

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

)
)
) DOCKET No. 07-KCPE-905-RTS
)

STATE CORPORATION COMMISSION

AUG 03 2007

Susan Talbot Docket
Room

REDACTED VERSION

DIRECT TESTIMONY

PREPARED BY

LARRY W. HOLLOWAY

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION STAFF

(*Denotes confidential Information*)

1 **Q. Please state your name and business address.**

2 A. My name is Larry W. Holloway. My business address is 1500 SW Arrowhead Road,
3 Topeka, Kansas, 66604-4027.

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

5 A. I am employed by the Kansas Corporation Commission (KCC or Commission) as
6 Chief of Energy Operations.

7 **Q. Please describe your educational background and professional experience.**

8 A. I received a Bachelor of Science degree in Civil Engineering and a Bachelor of
9 Science degree in Mechanical Engineering from the University of Kansas in 1978, a
10 Master of Engineering Management degree from Washington State University in
11 1988 and a Master of Science degree in Mechanical Engineering from the University
12 of Kansas in 1997. I am a registered professional engineer in the disciplines of
13 Mechanical and Civil Engineering in the State of Oregon, PE # 12,989. My
14 professional experience began outside of the electric industry and includes one year
15 as a field engineer for a natural gas utility and two years as a project engineer for an
16 inorganic chemical plant. Since 1981, the majority of my professional experience has
17 been in the electric industry. I have twelve years of construction, design, startup and
18 operations engineering experience with power plants, primarily nuclear. In 1993, I
19 started work at the KCC as Chief of Electric Operations, Rates and Services. In 1998,
20 I assumed my current position as Chief of Energy Operations.

21 **Q. Have you previously testified before the Commission?**

22 A. Yes, I have filed testimony in Docket Nos. 94-GIMX-462-GIV, 95-EPDE-043-COM,
23 96-KG&E-100-RTS, 96-WSRE-101-DRS, 96-SEPE-680-CON, 97-WSRE-676-

1 MER, 98-KGSG-822-TAR, 99-WSRE-381-EGF, 99-WSRE-034-COM, 99-WPEE-
2 818-RTS, 00-WCNE-154-GIE, 00-UCUE-677-MER, 01-WSRE-436-RTS, 01-
3 WPEE-473-RTS, 01-KEPE-1106-RTS, 02-SEPE-247-RTS, 02-EPDE-488-RTS, 02-
4 MDWG-922-RTS, 03-MDWE-001-RTS, 03-WCNE-178-GIE, 03-MDWE-421-ACQ,
5 03-KGSG-602-RTS, 04-AQLE-1065-RTS, 04-KCPE-1025-RTS, 05-EPDE-980-
6 RTS, 05-WSEE-981-RTS, 06-WCNE-204-GIE, 06-SPPE-202-COC, 06-WSEE-203-
7 GIE, 06-KCPE-828-RTS, 06-KGSG-1209-RTS, 06-MKEE-524-ACQ, and 07-
8 WSEE-616-PRE.

9 **Q. What is the purpose of your testimony?**

10 A. My testimony will address Staff's review and recommendations regarding Kansas
11 City Power and Light's (KCPL) coal inventory, treatment of off-system sales margins
12 and Energy Cost Adjustment (ECA) proposal.

13 **Q. Provide a summary of your recommendations.**

14 A. I recommend that the Commission:

- 15 • Accept KCPL's proposed coal inventory adjustment;
- 16 • Require KCPL to include information regarding its daily coal inventory and
17 its inventory targets in its annual ECA true-up filing and consider any material
18 differences subject to refund through the ECA true-up mechanism;
- 19 • Require KCPL to credit Kansas customers with the amount of off-system
20 sales margins allocated by use of the unused energy allocator;
- 21 • Adopt the revisions to KCPL's amended ECA tariff as shown in
22 Exhibit _____LWH-3; and

- 1 • Require KCPL to file for Commission approval of its off-system sales
2 procedures no later than May 1, 2008.

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Coal Inventory

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6 **Q. Please describe regulatory treatment for fossil fuel inventory.**

7 A. Coal and fuel oil, as well as bulk material such as lime and limestone for coal plant
8 scrubbers, must be maintained in large quantities at KCPL's coal generating facilities
9 to assure adequate supply. In addition to the obvious need for coal and scrubber
10 material, fuel oil is needed at KCPL's LaCygne, Montrose and Iatan coal generating
11 facilities for startup and flame stabilization. Furthermore KCPL's Northeast
12 Combustion turbine units are exclusively fired with fuel oil.

13 While KCPL can, of course, expense these materials when they are consumed,
14 KCPL must maintain adequate inventories on hand to assure that its generating plants
15 are available for operation. Fuel inventories receive a return on the fuel inventory
16 investment, while recovery of the fuel inventory investment is expensed when the
17 materials are consumed. Because the quantities and values of these inventories
18 fluctuate on a daily, or even an hourly basis, the challenge is to determine the proper
19 level of return on investment of the fuel inventories for ratemaking purposes.

20 **Q. Has Staff reviewed KCPL's adjustment regarding coal inventory?**

21 A. Yes. KCPL witness Wm. Edward Blunk provided direct testimony regarding the
22 dollar amount for the fossil fuel inventory that KCPL used in its filed revenue
23 requirements. KCPL uses average month end inventory quantities for the period of

1 September 2005 through September 2006, multiplied by the September 2006 unit
2 prices, for calculating the inventory value of fuel oil, lime and limestone.¹ KCPL,
3 however, treats its coal inventory differently. Instead of using a 13-month average to
4 determine the quantity of coal in inventory, KCPL instead proposes to use its latest
5 coal inventory target to determine the quantity of its coal inventory. This quantity is
6 then multiplied by the September 2007 forecasted delivered price of coal to develop
7 the value of KCPL's coal inventory used by KCPL to develop its proposed revenue
8 requirements. This is reflected in KCPL's adjustment 51, "Adjust Fossil Fuel
9 Inventories to required levels."²

10 **Q. How does KCPL set these fuel inventory targets?**

11 A. As described by KCPL witness Mr. Blunk,³ KCPL uses the Electric Power Research
12 Institute's (EPRI) Utility Fuel Inventory Model (UFIM). This model develops fuel
13 inventory targets taking into account such factors as the expected fuel costs, projected
14 fuel burn rate, possible delivery interruptions, and the projected costs of replacement
15 power. Delivery interruptions include such events as congestion of rail service and
16 fuel yard equipment failures, as well as natural disasters such as flooding. Taking all
17 of these risks into account, the EPRI model then develops a fuel inventory target.
18 This fuel inventory target is then used to develop a least cost strategy for scheduling
19 fuel deliveries.

20 **Q. Does Staff have concerns regarding KCPL's utilization of the EPRI UFIM to**
21 **develop fuel inventory targets?**

¹ See p. 39, l. 5-9 of the Direct Testimony of Wm. Edward Blunk, filed March 1, 2007 in this docket.

² See p. 38, l. 20 through p. 39, l. 3 of the Direct Testimony of Wm. Edward Blunk.

³ See p. 33, l. 5 through p. 39, l. 9 of the Direct Testimony of Wm Edward Blunk.

1 A. No. The EPRI UFIM is an industry recognized analysis tool used by electric utilities
2 to optimize their fuel inventories.

3 **Q. Does Staff have concerns about using these inventory targets to develop the cost**
4 **of coal inventory in a ratemaking proceeding?**

5 A. Generally yes. While it is one thing to set an appropriate fuel inventory target, the
6 intent of a ratemaking procedure is to ensure that the electric utility receives an
7 opportunity to recover costs it either has incurred, or is likely to incur. Developing an
8 appropriate fuel inventory target is a necessary and appropriate duty of any electric
9 utility to insure that it maintains reliable and efficient service. However, the issue is
10 whether the electric utility has actually met these inventory targets and made the
11 resulting inventory investment.

12 KCPL proposes to implement an ECA mechanism. As will be discussed, the
13 ECA mechanism allows KCPL to pass through fuel and purchase power costs directly
14 to ratepayers. If KCPL does not maintain adequate fuel inventories, and instead must
15 make up any shortfall by purchasing more expensive off-system energy, or by
16 dispatching plants with higher fuel costs, these higher fuel costs are passed directly
17 through to ratepayers. If KCPL is allowed to recover the costs associated with its
18 coal inventory targets, and does not actually invest at this inventory level, KCPL will
19 be allowed to recover costs it did not incur, while subjecting ratepayers to the risk that
20 fuel shortages will result in higher fuel costs reflected in the ECA.

