

1 STATE OF MISSOURI  
2 PUBLIC SERVICE COMMISSION  
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6 TRANSCRIPT OF PROCEEDINGS  
7 Hearing  
8 October 20, 2006  
9 Jefferson City, Missouri  
Volume 8

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12 In the Matter of the Application )  
of Kansas City Power & Light )  
13 Company for Approval to Make )  
Certain Changes in its Charges for ) Case No. ER-2006-0314  
14 Electric Service to Begin the )  
Implementation of Its Regulatory )  
15 Plan )

16 RONALD D. PRIDGIN, Presiding,  
REGULATORY LAW JUDGE.

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CONNIE MURRAY,  
18 LINWARD "LIN" APPLING,  
COMMISSIONERS.

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1 P R O C E E D I N G S

2 JUDGE PRIDGIN: Good morning. We're on the  
3 record. How about those Cardinals? All right. I just  
4 want to clarify --

5 MR. CONRAD: Cardinals?

6 JUDGE PRIDGIN: Not the Cardinals. I want  
7 to clarify where we're going. I understood we're going to  
8 take the jurisdictional allocation witnesses this morning,  
9 and that would be Mr. Giles, Mr. Frerking, Ms. Maloney.  
10 Is that correct, we would do them first? I'm seeing some  
11 nods.

12 MR. WOODSMALL: There was some discussion  
13 earlier about there's two different jurisdictional  
14 allocation issues. Go ahead.

15 JUDGE PRIDGIN: Mr. Dottheim?

16 MR. WOODSMALL: I'm stealing your thunder.

17 MR. DOTTHEIM: No. That's quite all right,  
18 Mr. Woodsmall.

19 The unused energy allocator, some people  
20 view that as an allocation, a jurisdictional allocation  
21 issue, and others view that as an off-system sales issue,  
22 but that was also going to be heard today. But I think  
23 the company also on the jurisdictional allocations would  
24 like to ask Mr. Featherstone some --

25 MR. BLANC: Correct.

1                   MR. DOTTHEIM: -- some questions because of  
2     some of his testimony on 4 CP/12 CP, which is perfectly  
3     fine as far as the Staff is concerned.

4                   JUDGE PRIDGIN: Okay. So Mr. Featherstone  
5     will also be on the stand today?

6                   MR. DOTTHEIM. Yes. He will also be on the  
7     stand for the unused energy allocator, as will  
8     Mr. Traxler.

9                   JUDGE PRIDGIN: So we're going to --

10                  MR. WOODSMALL: I think Mr. Dittmer was  
11     going to testify on that issue, too.

12                  JUDGE PRIDGIN: So Mr. Featherstone,  
13     Mr. Traxler and Mr. Dittmer will also be available today  
14     on unused energy allocator?

15                  MR. DOTTHEIM: As will the company  
16     witnesses Mr. Frerking and Mr. Giles.

17                  JUDGE PRIDGIN: Okay. And then depending  
18     on how long that goes, looks like we have quite a few  
19     witnesses, and it's always tough to know how long  
20     cross-examination will go. That may be a pretty full day.  
21     It's hard to say right now.

22                  I'm sorry. Mr. Dottheim?

23                  MR. DOTTHEIM: Judge, some of the parties  
24     may want to address this. I haven't been involved in the  
25     discussions, but I understand that rate design has settled

1 in principle this morning, which would free up a fair  
2 amount of time next week, and I think the parties as a  
3 consequence would want to start off-system sales on  
4 Monday.

