described in the testimony of Company witness Mr. Wm. Ed Blunk. The second
18 correction is to reverse the cash working capital adjustment of (\$7,501,140) supported
19 by Staff witness Mr. George Rohrer (RB-7). This correction is described in the
20 testimony of Company witness Ms. Christine Davidson.

21 **Q: What is the combined effect of all of these corrections?**

22 A: After all of these corrections are made, Staff's case prior to CIAC moves from a rate
23 increase of \$9.9 million to a rate increase of \$22.1 million.

1 **Q: Would there be a resulting change in the CIAC calculation?**

2 A: Yes, reflecting these corrections would change the calculation of the CIAC. Other
3 changes supported by the Company would likely have an impact on the CIAC amount
4 as well. The exact amount of the change to CIAC has not been calculated by KCPL,
5 as the calculation of the CIAC must be done based on the final outcome of the case,
6 which is unknown at this time.

7 **Q: Are these the only issues the Company believes need to be addressed in this case?**

8 A: No, these are what KCPL has identified as errors at this time. Other issues, more
9 appropriately identified as policy issues, exist and are addressed by other Company
10 witnesses.

11 **Q: Does that conclude your testimony?**

12 A: Yes, it does.

Corrected Unused Energy Allocator

		Missouri	Kansas	FERC	Total
Demand Allocator (D1)					
12-CP Avg Load (MW)		1,411.5	1,198.4	23.2	2,633.1
Demand Allocator	D1	53.60%	45.51%	0.88%	100.00%
Energy w/ Losses Allocator (E1)					
Energy Used (MWH)		9,036,747	6,679,513	144,287	15,860,547
Energy w/ Losses Allocator	E1	56.98%	42.11%	0.91%	100.00%
Unused Energy w/ Losses Allocator (UE1)					
Available Capacity (MW)					4,389.0
Demand Allocator (D1)		53.60%	45.51%	0.88%	100.00%
Max Total Peak Allocated Using D1 Factors (MW)		2,352.7	1,997.6	38.7	4,389.0
x Hours in Year		8760	8760	8760	8760
Available Energy (MWH)		20,609,518	17,498,755	339,367	38,447,640
- Energy Used (MWH)		9,036,747	6,679,513	144,287	15,860,547
Unused Energy (MWH)		11,572,771	10,819,242	195,080	22,587,093
Unused Energy w/ Losses Allocator	UE1	51.24%	47.90%	0.86%	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 charged 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 allocated to the jurisdictions (Demand and Energy Allocators). Through the Demand Allocator the jurisdictions have essentially paid for a certain level of "Available Capacity" and, thus, the "rights" to a certain level MWH output or "Available Energy". This "Available Energy" is calculated by multiplying the "Available Capacity" 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.

Unused Energy Allocator Used in KCPL's February Filing

		Missouri	Kansas	FERC	Total
Demand Allocator (D1)					
12-CP Avg Load (MW)		1,411.5	1,198.4	23.2	2,633.1
Demand Allocator	D1	53.60%	45.51%	0.88%	100.00%
Energy w/ Losses Allocator (E1)					
Energy Used (MWH)		9,036,747	6,679,513	144,287	15,860,547
Energy w/ Losses Allocator	E1	56.98%	42.11%	0.91%	100.00%
Unused Energy w/ Losses Allocator (UE1)					
12-CP Avg Load (MW)		1,411.5	1,198.4	23.2	2,633.1
x Hours in Year		8760	8760	8760	8760
Available Energy (MWH)		12,364,302	10,498,057	203,597	23,065,956
- Energy Used (MWH)		9,036,747	6,679,513	144,287	15,860,547
Unused Energy (MWH)		3,327,555	3,818,544	59,310	7,205,409
Unused Energy w/ Losses Allocator	UE1	46.18%	53.00%	0.82%	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 charged 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 allocated 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 February Filing

	CoinMOPeak	CoinKSPeak	CoinResale	WNPeak
Jan	1,302.0	1,123.0	24.5	2,449.5
Feb	1,273.2	1,083.6	23.9	2,380.7
Mar	1,144.4	938.4	20.4	2,103.2
Apr	1,079.8	858.8	17.7	1,956.3
May	1,481.5	1,238.4	20.3	2,740.2
Jun	1,809.1	1,542.9	26.4	3,378.4
Jul	1,907.6	1,663.3	28.7	3,599.6
Aug	1,819.7	1,607.5	29.2	3,456.4
Sep	1,543.5	1,333.9	25.5	2,902.9
Oct	1,141.4	970.7	18.3	2,130.4
Nov	1,164.2	943.9	21.0	2,129.1
Dec	1,271.0	1,076.5	23.0	2,370.5
MAX	1,907.6	1,663.3	29.2	3,599.6
1-CP Avg	1,907.6	1,663.3	28.7	3,599.6
4-CP Avg	1,770.0	1,536.9	27.5	3,334.3
12-CP Avg	1,411.5	1,198.4	23.2	2,633.1

**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 Avg Loads	D1, D2 Allocator
Missouri	1,411.5	53.6041%
Kansas	1,198.4	45.5132%
SFR	23.2	0.8827%
Total	2,633.1	100.0000%

Energy Allocators Used in KCPL's February Filing

ENERGY WITH LOSSES (E1)

	<u>MWH</u>	<u>E1 Allocator</u>
MISSOURI	9,036,747	56.9763%
KANSAS	6,679,513	42.1140%
SALES FOR RESALE	<u>144,287</u>	<u>0.9097%</u>
TOTAL	15,860,547	100.0000%

ENERGY WITHOUT LOSSES (E2)

	<u>MWH</u>	<u>E2 Allocator</u>
MISSOURI	8,578,342	57.0974%
KANSAS	6,307,818	41.9848%
SALES FOR RESALE	<u>137,889</u>	<u>0.9178%</u>
TOTAL	15,024,049	100.0000%

EXHIBITS DAF-7, DAF-8 & DAF-9

**THIS DOCUMENT CONTAINS
CONFIDENTIAL INFORMATION NOT
AVAILABLE TO THE PUBLIC**

ORIGINAL FILED UNDER SEAL