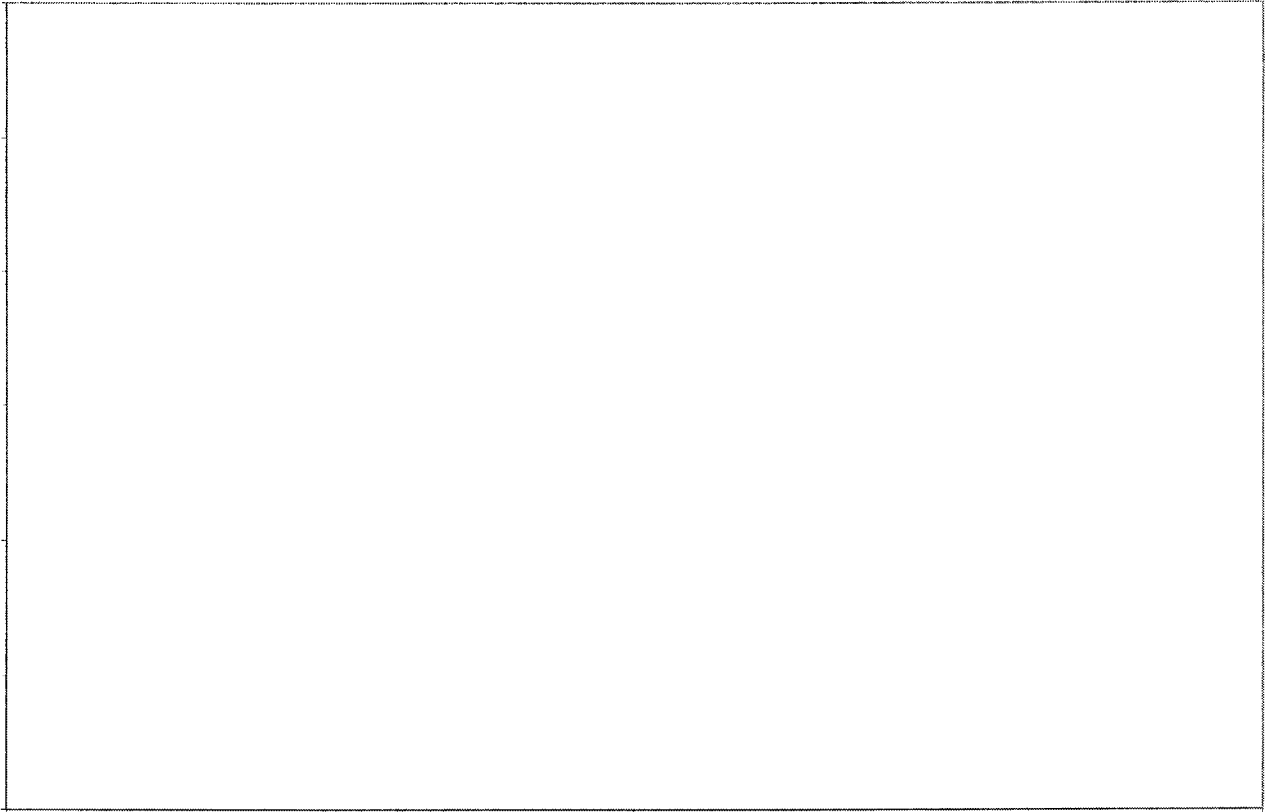
21 In essence, the ratepayers will be paying twice. First, they will be paying
22 higher base rates for higher fuel inventory costs than KCPL actually experienced.
23 Second, they may be paying more for fuel through the ECA because KCPL did not

1 maintain an adequate fuel inventory. This is the reason most utility regulators insist
2 on using known and measurable values when determining the costs for fuel
3 inventories in rate proceedings.

4 **Q. Has Staff reviewed KCPL's actual coal inventories as compared to the coal**
5 **inventory targets used to develop KCPL's proposed revenue requirements?**

6 A. Yes. Staff compared the daily running coal inventory of all KCPL's coal units from
7 January 1, 2006 through May 16, 2007 to the proposed coal inventory targets. The
8 result is summarized in Figure 1 below:

1 **



2

3

4

** Figure 1

5

Comparison of Daily Coal Inventory and Inventory Targets at All KCPL Coal Units

6

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As shown in Figure 1, KCPL's coal inventory is at target levels for only the last few weeks of the review period. It is important to note that increased rail traffic and congestion on rail lines from the Powder River Basin (PRB)⁴ have made it difficult for many electric utilities to maintain their target coal inventories. While it

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⁴ Located in northeastern Wyoming and southeastern Montana, where the majority of KCPL's coal is mined.

1 would be difficult to imply any trend from this review, one could certainly argue that
2 KCPL is making an effort to achieve its coal inventory target.

3 **Q. What does Staff recommend for ratemaking treatment KCPL's coal inventory?**

4 A. As discussed, Staff is concerned that KCPL will not maintain its coal inventory
5 targets and ratepayers will pay for a higher coal inventory than actual in base rates
6 and pay possibly higher ECA costs. Nonetheless, Staff believes it is in the best
7 interest of ratepayers if KCPL maintains its coal inventory at inventory target levels.
8 Staff believes there is a solution that would work well for all parties.

9 As I will discuss later, Staff generally supports KCPL's ECA filing. As
10 discussed by KCPL witness, Tim M. Rush, KCPL will have an annual true-up filing
11 for each ECA year.⁵ This filing will be made on March 1 of each year⁶ and provide a
12 correction for over or under ECA revenue recovery for the previous year. Part of this
13 annual true-up review will involve a Staff review of KCPL's generation practices, as
14 well as KCPL's fuel and power purchasing practices for the previous year. At that
15 time, the Commission can make adjustments for imprudent operations or fuel
16 purchasing practices which occurred during the previous ECA year. Staff proposes
17 that KCPL file information regarding its daily coal inventory during the ECA year
18 with its annual March 1 ECA true-up filing. If there is a significant difference
19 between KCPL's coal inventory levels and its coal inventory target levels during that
20 period, KCPL's ECA annual true-up can be adjusted to reflect that difference and
21 compensate KCPL's Kansas retail ECA customers accordingly.

⁵ See p. 9, l. 2-10 of the Direct Testimony of Tim M. Rush, filed March 1, 2007 in this docket.

⁶ For example, the first filing will be March 1, 2009 for the 2008 ECA year.

1 such as utilities with a great deal of natural gas generation. The profits made from
2 these short-term, often hourly, sales are referred to as “off-system sales margins.”

3 **Q. How do off-system sales margins affect KCPL’s Five-Year Regulatory Plan**
4 **approved by the Commission in Docket No. 04-KCPE-1025-GIE?**

5 A. KCPL’s Five-Year Regulatory Plan (KCPL Plan) considered different options to meet
6 the forecasted increased demand and energy needs of its retail customers. Included in
7 this plan were both demand response (DR) and energy efficiency (EE) programs,
8 enhancements to the distribution system, environmental improvements at some of
9 KCPL’s existing coal units, and additional coal and new wind generating capacity.
10 As KCPL looked at various generation options, each scenario was evaluated to
11 determine which investment strategy resulted in the smallest rate increase for
12 customers. Additionally, each scenario was tested for sensitivity to such events as
13 carbon control legislation and changes in natural gas prices.

14 During discussions with KCPL in Docket No. 04-KCPE-1025 (04-1025), it
15 became evident to Staff and interveners that a key element of KCPL’s plan was to
16 participate fully in the off-system energy market. A key assumption in every case
17 was that any off-system sales margins generated from the resulting generation
18 portfolio would be used “above the line” to lower the rates of KCPL’s retail
19 customers. In fact, if KCPL had not incorporated the revenue from off-system sales
20 margins, its investment in Iatan 2 would not have been the least cost option for
21 ratepayers. That is the reason why the 04-1025 Stipulation and Agreement (04-1025
22 S&A) among KCPL, Staff and Sprint and Kansas Hospital Association, submitted on

1 April 27, 2005, and approved by the Commission on August 5, 2005, states the
2 following:

3 “C. OFF-SYSTEM SALES

4
5 The parties also agree that profits from off-system sales should continue to be
6 included above-the-line in the regulatory process during the term of the Five-
7 Year Regulatory Plan. KCPL specifically agrees not to propose any
8 adjustment or modification that would remove any portion of its off-system
9 sales costs and revenues from being passed through the ECA mechanism. The
10 specific details of the ECA mechanism will be determined in the 2006 rate
11 proceeding.”⁷
12

13 **Q. What is the significance of “above the line” treatment for ratemaking purposes?**

14 A. When a cost or revenue is considered above the line, it is included in the utility’s
15 revenue requirements during the ratemaking process. Once a utility’s revenue
16 requirements are calculated, the ratemaking process determines the sources needed to
17 generate the needed revenue. Retail rates are designed to recover the remaining
18 revenue requirement after subtracting all above the line sources of revenue that are
19 not recovered from retail ratepayers. In this case, one of those other sources of
20 revenue is off-system sales margins. By treating this revenue above the line, the
21 amount of revenue that must be recovered from retail ratepayers is reduced, thus
22 lowering retail rates.

23 **Q. Was an ECA proposed in Docket No. 06-KCPE-828-RTS (06-828), KCPL’s 2006**
24 **rate proceeding?**

⁷ See Paragraph C, of Appendix C of the 04-1025 S&A.

1 A. No. While the 04-1025 S&A anticipated that an ECA would be incorporated, it was
2 not an absolute requirement.⁸ While the case was eventually settled,⁹ parties did not
3 agree on the need for KCPL to adopt an ECA. Nonetheless, in paragraph IV.B of the
4 06-828 S&A, KCPL agreed to propose an ECA mechanism in its 2007 rate filing (this
5 proceeding).

6 **Q. How did KCPL propose to treat off-system sales margins in the 06-828 docket?**

7 A. While the 06-828 S&A adopted a revenue requirement and various aspects of
8 financial treatment and rate design, it did not specify the actual treatment of off-
9 system sales margin. In its 06-828 filing, as in this proceeding, KCPL proposed an
10 off-system sales margin revenue credit at the 25% likelihood of its forecasted¹⁰ off-
11 system sales margins. In other words, KCPL presented its off-system sales margin
12 forecast probability curve, and selected a number that it had a 75% likelihood of
13 meeting or exceeding.