5 JUDGE PRIDGIN: Mr. Dottheim, thank you.  
6 Anyone care to comment on that? Mr. Fischer?

7 MR. FISCHER: Yes, Judge. We did have a  
8 conference call this morning with almost all of the  
9 parties, with the exception of Mr. Keevil, who wasn't able  
10 to participate. And based upon that call, it's my  
11 understanding we do have an agreement in principle on rate  
12 design, which will be finalized in a stipulation form,  
13 subject to tweaking of the language, but --

14 JUDGE PRIDGIN: And that's obviously giving  
15 Mr. Keevil time to review that.

16 MR. FISCHER: Yes.

17 MR. MILLS: And if I may, there's one more  
18 caveat. AARP, just because of its corporate governance  
19 structure, hasn't been able to finally say whether or not  
20 they will agree, oppose or not oppose, but counsel for  
21 AARP was on the call this morning and he stated that he  
22 would recommend to AARP that they accept the settlement.

23 So I think that they will, but we just  
24 won't know for 48 hours or 72 hours or whatever it takes  
25 to run it up through the chain of command of the national



1 AARP organization.

2 JUDGE PRIDGIN: Mr. Mills, thank you. So  
3 at least as of now, do I understand that rate design  
4 probably will not go next week and the parties wish to  
5 move what up to Monday? I'm sorry. Somebody just said.  
6 Off-system sales?

7 MR. DOTTHEIM: Off-system sales.

8 JUDGE PRIDGIN: Thank you. Does everyone  
9 concur with that? Mr. Dottheim? I'm sorry.

10 MR. DOTTHEIM: Yes, which originally was on  
11 Monday to begin with and we moved --

12 JUDGE PRIDGIN: Incentive compensation?

13 MR. DOTTHEIM: Yes, incentive compensation  
14 I think was thought as being taken first thing on Monday.

15 JUDGE PRIDGIN: So do the parties  
16 anticipate going to, I think it's Mr. Cross is the only  
17 witness going to testify on that topic on Monday and then  
18 move on to off-system sales; is that the parties'  
19 understanding?

20 MR. FISCHER: Yes, Judge. And Mr. Cross  
21 will be here in person. We had talked about doing it by  
22 phone, but he will be here in person.

23 I would point out that the third off-system  
24 sales KCPL witness Mr. Schnitzer would not be here until  
25 Wednesday, and then we also had an understanding with

1 Trigen that we would do their issues on Tuesday.

2 JUDGE PRIDGIN: Any concern with that,  
3 taking the Trigen issues Tuesday?

4 (No response.)

5 JUDGE PRIDGIN: Okay. Sounds like we might  
6 have a schedule lined out really the next two or three  
7 days, then. We'll see how long jurisdictional allocation  
8 takes today. We will look at going with incentive  
9 compensation and off-system sales on Monday, and then the  
10 Trigen issues on Tuesday. Any comment on that? Anything  
11 else counsel needs to bring to my attention before we have  
12 Mr. Giles, I guess, be our first witness?

13 MR. FISCHER: Judge, just so it's clear,  
14 too, the rate design stipulation we talked about would  
15 resolve not only rate design but the class cost of service  
16 and the class revenue portion of that.

17 JUDGE PRIDGIN: Do you anticipate when you  
18 would be able to file that, Mr. Fischer? Do you have any  
19 idea?

20 MR. FISCHER: I think hopefully the company  
21 and perhaps Staff and Public Counsel can begin working on  
22 a stip over the weekend, but I'm not sure when we'll have  
23 it ready to be filed.

24 JUDGE PRIDGIN: That's fine. I mean, as  
25 long as we at least know for now that you have an

1 agreement in principle and we can avoid putting those  
2 witnesses on, that's fine.

3 MR. CONRAD: Judge Pridgin, just to codify  
4 that a little bit, I'm not sure -- I wasn't trying to take  
5 the roll and make a list, but I think when this was done,  
6 it will be apparent that not 100 percent of the parties  
7 will be signatories, but there will be some that will be  
8 in a position of not opposing.

9 JUDGE PRIDGIN: Yes, sir.

10 MR. CONRAD: They may or may not be able to  
11 indicate that in the document, which obviously if all  
12 could, then that would help shorten things up. But I -- I  
13 think, you know, it probably bears note that it's not  
14 likely to be, quote, fully unanimous, close quote.