14 **Q. Why did KCPL propose to credit off-system sales margins at a value that was**
15 **less than the median expected value?**

16 A. Because KCPL earns a relatively large amount of its annual revenue from off-system
17 sales, it was concerned that the failure to achieve the median level forecast of its off-
18 system sales margin could have a short term negative financial impact on the
19 company. Thus, KCPL argued that the risk associated with achieving the median

⁸ See Paragraph B, of Appendix C of the 04-1025 S&A.

⁹ See the September 29, 2006 06-828 Stipulation and Agreement (S&A) approved by the Commission on December 4, 2006.

¹⁰ This was the 2007 forecast for the 06-828 docket, it is the 2008 forecast in this proceeding. In the ECA calculation it is always the 25th percentile forecast for off-system sales margins during the ECA year. In this proceeding, the ECA year will initially be 2008, thus it is the 25th percentile forecast for 2008.

1 probability of off-system sales margins could affect the overall risk profile of the
2 company and raise capital costs.¹¹

3 **Q. Has KCPL made a similar argument in this rate filing?**

4 A. Yes. KCPL proposes to use the 25th percentile of its off-system sales margin forecast
5 for 2008 as the basis for its off-system sales credit.¹² There are, however, two
6 significant differences between how KCPL proposes to treat off-system sales margins
7 in this filing. First, KCPL proposes to use off-system sales margins as a credit to
8 reduce the ECA amount. Second, KCPL has allocated less of the off-system sales
9 margin credit to its Kansas retail customers and more to its Missouri retail customers.

10 **Q. Explain how KCPL intends to use the off-system sales margin as a credit in its**
11 **ECA formula.**

12 A. KCPL intends to credit back the 25th percentile off-system sales margin forecast value
13 for 2008 on a kilowatt-hour (kWh) basis over the 2008 ECA year. However, KCPL
14 also proposes to correct any amount refunded as part of its annual true-up filing at the
15 end of the year. As will be discussed in Staff's review of the proposed ECA
16 mechanism, this means if KCPL's off-system sales margins exceed its forecast for
17 2008, ratepayers will get the excess refunded during the 2009 ECA year. On the
18 other hand, if KCPL does not achieve the 25th percentile off-system sales margin
19 forecast for 2008, it will recover any shortfall from its retail ECA customers over the
20 2009 ECA year.

21 **Q. Does Staff support this treatment of the off-system sales margin in the ECA?**

¹¹ See the direct testimony of Chris B. Giles and Michael M. Schnitzer filed January 31, 2006, in 06-828.

¹² See the direct testimony of Chris B. Giles and Michael M. Schnitzer filed March 1, 2007, in this docket.

1 A. Yes, with the exception that Staff does not agree with KCPL's proposed allocation of
2 off-system sales margins to Kansas ECA customers.

3 **Q. Explain why KCPL uses allocation factors in its calculation of revenue**
4 **requirements for its Kansas retail customers.**

5 A. KCPL has three different regulatory commissions that set rates for three different
6 types of customers. KCPL's Kansas retail rates are determined by this Commission.
7 Similarly, KCPL's Missouri retail rates are determined by the Missouri Public
8 Service Commission (MPSC). Finally, KCPL's wholesale electric rates are under the
9 jurisdiction of the Federal Energy Regulatory Commission (FERC). KCPL uses
10 various allocation factors to allocate its costs among these electric customers.

11 **Q. How does KCPL allocate the fixed costs of its generation facilities among its firm**
12 **electric customers in these three regulatory jurisdictions?**

13 A. KCPL allocates the cost of its generation facilities based upon a 12 Coincident Peak
14 (CP) demand allocator among the three jurisdictions. Because KCPL is obligated to
15 serve the load of its firm retail and wholesale customers, KCPL must have adequate
16 generation capacity to serve the "demand" or load these customers place on the
17 system at any given point in time. KCPL's generation investment is a fixed cost, i.e.,
18 regardless of whether a generation plant is operating at any given point in time,
19 KCPL still must recover its investment and associated financing costs. A common
20 type of allocator used for these types of fixed capacity related costs is a demand
21 allocator. There are different ways to calculate demand allocators, but generally
22 speaking they involve determining which groups of customers contribute to the
23 utility's "peak". For example, suppose that a utility has 3 customers and on its peak

1 day it has an overall demand of 100 megawatts (MW) at a given point in time. Now
2 suppose during that “coincident peak” customer A had a demand of 40 MW;
3 customer B, 25 MW; and customer C, 35 MW. Based on a single peak-hour demand,
4 40% of demand is attributed to customer A, 25% to customer B and 35% to customer
5 C. If we were allocating costs to these customers based on these demand
6 contributions, all would be allocated the same ratio of costs as their demand
7 contribution.

8 In the 04-1025 S&A, it was agreed that KCPL would use a 12 CP demand
9 allocator to allocate the investments to the Kansas jurisdictional customers under the
10 five-year regulatory plan.¹³ The 12 CP allocator basically takes the total or average
11 coincident peak of each month over a year and allocates accordingly. In this
12 proceeding, KCPL has calculated its 12 CP allocator based upon actual 2006 values¹⁴:

¹³ See Paragraph I.9 of Appendix C of the 04-1025 S&A. This did not imply that rate design allocations among Kansas retail customers would use the same method, but rather referred to how Kansas would be allocated the costs among the three regulatory jurisdictions.

¹⁴ See KCPL response to Staff DR 329, attached as Exhibit _____LWH-1.

**Weather Normalized Coincident Peaks for January 2006 through December 2006
Includes Losses
(MW)**

Dt	CoinMOPeak	CoinKSPeak	CoinResale	WNPeak
Jan-06	1,390	1,133	27	2,550
Feb-06	1,318	1,095	25	2,438
Mar-06	1,192	972	22	2,187
Apr-06	1,182	912	16	2,110
May-06	1,386	1,158	19	2,564
Jun-06	1,765	1,482	20	3,267
Jul-06	1,930	1,655	24	3,609
Aug-06	1,876	1,581	23	3,480
Sep-06	1,620	1,333	17	2,970
Oct-06	1,312	1,068	12	2,392
Nov-06	1,353	1,134	19	2,505
Dec-06	1,403	1,199	21	2,623
MAX Jan06-Dec06	1,930	1,655	27	3,609
TOTAL	17,727	14,722	245	32,694

source: Al Bass

**Demand Allocator
Jurisdictional COS for Revenue (December 2006)
Adjusted for Weather (no Customer Growth)**

Production and Transmission Demand Allocators (D1, D2)

Jurisdiction	12-CP Loads	D1, D2 Allocator
Missouri	1,477.3	54.2228%
Kansas	1,226.9	45.0321%
SFR	20.4	0.7488%
Total	2,724.5	100.0000%

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2

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Table 1 (from Exhibit _____LWH-1)¹⁵

4

As shown in the calculation, approximately 45% of the fixed generation costs are allocated to Kansas retail customers, 54% to Missouri retail customers and 1% to FERC wholesale customers.

5

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7

Q. How would KCPL allocate variable energy-related costs?

¹⁵ SFR is Requirements Sales for Resale

1 A. Energy-related variable costs are allocated by an energy allocator. Suppose in our
2 previous example that the utility sold 1,000 kilowatt-hours (kWh) to its 3 firm
3 customers in a year, i.e., 200 kWh to customer A, 500 kWh to customer B and 300
4 kWh to customer C. As before, an energy allocator would allocate 20% of the costs
5 to customer A, 50% to customer B and 30% to customer C. KCPL has calculated its
6 energy allocators as follows:¹⁶

**Energy Allocators
Jurisdictional COS for Revenue Case
12 Months Ending December 2006
w/o Customer Growth**

ENERGY WITH LOSSES (E1)

	<u>MWH</u>	<u>E1 Allocator</u>
MISSOURI	9,240,147	56.8092%
KANSAS	6,903,886	42.4456%
SALES FOR RESALE	<u>121,211</u>	<u>0.7452%</u>
TOTAL	16,265,243	100.0000%

ENERGY WITHOUT LOSSES (E2)

	<u>MWH</u>	<u>E2 Allocator</u>
MISSOURI	8,770,695	56.9315%
KANSAS	6,519,165	42.3166%
SALES FOR RESALE	<u>115,836</u>	<u>0.7519%</u>
TOTAL	15,405,696	100.0000%

8 **Table 2 (see Exhibit____LWH-1)**

9 The previous example used delivered energy to the customers. This would be the
10 same as the energy allocator without losses. Obviously there are losses due to
11 inefficiency of the transmission and distribution system, metering inaccuracies, etc.

¹⁶ Exhibit____LWH-1.

1 In this proceeding, KCPL used two types of energy allocators for different cost items.
2 As shown, one allocator considers energy with losses and the other energy without
3 losses. Simply put, energy with losses takes into account the amount of energy KCPL
4 must generate or procure to supply its customer's demand over time.

5 **Q. Why are Kansas retail ratepayers allocated over 45% of the costs related to**
6 **generation capacity but only about 42.5% of the costs allocated by energy (with**
7 **losses)?**

8 A. KCPL has a larger industrial customer base in its Missouri retail service territory than
9 in its Kansas retail service territory. Generally speaking, industrial electric customers
10 have a greater load factor than residential or commercial electric customers. This
11 means that there is less difference between the average usage of industrial customers
12 and their peak usage. For this reason, while Kansas retail customers may only require
13 around 42.5% of the electric energy generated or procured by KCPL, they contribute
14 to over 45% of the peak load (as measured by the 12 CP demand allocator).

15 **Q. How did KCPL allocate the credit for off-system sales margins in its 06-828 rate**
16 **filing?**

17 A. KCPL only makes off-system sales when there is excess generation available that is
18 not needed to meet the needs of its firm customers. Because high load factor
19 customers need the generation capacity more often than lower load factor customers,
20 meeting the needs of these customers allows for less "excess generation" than
21 meeting the needs of low load factor customers. Therefore, while low load factor
22 customers are allocated a higher amount of demand-related, fixed generation costs,
23 they should also receive a related higher benefit from the "excess generation", since

1 there would be less excess generation if these customers had a higher load factor. In
2 the 06-828 rate filing, KCPL advocated allocation of the profits from off-system sales
3 through an allocator it referred to as the “unused energy allocator.”¹⁷ This allocator
4 was developed to account for the fact that, as discussed, KCPL allocates over 45% of
5 its fixed capacity costs to Kansas customers, but Kansas customers use a little less
6 than 42.5% of the electric energy consumed by KCPL’s firm electric customer.

7 **Q. How does KCPL propose to allocate the off-system sales margin in this**
8 **proceeding?**

9 A. Unlike KCPL’s proposal in the 06-828 docket, KCPL proposes to allocate off-system
10 sales margin based on the on the energy without losses allocator. While not explicitly
11 stated in testimony, it appears KCPL’s proposed ECA allocates off-system sales
12 margins based upon energy delivered to all retail and full requirements customers.¹⁸
13 In other words, while KCPL allocates over 45% of the costs of its generating plants to
14 Kansas retail customers, it would allocate a little less than 42.5% of off-system sales
15 margins to the Kansas retail customers paying for the plants that make this excess
16 generation possible.

17 **Q. Did Staff agree with KCPL’s use of the unused energy allocator to credit off-**
18 **system sales margin in the 06-828 rate filing?**

¹⁷ See p.7, l.16 through p.8, l.7 of the January 31, 2007 Direct Testimony of Don A. Frerking in 06-828.
¹⁸ As will be discussed later, an amended version of KCPL’s ECA tariff is attached as Exhibit _____ LWH-2.

1 A. Yes, Staff supported KCPL's use of the unused energy allocator in the 06-828 rate
2 filing.¹⁹ Staff agreed with the filed testimony provided by KCPL in supporting this
3 adjustment.²⁰

4 **“Q. Please explain how bulk power, or off-system, sales revenues were**
5 **allocated?”**

6 A. The bulk power, or off-system, sales revenues are for the capacity and non-
7 firm energy sold to other utilities. The revenues from off-system sales were
8 subdivided into four components for allocation purposes. These components
9 are: (1) the capacity sales revenues; (2) the transmission revenues associated
10 with and included in the off-system sales revenues; (3) the cost of sales (*e.g.*,
11 fuel costs) associated with and included in the off-system sales revenues; and
12 (4) the margin or profit included in the off-system sales revenues. The
13 capacity and transmission components were allocated using the Demand
14 allocator. The cost of sales component was allocated using the Energy
15 allocator. The margin component was allocated on the basis of "unused
16 energy." The Unused Energy allocator is derived from the Demand and
17 Energy allocators. It is calculated by subtracting the actual energy usage from
18 the "available energy". The available energy is defined as the average of the
19 12 coincident peak demands multiplied by the total hours in the test period.
20 The allocation for all of these off-system sales revenue components is
21 consistent with the allocation of the costs associated with these sales.”
22 (emphasis added)
23

24 **Q. Did KCPL have difficulty in its 2006 Missouri rate filing regarding this issue?**

25 A. Yes. KCPL proposed the same allocator in each jurisdiction. However, in the
26 Missouri filing, not surprisingly, because its position favored Missouri customers,
27 MPSC Staff argued that off-system sales margin should be allocated based upon the
28 energy allocator because “the costs associated with these sales are purely variable”
29 thus avoiding the entire issue of which ratepayers are being saddled with the higher

¹⁹ See p.2, 1.9-14 of the September 7, 2006 Rebuttal Testimony of Don A. Frerking in 06-828.

²⁰ See p.7, 1.16 through p.8, 1.7 of the January 31, 2007 Direct Testimony of Don A. Frerking in 06-828. Note that this calculation was later corrected to use accredited capacity as discussed in Mr. Frerking's rebuttal testimony referenced in the preceding footnote. Nonetheless, the quote clearly shows that KCPL's intent was to allocate off-system sales margins to those customers who were not using the generation at the time.

1 allocation of capacity costs. While the MPSC agreed with MPSC Staff in its ruling
2 on the case, it did not use the MPSC Staff logic to arrive at its decision.²¹

3 Staff recommends that the Commission continue to use the energy allocator
4 for revenues from non-firm off-system sales of energy, including the margin
5 component thereof. This is the time-tested and widely accepted method for
6 allocating such revenues in this state because it is appropriate for allocating
7 revenues and associated costs that are purely variable with the amount of
8 energy sold.” ... “KCPL’s settlement of its Kansas case, recently approved
9 by the Kansas Corporation Commission, is a “black box” settlement, meaning
10 that the Commission cannot tell what level of off-system sales are built into
11 KCPL’s Kansas rates. This means that any off-system margins that this
12 Report and Order would ostensibly assign to Kansas would not go to Kansas
13 ratepayers, but instead would go to KCPL shareholders. This Report and
14 Order sets KCPL’s Missouri rates at a just and reasonable level; any
15 assignment of off-system sales margin away from Missouri using KCPL’s
16 proposed allocator would result in a windfall for KCPL shareholders. Thus,
17 the Commission will reject KCPL’s novel unused energy allocator, and will
18 use the energy allocator proposed by Staff and other parties.
19

20 **Q. Would any off-system sales margins assigned to Kansas ratepayers in this**
21 **proceeding go to KCPL shareholders?**

22 A. No. With Staff’s proposed modifications to KCPL’s proposed ECA mechanism,
23 Kansas ratepayers would receive all of their allocated off-system sales margins. For
24 this reason, the MPSC logic in adopting the energy allocator for off-system sales
25 margin is not valid if the Commission adopts either the ECA mechanism proposed by
26 Staff or KCPL for Kansas retail customers.

27 **Q. Is there any logic in the MPSC Staff’s argument that the off-system sales**
28 **margins should be allocated by the energy allocator because they are “strictly**
29 **variable costs?”**

²¹ See the December 21, 2006, Missouri Public Service Commission, Report and Order in MPSC Case No. ER-2006-0314.

1 A. No. Many costs vary from year to year or even monthly for a utility that are not
 2 allocated on an energy basis. For example, with the exception of fuel costs, other
 3 variable costs associated with generation, such as property taxes, maintenance
 4 expenses, etc. are allocated based upon demand. The energy allocator is developed to
 5 allocate energy-related costs, not because these costs are variable.

6 **Q. Did KCPL provide an updated unused energy allocator in this proceeding?**

7 A. While KCPL did not calculate or provide the unused energy allocator in its initial
 8 filing, it did provide the unused energy allocator in response to a staff data request:²²

Unused Energy Allocator

	Missouri	Kansas	FERC	Total
Demand Allocator (D1) - 12CP				
1477.3 Load (MW)	1,477.3	1,226.9	20.4	2,724.5
Demand Allocator	D1 54.22%	45.03%	0.75%	100.00%
Energy w/ Losses Allocator (E1)				
Energy Used (MWH)	9,240,147	6,903,886	121,211	16,265,243
Energy w/ Losses Allocator	E1 56.81%	42.45%	0.75%	100.00%
Unused Energy w/ Losses Allocator (UE1)				
Available Capacity (MW)				4,238.0
Demand Allocator (D1)	54.22%	45.03%	0.75%	100.00%
Max Total Peak Allocated Using D1 Factors (MW)	2,298.0	1,908.5	31.7	4,238.0
x Hours in Year	8760	8760	8760	8760
Available Energy (MWH)	20,130,147	16,718,119	277,977	37,124,880
- Energy Used (MWH)	9,240,147	6,903,886	121,211	16,265,243
Unused Energy (MWH)	10,890,000	9,814,233	156,766	20,860,999
Unused Energy w/ Losses Allocator	UE1 52.2027%	47.0458%	0.7515%	100.0000%

11 **Table 3 (see Exhibit _____ LWH-1)**

12 As shown, using the unused energy allocator would allocate over 47% of the off-
 13 system sales margins to Kansas retail ratepayers. As filed, KCPL proposes to allocate
 14 less than 42.5% of the off-system sales margins to its Kansas ratepayers, and over
 15 45% of the generating costs that make these sales possible.

²² See KCPL response to Staff DR 329, attached as Exhibit _____ LWH-1.