15 JUDGE PRIDGIN: Sure. I understand.  
16 Anything else from counsel before Mr. Giles takes the  
17 stand on jurisdictional allocation?

18 MR. WOODSMALL: The only other thing I'd  
19 note regarding jurisdictional allocations, I think you've  
20 seen it and it's been talked about before, is that  
21 Mr. Brubaker --

22 JUDGE PRIDGIN: Yes.

23 MR. WOODSMALL: -- will be next week and  
24 will be taken up then on this issue.

25 JUDGE PRIDGIN: Yes, I understand. I

1 recall that. And do the parties have a preference or a  
2 need for a specific day?

3 MR. WOODSMALL: It would be my preference,  
4 and it's whatever KCPL's pleasure, that he just be crossed  
5 on the issue of jurisdictional allocations when he's up on  
6 off-system sales.

7 MR. BLANC: We have no objection to that  
8 approach.

9 JUDGE PRIDGIN: Would that probably be  
10 Monday, then?

11 MR. WOODSMALL: Yes.

12 JUDGE PRIDGIN: All right. Thank you.

13 MR. DOTTHEIM: Judge. Mr. Woodsmall has  
14 reminded me that Ms. Lena Mantle also has testimony filed  
15 on the unused energy allocator, and she is here today, and  
16 so she will also take the stand on that issue.

17 JUDGE PRIDGIN: Okay. Looks like we have a  
18 pretty full day of witnesses ahead of us, then, which is a  
19 good thing. We will -- again, don't know what kind of  
20 cross-examination we will have. We may need to shut down  
21 a little early today just because we have local public  
22 hearings that our IT people need to test for sometime  
23 today, and so we'll just see how the witnesses go.

24 Okay. Anything else?

25 MR. DOTTHEIM: One last thing.

1 JUDGE PRIDGIN: Yes, sir.

2 MR. DOTTHEIM: Is I have distributed this  
3 morning and I will now distribute to the Bench a revised  
4 reconciliation, or as it's labeled and one or more people  
5 refer to it, reconcilment. Mr. Traxler will be taking  
6 the stand, so if there are any questions, he certainly can  
7 address the reconciliation, reconcilment. Let me  
8 distribute copies to the Bench now.

9 JUDGE PRIDGIN: Thank you. I looked it up.  
10 Reconcilment is a word.

11 MR. DOTTHEIM: Most definitely.

12 JUDGE PRIDGIN: I didn't know that.

13 MR. DOTTHEIM: And I might note that there  
14 are line items for jurisdictional allocations, for  
15 example, beginning at line 24 through line 27. I would  
16 also direct the Bench and the parties to lines 31 and 32  
17 where there's off-system sales margin and off-system sales  
18 unused energy allocator.

19 JUDGE PRIDGIN: Mr. Dottheim, thank you.  
20 Anything else before Mr. Giles takes the stand?

21 (No response.)

22 JUDGE PRIDGIN: Mr. Giles, if you're  
23 available, please come forward. If counsel will please  
24 correct me, he has been on the stand in this hearing and  
25 been sworn; is that correct?

1 MR. MILLS: Yes.

2 JUDGE PRIDGIN: Thank you. You're still  
3 under oath, Mr. Giles. Please have a seat. Mr. Frey,  
4 will you have cross for this witness?

5 MR. FREY: No, your Honor.

6 JUDGE PRIDGIN: Any parties wishing cross  
7 for Mr. Giles on this issue? Going once, going twice.  
8 Mr. Mills?

9 MR. MILLS: Just a clarifying question.  
10 We're talking about jurisdictional allocations, and then  
11 we're going to do separately the issue of the unused  
12 energy allocator?