1 **Q. How does KCPL justify using the energy allocator for allocating off-system sales**
2 **margins to Kansas retail customers in this rate filing?**

3 A. In his direct testimony KCPL witness Tim M. Rush states the following:²³

4 KCPL's proposed ECA tariff separates, on an energy basis, off-system sales
5 margins, the revenues and costs of serving short-term power sales to be
6 allocated. This method is consistent with Westar's and Empire District's
7 energy adjustment mechanisms in Kansas.

8
9 **Q. Does Staff agree with this justification?**

10 A. Not at all, for many different reasons. First, and of least importance, the Westar and
11 Empire District Electric (Empire) ECAs were developed in Docket Nos. 05-WSEE-
12 981-RTS and 05-EPDE-980-RTS respectively. On December 9, 2005 the
13 Commission issued its "Order Adopting Stipulated Settlement Agreement" in Docket
14 No. 05-EPDE-980-RTS that adopted Empire's current ECA. On December 28, 2005
15 the Commission issued its "Order on Rate Applications" in Docket No. 05-WSEE-
16 981-RTS that adopted Westar's current ECA. In both cases these ECA mechanisms
17 were adopted before KCPL made its January 31, 2006 filing in the 06-828 case. In
18 that filing, KCPL already knew how off-system sales margins were allocated for
19 Westar and Empire, yet KCPL still chose to do the right thing and allocate those
20 profits based upon its unused energy allocator, which appropriately credits customers
21 saddled with the costs of KCPL's excess generation.

22 Second, comparing KCPL's ECA with Westar's ECA is not valid because
23 Westar's allocation consists merely of allocating among Kansas retail customers, not
24 with wholesale customers or retail customers in another jurisdiction. On a total

²³ See the p.12, l.17-20 of the Direct Testimony of Tim M. Rush, filed March 1, 2007.

1 company basis, the same amount of off-system energy is refunded to Kansas retail
2 customers, it is merely divided between Westar North and Westar South based upon
3 the energy used by these retail customers. The Commission is responsible for
4 determining the public interest in Kansas, and setting just and reasonable rates for
5 Kansas utilities and Kansas ratepayers. Even if KCPL's proposed energy allocation
6 of off-system sales margins were reasonable, and Staff believes it is not, the
7 Commission does not have the jurisdiction or the responsibility to set reasonable rates
8 for Missouri.

9 Third, and more important, comparing KCPL's ECA proposal with that of
10 Empire is also invalid for many reasons. Empire has very few Kansas customers and,
11 in fact, procures a large amount of its generation with purchased power contracts,
12 both on a short and long-term basis. Furthermore, rather than owning wind power
13 facilities, which could result in an allocation of the costs on a demand basis, Empire
14 entered into a purchase power agreement and buys the output of its contracted wind
15 power on an energy basis. Had KCPL done this instead of owning its Spearville wind
16 facility, Kansas ratepayers would only pay for the energy produced by these facilities,
17 essentially an energy allocation of less than 42.5%. Instead, Kansas ratepayers are
18 paying for over 45% of the Spearville wind facility costs because these costs are
19 allocated on a demand basis. Thus, Missouri ratepayers are receiving the benefit of
20 renewable energy that is partially subsidized by Kansas ratepayers.

21 Finally, and most important, KCPL's five-year regulatory plan justified its
22 investment in the Iatan 2 coal plant, rather than gas-fired generation, by showing that
23 the benefits from off-system sales would go to the customers that are paying for the

1 much larger coal plant investment. If KCPL does not fairly allocate these off-system
2 sales margins to Kansas customers, it may be that the current KCPL investment in
3 Iatan 2 is unjustified. In the 06-828 docket, Staff reviewed the effects of not
4 returning an adequate amount of the off-system sales margin to Kansas customers and
5 found that that refunding only a portion of the proper amount of off-system sales
6 margins to Kansas customers would result in Iatan 2 no longer being the least cost
7 resource plan. Instead, if the proper level of off-system sales margins are not
8 refunded to Kansas customers, the least cost plan would have been constructing gas-
9 fired combustion turbines.²⁴

10 **Q. Is the Commission required to allocate KCPL's costs in a manner similar to the**
11 **Missouri Commission?**

12 A. No, and certainly not when Missouri "gets it wrong." For example KCPL agreed
13 to allocate demand costs for its five-year regulatory plan on a 12 CP allocator in the
14 04-1025 S&A, but did not appeal Missouri's decision to allocate these costs on a 4
15 CP allocator, even though the MPSC knowingly adopted an allocator that would not
16 allow KCPL to recover the full 100% of its related costs. Furthermore, while the
17 revenue requirements were part of the "black box" settlement in 06-828, Staff and
18 KCPL arrived at the settlement by accepting KCPL's use of an unused energy
19 allocator for off-system sales margins. Once again the MPSC knowingly adopted an
20 allocator that, in theory, would not allow KCPL to recover 100% of its related costs.

²⁴ See p.10, l.22 through p.11, l.19 and Exhibit _____ LWH-2 of the Direct Testimony of Larry W. Holloway filed August 17, 2006 in 06-828.

1 Additionally, it is my understanding that the only legal criteria is that the Commission
2 must allocate costs among jurisdictions in a reasonable manner.

3 **Q. Please summarize Staff's recommendation regarding the allocation of off-system**
4 **sales margins.**

5 A. The only fair and equitable way to make sure Kansas ratepayers are not subsidizing
6 the Missouri ratepayers is to allocate off-system sales margins to KCPL's Kansas
7 retail ratepayers based upon the unused energy allocator. The Commission should
8 require KCPL to allocate its off-system sales margins to Kansas ratepayers based
9 upon the method outlined in KCPL's unused energy allocator.

10

11

KCPL's ECA

12

13 **Q. Has Staff reviewed KCPL's ECA filing?**

14 A. Yes. Staff has reviewed KCPL's ECA filing and met with KCPL to discuss concerns
15 regarding its proposed ECA mechanism. With the exception of the allocation of off-
16 system sales margins, KCPL and Staff have come to an agreement regarding some
17 identified concerns with the KCPL ECA mechanism as filed. To document this
18 agreement, Staff sent KCPL DR 377 to KCPL. The response, along with the agreed
19 to changes to KCPL's ECA tariff are shown on Exhibit____LWH-2.

20 **Q. What concerns were identified that these changes address?**

21 A. Staff was concerned with the treatment of long-term bulk power sales, other than
22 wholesale requirements sales for resale, in KCPL's ECA.

23 **Q. What is the difference between these two types of wholesale agreements?**

1 A. Long term bulk power sales are generally sales of several years in duration that are
2 usually tied to a specific amount of generation capacity or specific generating units.
3 However, these sales are not considered in the 12 CP demand allocation of generation
4 costs. Requirements Sales for Resale (RSR) customers, on the other hand, are usually
5 municipal utilities that depend on KCPL to plan and meet all or a portion of their
6 generation requirements. These customers are allocated costs by the 12 CP demand
7 allocator and off-system sales margins by use of the unused energy allocator.

8 **Q. How did KCPL incorporate the revenue for these wholesale agreements in its**
9 **corrected proposed ECA (shown in Exhibit ____LWH-2)?**

10 A. KCPL modified its ECA to credit the revenue for its long term bulk power sales to
11 retail and RSR customers. While Staff believes there may be a need in the future to
12 modify the ECA mechanism to assure that revenue from these sales is being properly
13 allocated among FERC and state jurisdictions, Staff believes this treatment is
14 reasonable at this time. In future rate proceedings, Staff would recommend this issue
15 be revisited with the goal of assuring allocation of these revenues is consistent with
16 the allocation of the associated generation costs. Additionally, Staff notes including
17 these revenues in KCPL's ECA mechanism will allow Kansas ratepayers to benefit if
18 KCPL makes longer term capacity related sales that are not off-system energy sales.
19 Doing so would allow retail ratepayers to receive this benefit as it is incurred, rather
20 than waiting for a rate proceeding to change the 12 CP allocator for generation costs.

21 **Q. Generally describe how KCPL's ECA process will work.**

22 A. Staff witness Dr. John Cita will discuss the various filings and reviews under the
23 process. Generally, each month KCPL will sum the estimated costs of fuel, purchase

1 power, emission allowances, and purchase power transmission costs associated with
2 all RSR wholesale and retail sales that are not off-system sales. The estimated
3 monthly revenue from long term bulk power sales will be subtracted from this total
4 and the result will be divided by the projected kWh delivered to all KCPL retail and
5 RSR wholesale customers, to develop an amount per kWh. KCPL then proposes to
6 calculate the off-system sales margin as a kWh credit and then add an annual kWh-
7 based true-up provision that would allow KCPL to refund any resulting excess
8 revenue or collect any deficient revenue. As discussed, because KCPL will use only
9 the 25th percentile of its off-system sales margin forecast for 2008 for its initial credit,
10 KCPL's forecast would imply a 75% likelihood that this portion of the annual true-up
11 provision will be a credit to customers for the 2009 ECA year.

12 **Q. Is this process similar to that used by other utilities?**

13 A. Yes. Both Westar and Empire use forecasted inputs to develop their monthly ECAs
14 and then have an annual true-up provision to collect or refund any difference between
15 the revenue collected and the actual costs.

16 **Q. What modifications would Staff propose to the amended KCPL ECA
17 mechanism in Exhibit____LWH-2?**

18 A. As discussed earlier, Staff would propose to return off-system sales margins to
19 Kansas retail customers using the unused energy allocator. To achieve this, Staff has
20 modified the amended KCPL ECA mechanism in Exhibit____LWH-2. Staff's
21 modifications are shown in Exhibit____LWH-3.

22 **Q. Does Staff have further concerns regarding KCPL's ECA mechanism?**

1 A. Staff is somewhat concerned regarding KCPL's procedure for classifying asset-based
2 and non-asset-based off-system sales. Essentially asset-based sales are those sales
3 which are made from KCPL generating units. Non-asset-based sales are those where
4 KCPL marketers may purchase power from a third party and sell to a third party, in
5 theory never using assets owned or controlled by KCPL. Unlike Westar, KCPL has a
6 relatively small amount of non-asset-based sales. KCPL proposes to treat non-asset-
7 based sales in a fashion similar to Westar, which is to state that it wishes to treat
8 associated costs and revenues below the line. However, in Westar's case, Westar
9 sought and received Commission approval for this type of regulatory treatment. The
10 Commission investigation into the Westar proposal included considering the results
11 and recommendations of an independent audit by a consulting firm selected by
12 Staff.²⁵

13 **Q. What recommendations does Staff have regarding KCPL's non-asset-based sales**
14 **classification?**

15 A. Staff recommends KCPL, Staff and other interveners meet to discuss this issue prior
16 to KCPL's next rate filing. Staff further recommends KCPL be required to seek
17 Commission approval of its non-asset-based off-system sales procedures in a separate
18 docket filed, no later than May 1, 2008.

19 **Q. Provide a summary of Staff's recommendations regarding KCPL's ECA**
20 **mechanism.**

²⁵ For a discussion of the Westar proceeding see the January 6, 2003 Order in Docket No. 01-WSRE-436-RTS.

1 A. While Staff witness Dr. John Cita will discuss KCPL's ECA review process and
2 make recommendations, Staff presents the following additional recommendations
3 regarding KCPL's ECA mechanism. Staff believes the Commission should:

- 4 • Adopt the revisions to KCPL's amended ECA tariff as shown in
5 Exhibit_____LWH-3.
- 6 • Require KCPL to file for Commission approval of its off-system sales asset-
7 based and non-asset-based classification procedures no later than May 1,
8 2008.

9 **Q. Thank you.**

Direct Testimony of Larry W. Holloway
Docket No. 07-KCPE-905-RTS

CONTAINS NO CONFIDENTIAL INFORMATION

Exhibit _____LWH-1

DATA REQUEST– Set KCC_20070622
Case: 07-KCPE-905-RTS
Date of Response: 07/06/2007
Information Provided By: Lois Liechi
Requested by: Holloway Larry

Question No. : 329

Please provide the following information regarding generation capacity;a. Updated Available Capacity calculated the exact same way as the available capacity shown on page 1 of 4 on Exhibit DAF-6 of the Rebuttal Testimony of Don A. Frerking filed September 7, 2006 in KCC Docket No. 06-KCPE-828-RTS. Explain source of inputs and Show all work.b. Explain how the available capacity is derived and how the above referenced available capacity relates to the information regarding KCPL on the 2006 Southwest Power Pool EIA-411 report. Is the EIA-411 report in error?

Response:

a. As discussed in our response to KCC Data Request No. 211, we decided not to use the Unused Energy Allocator in this rate case; however, per your request, we have made the calculation and it is attached as file **Q0329_Unused Energy Allocator.xls**. The sources of inputs are:

- Demand and Energy allocators - per the Company's filing in this rate case.
- Available capacity - per the Company's Energy Resource Management database (see note below regarding the derivation of this number).

b. The available capacity is derived as documented in the comment field of cell F14 of the first tab in file **Q0329_Unused Energy Allocator.xls**. As noted in that comment field, the available capacity of 4,238 MW consists of 4,053 MW of generation and 185 MW of purchases. The EIA-411/EIA-860 reports, attached as **Q0329_EIA-411 Report.xls** and **Q0329_EIA-860 Report.xls**, respectively, reflect generation capacity of 4,051 MW. The 2 MW difference is the black plant start from a Northeast generator not reflected on the EIA reports.

The 4,051 MW from the EIA reports can be derived as follows:

EIA-411 Report, Demand & Capacity-Summer tab, line 7a1.1 - 3,740 MW operable capacity (ties to EIA-860 Report, Schedule 2, cell H97)

Units on Schedule 2, EIA-860 Report owned by KCPL (shaded in yellow and green)
total 3,503 MW

Add Wolf Creek (Owners Share tab of the EIA-860 report) - 548 MW

Total = 3,503 MW + 548 MW = 4,051 MW

Therefore, the EIA-411 Report is not in error.

Response by: John P. Weisensee, Regulatory Accounting Manager

Attachments:

Q0329_Unused Energy Allocator.xls

Q0329_EIA-411 Report.xls

Q0329_EIA-860 Report.xls

Q0329KCC Staff_Verification.pdf

Unused Energy Allocator

	Missouri	Kansas	FERC	Total	
Demand Allocator (D1) - 12CP					
1477.3 Load (MW)	1,477.3	1,226.9	20.4	2,724.5	
Demand Allocator	D1	54.22%	45.03%	0.75%	100.00%
Energy w/ Losses Allocator (E1)					
Energy Used (MWH)	9,240,147	6,903,886	121,211	16,265,243	
Energy w/ Losses Allocator	E1	56.81%	42.45%	0.75%	100.00%
Unused Energy w/ Losses Allocator (UE1)					
Available Capacity (MW)				4,238.0	
Demand Allocator (D1)	54.22%	45.03%	0.75%	100.00%	
Max Total Peak Allocated Using D1 Factors (MW)	2,298.0	1,908.5	31.7	4,238.0	
x Hours in Year	8760	8760	8760	8760	
Available Energy (MWH)	20,130,147	16,718,119	277,977	37,124,880	
- Energy Used (MWH)	9,240,147	6,903,886	121,211	16,265,243	
Unused Energy (MWH)	10,890,000	9,814,233	156,766	20,860,999	
Unused Energy w/ Losses Allocator	UE1	52.2027%	47.0458%	0.7515%	100.0000%

**Weather Normalized Coincident Peaks for January 2006 through December 2006
Includes Losses
(MW)**

Dt	CoinMOPeak	CoinKSPeak	CoinResale	WNPeak
Jan-06	1,390	1,133	27	2,550
Feb-06	1,318	1,095	25	2,438
Mar-06	1,192	972	22	2,187
Apr-06	1,182	912	16	2,110
May-06	1,386	1,158	19	2,564
Jun-06	1,765	1,482	20	3,267
Jul-06	1,930	1,655	24	3,609
Aug-06	1,876	1,581	23	3,480
Sep-06	1,620	1,333	17	2,970
Oct-06	1,312	1,068	12	2,392
Nov-06	1,353	1,134	19	2,505
Dec-06	1,403	1,199	21	2,623
MAX Jan06-Dec06	1,930	1,655	27	3,609
TOTAL	17,727	14,722	245	32,694

source: Al Bass

**Demand Allocator
Jurisdictional COS for Revenue (December 2006)
Adjusted for Weather (no Customer Growth)**

Production and Transmission Demand Allocators (D1, D2)

<u>Jurisdiction</u>	<u>12-CP Loads</u>	<u>D1, D2 Allocator</u>
Missouri	1,477.3	54.2228%
Kansas	1,226.9	45.0321%
SFR	20.4	0.7488%
Total	2,724.5	100.0000%

**Energy Allocators
 Jurisdictional COS for Revenue Case
 12 Months Ending December 2006
 w/o Customer Growth**

ENERGY WITH LOSSES (E1)

	<u>MWH</u>	<u>E1 Allocator</u>
MISSOURI	9,240,147	56.8092%
KANSAS	6,903,886	42.4456%
SALES FOR RESALE	<u>121,211</u>	<u>0.7452%</u>
TOTAL	16,265,243	100.0000%

ENERGY WITHOUT LOSSES (E2)

	<u>MWH</u>	<u>E2 Allocator</u>
MISSOURI	8,770,695	56.9315%
KANSAS	6,519,165	42.3166%
SALES FOR RESALE	<u>115,836</u>	<u>0.7519%</u>
TOTAL	15,405,696	100.0000%

Direct Testimony of Larry W. Holloway
Docket No. 07-KCPE-905-RTS

CONTAINS NO CONFIDENTIAL INFORMATION

Exhibit _____LWH-2

DATA REQUEST– Set KCC_20070712
Case: 07-KCPE-905-RTS
Date of Response: 07/16/2007
Information Provided By: Lois Liechti
Requested by: Holloway Larry

Question No. : 377

On June 26, 2007 KCC Staff met with KCPL Staff to discuss the ECA mechanism. At that meeting KCC Staff learned that KCPL was preparing a modification to the ECA mechanism to properly address revenue from sales to Independence and Springfield, i.e. capacity and energy sales. Please provide the discussed markup of Tim Rush's exhibits incorporating this discussion. Note: at that meeting it was expected this would be complete in only a few days. Please expedite this response.

Response:

Attached please find both a redline copy and a clean copy of KCPL's ECA tariff showing changes necessary to correct various concerns regarding the ECA tariff filed as Schedule TMR-2 attached to the Direct Testimony of KCPL witness Timothy M. Rush. In addition to the bulk power sales issue referenced in this data request, definition clarifications were made and the true-up equation was modified from using off-system sales margin to off-system sales revenue.

Attachments:

KCC377_RedlineRevisedECA.doc
KCC377_CleanRevisedECA.doc
KCC377_Verification.pdf

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4

(Territory to which schedule is applicable)

which was filed _____

No supplement or separate understanding shall modify the tariff as shown hereon. Sheet 1 of 3 Sheets

ENERGY COST ADJUSTMENT
Schedule ECA

APPLICABILITY:

This Energy Cost Adjustment (ECA) Schedule shall be applicable to all Kansas Retail Rate Schedules for KCPL.

BASIS:

Energy costs will be measured and applied to a customer's bill using an ECA factor. The ECA factor is applied on a kilowatt-hour basis (\$/kWh). Retail customer charges for energy costs are determined by multiplying the kilowatt-hours of electricity during any calendar month by the corresponding ECA factor for that calendar month.

ENERGY COST ADJUSTMENT:

Prior to January 1 of each ECA year, an ECA factor (ECA_P) will be calculated for each calendar month of the ECA year as follows:

$$ECA_P = \frac{((F_P + P_P + E_P + T_P) - BPR_P)}{S_P} - \frac{OSSM_{PY}}{S_{PY}} - \frac{TRUE_A}{S_{TRUE}}$$

Where:

- F_P = Projected cost of nuclear and fossil fuel to be consumed for the generation of electricity during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_{PY}, to be recorded in Account 501, Account 518 and Account 547, excluding any KCPL internal labor cost.
- P_P = Projected cost of purchased power during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_{PY}, to be recorded in Account 555, and KCPL's projected charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs).
- E_P = Projected cost of emission allowances during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_{PY}, to be recorded in Account 509.
- T_P = Projected transmission costs, to be recorded in Account 565, and RTO, FERC and NERC fees, to be recorded in Account 560 and Account 928, during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_{PY}.
- BPR_P = Projected Revenue from Bulk Power Sales customers not included in OSSM_{PY}.
- S_P = Projected kWhs to be delivered to all KCPL Retail and Requirements Sales for Resale customers during the month in which the ECA is in effect.
- OSSM_{PY} = Projected annual asset-based Off-System Sales Margin from Bulk Power Sales at the 25th percentile for the effective ECA year.
- S_{PY} = Projected annual kWhs to be delivered to all KCPL Retail and Requirements Sales for Resale customers during the effective ECA year.
- S_{TRUE} = Projected kWhs for Kansas Retail customers for the twelve-month period beginning in April of the year following the ECA year.

Issued: March 1, 2007
Month Day Year

Effective: _____
Month Day Year

By: Chris Giles Vice President
Title

FILED

THE STATE CORPORATION COMMISSION OF KANSAS

By: _____
Secretary

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4

(Territory to which schedule is applicable)

which was filed

No supplement or separate understanding shall modify the tariff as shown hereon. Sheet 2 of 3 Sheets

ENERGY COST ADJUSTMENT
Schedule ECA

TRUE_A = The annual true-up amount for an ECA year, to be calculated by March 1 of the year following the ECA year and to be applied for a twelve-month period beginning April 1 of the year following the ECA year. The true-up amount will reflect any difference between the total ECA revenue for the Retail sales during the ECA year and the actual costs incurred to achieve those Retail sales less the credits applied for Off-System Sales Revenue for the ECA year. Such true-up amount may be positive or negative. Any remaining balances from prior true-up periods will be added.

$$TRUE_A = ECAREV_A - [(F_A + P_A + E_A + T_A) - BPC_A - OSSR_A] \times \frac{S_{AK}}{S_{AT}} + TRUE_{PRIOR}$$

Where:

ECAREV_A = Actual ECA revenue for Kansas Retail sales during the ECA year.

F_A = Actual total company cost of nuclear and fossil fuel consumed for the generation of electricity for the ECA year recorded in Account 501, Account 518 and Account 547, excluding any internal KCPL labor cost.

P_A = Actual total company cost of purchased power incurred during the ECA year recorded in Account 555, and KCPL's actual charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs).

E_A = Actual total company emission allowance costs incurred during the ECA year recorded in Account 509.

T_A = Actual total company transmission costs recorded in Account 565 and RTO, FERC and NERC fees recorded in Account 560 and Account 928 for the ECA year.

BPC_A = Actual total company cost for non-asset-based sales to Bulk Power customers during the ECA year, as reflected in P_A, and T_A.

OSSR_A = Actual total company asset-based Off-System Sales Revenue from Bulk Power Sales for the ECA year.

S_{AK} = Actual kWhs delivered to KCPL's Kansas Retail customers during the ECA year.

S_{AT} = Actual kWhs delivered to all KCPL Retail and Requirements Sales for Resale customers during the ECA year.

TRUE_{PRIOR} = Remaining true-up amounts from previous ECA years (positive or negative).

Issued: March 1, 2007
Month Day Year

Effective: _____
Month Day Year

By: Chris Giles Vice President
Title

FILED

THE STATE CORPORATION COMMISSION OF
KANSAS

By: _____
Secretary

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4

(Territory to which schedule is applicable)

which was filed _____

No supplement or separate understanding shall modify the tariff as shown hereon. Sheet 3 of 3 Sheets

ENERGY COST ADJUSTMENT
Schedule ECA

NOTES TO THE TARIFF:

1. A monthly ECA factor will be projected on a \$/kWh basis for each month of the ECA year.
2. The ECA factor will be expressed in dollars per kilowatt-hour rounded to four decimal places.
3. Each ECA year will be a calendar year, with the first year beginning January 1, 2008.
4. The ECA amount on each customer bill will be calculated such that the ECA factor for each calendar month within the billing period is applied to the estimated usage for the appropriate calendar month (i.e., prorated).
5. The references to Accounts are from the FERC uniform system of accounts.
6. KCPL will submit a report on or before the 25th day of April, July, and October of each ECA year that compares the original ECA revenue projections and the then-current ECA year-end projections on a total revenue basis. If the original projection and the then-current projection become significantly out of balance at any time during the ECA year, KCPL may elect to file for a change in the remaining monthly ECA factors to address the anticipated difference.
7. KCPL will submit a report on or before the 1st day of March each year beginning March 1, 2009 that provides the True-up reconciliation for the preceding ECA year.
8. Retail Customers are customers that receive service under one of the KCPL Retail tariffs.
9. Requirements Sales for Resale Customers are wholesale customers receiving firm service for the full capacity and energy needs of the customer on a contract basis of one year or longer (Account 447).
10. Bulk Power Sales Customers are wholesale customers receiving service under Power contracts. These are Non-Requirements Sales for Resale customers (Account 447).
11. This tariff is subject to KCPL's Rules and Regulations as approved by the State Corporation Commission of Kansas.

Issued: March 1, 2007
Month Day Year

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Title

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THE STATE CORPORATION COMMISSION OF
KANSAS

By: _____
Secretary

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4

(Territory to which schedule is applicable)

which was filed

No supplement or separate understanding shall modify the tariff as shown hereon. Sheet 1 of 3 Sheets

ENERGY COST ADJUSTMENT Schedule ECA

APPLICABILITY:

This Energy Cost Adjustment (ECA) Schedule shall be applicable to all Kansas Retail Rate Schedules for KCPL.

BASIS:

Energy costs will be measured and applied to a customer's bill using an ECA factor. The ECA factor is applied on a kilowatt-hour basis (\$/kWh). Retail customer charges for energy costs are determined by multiplying the kilowatt-hours of electricity during any calendar month by the corresponding ECA factor for that calendar month.

ENERGY COST ADJUSTMENT:

Prior to January 1 of each ECA year, an ECA factor (ECA_p) will be calculated for each calendar month of the ECA year as follows:

ECA_p = ((F_p + P_p + E_p + T_p) - BPR_p) / S_p * OSSM_pY / S_PY * TRUE_A / S_TRUE

Where:

F_p = Projected cost of nuclear and fossil fuel to be consumed for the generation of electricity during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_pY, to be recorded in Account 501, Account 518 and Account 547, excluding any KCPL internal labor cost.

P_p = Projected cost of purchased power during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_pY, to be recorded in Account 555, and KCPL's projected charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs).

E_p = Projected cost of emission allowances during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_pY, to be recorded in Account 509.

T_p = Projected transmission costs, to be recorded in Account 565, and RTO, FERC and NERC fees, to be recorded in Account 560 and Account 928, during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_pY.

BPR_p = Projected Revenue from Bulk Power Sales customers not included in OSSM_pY.

S_p = Projected kWhs to be delivered to all KCPL Retail and Requirements Sales for Resale customers during the month in which the ECA is in effect.

OSSM_pY = Projected annual asset-based Off-System Sales Margin from Bulk Power Sales at the 25th percentile for the effective ECA year.

S_PY = Projected annual kWhs to be delivered to all KCPL Retail and Requirements Sales for Resale customers during the effective ECA year.

S_TRUE = Projected kWhs for Kansas Retail customers for the twelve-month period beginning in April of the year following

Issued: March 1, 2007
Effective:
By: Chris Giles Vice President

FILED
THE STATE CORPORATION COMMISSION OF KANSAS
By: Secretary

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KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4

(Territory to which schedule is applicable)

which was filed _____

No supplement or separate understanding shall modify the tariff as shown hereon. Sheet 2 of 3 Sheets

ENERGY COST ADJUSTMENT
Schedule ECA

TRUE_A = The annual true-up amount for an ECA year, to be calculated by March 1 of the year following the ECA year and to be applied for a twelve-month period beginning April 1 of the year following the ECA year. The true-up amount will reflect any difference between the total ECA revenue for the Retail sales during the ECA year and the actual costs incurred to achieve those Retail sales less the credits applied for Off-System Sales Revenue for the ECA year. Such true-up amount may be positive or negative. Any remaining balances from prior true-up periods will be added.

$$TRUE_A = ECAREV_A - [(F_A + P_A + E_A + T_A) - BPCA - OSSR_A] \times \frac{S_{AK}}{S_{AT}} + TRUE_{PRIOR}$$

Where:

ECAREV_A = Actual ECA revenue for Kansas Retail sales during the ECA year.

F_A = Actual total company cost of nuclear and fossil fuel consumed for the generation of electricity for the ECA year recorded in Account 501, Account 518 and Account 547, excluding any internal KCPL labor cost.

P_A = Actual total company cost of purchased power incurred during the ECA year recorded in Account 555, and KCPL's actual charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs).

E_A = Actual total company emission allowance costs incurred during the ECA year recorded in Account 509.

T_A = Actual total company transmission costs recorded in Account 565 and RTO, FERC and NERC fees recorded in Account 560 and Account 928 for the ECA year.

BPCA = Actual total company cost for non-asset-based sales to Bulk Power customers during the ECA year, as reflected in P_A and T_A.

OSSR_A = Actual total company asset-based Off-System Sales Revenue from Bulk Power Sales for _____ the ECA year.

S_{AK} = Actual kWhs delivered to KCPL's Kansas Retail customers during the ECA year.

S_{AT} = Actual kWhs delivered to all KCPL Retail and Requirements Sales for Resale customers during the ECA year.

TRUE_{PRIOR} = Remaining true-up amounts from previous ECA years (positive or negative).

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purchased power expense, emissions expense, transmission expense and variable operations and ¶
maintenance expense

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Month Day Year

Effective: _____
Month Day Year

By: Chris Giles Vice President
Title

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THE STATE CORPORATION COMMISSION OF KANSAS

By: _____
Secretary

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

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Sheet 3 of 3 Sheets

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Schedule ECA

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1. A monthly ECA factor will be projected on a \$/kWh basis for each month of the ECA year.
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10. Bulk Power Sales Customers are wholesale customers receiving service under Power contracts. These are Non-Requirements Sales for Resale customers (Account 447).
11. _____
11. _____
11. _____ This tariff is subject to KCPL's Rules and Regulations as approved by the State Corporation Commission of Kansas.

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Issued: March 1, 2007
Month Day Year

Effective: _____
Month Day Year

By: Chris Giles Vice President
Title

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THE STATE CORPORATION COMMISSION OF
KANSAS

By: _____
Secretary

Direct Testimony of Larry W. Holloway
Docket No. 07-KCPE-905-RTS

CONTAINS NO CONFIDENTIAL INFORMATION

Exhibit_____LWH-3

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

Rate Areas No. 2 & 4
(Territory to which schedule is applicable)

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Schedule ECA

APPLICABILITY:

This Energy Cost Adjustment (ECA) Schedule shall be applicable to all Kansas Retail Rate Schedules for KCPL.

BASIS:

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ENERGY COST ADJUSTMENT:

Prior to January 1 of each ECA year, an ECA factor (ECA_P) will be calculated for each calendar month of the ECA year as follows:

$$ECA_P = \frac{((F_P + P_P + E_P + T_P) - BPR_P)}{S_P} \times \frac{OSSM_K}{S_K} \times \frac{TRUE_A}{TRUE}$$

Where:

F_P = Projected cost of nuclear and fossil fuel to be consumed for the generation of electricity during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_K, to be recorded in Account 501, Account 518 and Account 547, excluding any KCPL internal labor cost.

P_P = Projected cost of purchased power during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_K, to be recorded in Account 555, and KCPL's projected charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs).

E_P = Projected cost of emission allowances during the month in which the ECA is in effect for all KCPL Retail, Requirements Sales for Resale, and Bulk Power Sales customers not included in OSSM_K, to be recorded in Account 509.

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BPR_P = Projected Revenue from Bulk Power Sales customers not included in OSSM_K.

S_P = Projected kWhs to be delivered to all KCPL Retail and Requirements Sales for Resale customers during the month in which the ECA is in effect.

OSSM = The projected annual asset-based Off-System Sales Margin from Bulk Power Sales at the 25th percentile for the effective ECA year.

OSSM_K = 47.0458% of the projected annual asset-based Off-System Sales Margin from Bulk Power Sales at the 25th percentile for the effective ECA year.

S_K = Projected annual kWhs to be delivered to all KCPL Kansas Retail customers during the effective ECA year.

TRUE = Projected kWhs for Kansas Retail customers for the twelve-month period beginning in April of the year following the ECA year.

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Month Day Year

Effective: _____
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By: Chris Giles Vice President
Title

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THE STATE CORPORATION COMMISSION OF KANSAS

By: _____
Secretary

KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

Replacing Schedule _____ Sheet _____

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$$TRUE_A = ECAREV_A - [(F_A + P_A + E_A + T_A) - BPC_A] \times \frac{S_{AK}}{S_{AT}} - OSSM_A + TRUE_{PRIOR}$$

Deleted: - OSSR_A

Where:

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P_A = Actual total company cost of purchased power incurred during the ECA year recorded in Account 555, and KCPL's actual charges or credits incurred due to participation in markets associated with Regional Transmission Organizations (RTOs) less all costs associated with OSSM_A.

E_A = Actual total company emission allowance costs incurred during the ECA year recorded in Account 509 less all costs associated with OSSM_A.

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T_A = Actual total company transmission costs recorded in Account 565 and RTO, FERC and NERC fees recorded in Account 560 and Account 928 for the ECA year less all costs associated with OSSM_A.

BPC_A = Actual total company cost for non-asset-based sales to Bulk Power customers during the ECA year, as reflected in P_A and T_A.

OSSM_A = 47.0458% of the Actual total company asset-based Off-System Sales Margin from Bulk Power Sales for the ECA year.

Deleted: OSSR_A

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S_{AK} = Actual kWhs delivered to KCPL's Kansas Retail customers during the ECA year.

S_{AT} = Actual kWhs delivered to all KCPL Retail and Requirements Sales for Resale customers during the ECA year.

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KANSAS CITY POWER & LIGHT COMPANY

(Name of Issuing Utility)

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Month Day Year

Effective: _____
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By: Chris Giles Vice President
Title

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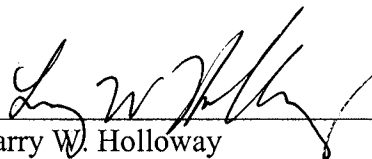
THE STATE CORPORATION COMMISSION OF
KANSAS

By: _____
Secretary

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

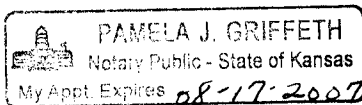
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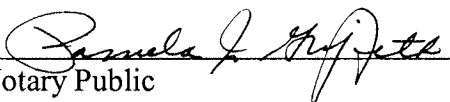
Larry W. Holloway, being duly sworn upon his oath deposes and says that he is the Chief of Energy Operations for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Redacted Direct Testimony and Exhibits*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Larry W. Holloway
Chief of Energy Operations
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 3rd day of August, 2007.





Notary Public

My Appointment Expires:

August 17, 2007

CERTIFICATE OF SERVICE

07-KCPE-905-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Redacted Direct Testimony and Exhibits was placed in the United States mail, postage prepaid, or hand-delivered this 3rd day of August, 2007, to the following:

* NIKI CHRISTOPHER, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604
Fax: 785-271-3116
n.christopher@kcc.state.ks.us
**** Hand Deliver ****

* C. STEVEN RARRICK, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604
Fax: 785-271-3116
s.rarrick@kcc.state.ks.us
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* DAVID SPRINGE, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604
Fax: 785-271-3116
d.springe@kcc.state.ks.us
**** Hand Deliver ****

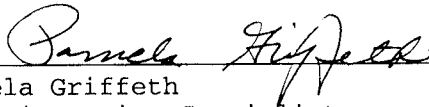
* C. EDWARD PETERSON, ATTORNEY
FINNEGAN CONRAD & PETERSON LC
1209 PENNTOWER OFFICE CENTER
3100 BROADWAY
KANSAS CITY, MO 64111
Fax: 816-756-0373
epeters@fcplaw.com

* CHRIS B GILES, SR. DIRECTOR, REVENUE AND
RESOURCE MGMT
KANSAS CITY POWER & LIGHT COMPANY
1201 WALNUT (64106)
PO BOX 418679
KANSAS CITY, MO 64141-9679
Fax: 816-556-2924
chris.giles@kcpl.com

* WILLIAM RIGGINS, GENERAL COUNSEL
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Fax: 816-556-2787
bill.riggins@kcpl.com

* FRANK A. CARO, JR., ATTORNEY
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JAMES P. ZAKOURA, ATTORNEY
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OVERLAND PARK, KS 66210
Fax: 913-661-9863
zakoura@smizak-law.com



Pamela Griffeth
Administrative Specialist

* Denotes those receiving the Confidential version