13 JUDGE PRIDGIN: I mean, I want to give  
14 counsel a chance to kind of -- I mean, you frame the  
15 issues and set them up. I'm not sure that I see them as  
16 separate issues. However counsel want to handle it. If  
17 you want to go into unused energy with him now, you may.  
18 If you care to wait, because I know parties kind of see  
19 the issues differently.

20 MR. MILLS: I think the transcript will  
21 probably be clearer if we wait and do that separately.

22 JUDGE PRIDGIN: That's perfectly fine. No  
23 cross-examination for this witness on this issue. Why  
24 don't I see if the Bench has any questions? I know some  
25 Commissioners are just arriving. Mr. Giles is here to

1     testify on jurisdictional allocation, and does the Bench  
2     have any questions on this issue?

3                   COMMISSIONER MURRAY: I don't think on this  
4     issue. Thank you, Judge.

5                   JUDGE PRIDGIN: All right. Mr. Giles,  
6     thank you.

7                   Any cross-examination for Mr. Frerking on  
8     this issue?

9                   MR. WOODSMALL: Yes, your Honor.

10                  MR. FREY: Yes.

11                  JUDGE PRIDGIN: All right. Mr. Frerking,  
12     if you'll come forward, sir. Mr. Woodsmall, you have some  
13     cross?

14                  MR. WOODSMALL: Yes. It will be fairly  
15     brief.

16                  JUDGE PRIDGIN: Other parties?

17                  Mr. Frerking, you're still under oath.  
18     Just have a seat. Mr. Woodsmall, when you're ready, sir.

19                  MR. WOODSMALL: Thank you, your Honor.

20     DON A. FRERKING testified as follows:

21     CROSS-EXAMINATION BY MR. WOODSMALL:

22                  Q.     Good morning, sir.

23                  A.     Good morning.

24                  Q.     Do you recall having your deposition taken  
25     in this matter on September 29th?

1 A. Yes.

2 Q. Okay. I understand that prior to this case  
3 you had never conducted an independent jurisdictional  
4 allocation analysis; is that true?

5 A. That's correct.

6 Q. In preparing for your assignment of filing  
7 testimony on jurisdictional allocations, you had not taken  
8 any special classes or attended any conferences related to  
9 jurisdictional allocations?

10 A. That's correct.

11 Q. Your college education did not provide you  
12 any special training related to conducting a  
13 jurisdictional allocation analysis; is that correct?

14 A. Not specifically, no.

15 Q. In preparing for your assignment in this  
16 matter, did you consult any textbooks or other treatises  
17 related to jurisdictional allocations?

18 A. No.

19 Q. I understood from your deposition that in  
20 preparing for your assignment on this matter, the only  
21 individuals that you had discussions with were Mr. Giles,  
22 Mr. Rush, Ms. Liechti and Ms. Turner; is that correct?

23 A. And a couple of other employees of KCPL,  
24 Don McDonald and Bob Sullivan. Both have since retired.

25 Q. Can you tell me who Mr. Sullivan is?



1           A.       He is a -- he was a long-time KCPL  
2 employee. He retired, I believe, last fall.

3           Q.       What was the nature of his  
4 responsibilities?

5           A.       He's -- he's been an employee of KCPL for,  
6 or he was, for a very long time. He had various  
7 responsibilities in the -- in the regulatory affairs area.

8           Q.       You testified at your deposition that you  
9 don't believe any of the individuals that you talked to  
10 had any prior experience developing jurisdictional  
11 allocation methodologies; is that true?

12          A.       Can you repeat that?

13          Q.       You testified at your deposition that of  
14 the individuals that you had spoken to in preparing your  
15 testimony, that none of them had any prior experience  
16 developing jurisdictional allocation methodologies; is  
17 that correct?

18          A.       If I said that, I misspoke. I don't know  
19 specifically what -- what training these people would have  
20 had with regard to developing jurisdictional allocators.

21          Q.       Did any of these individuals provide you  
22 any -- skip that. We'll just move on.

23                   Prior to filing your testimony, you  
24 consulted a couple papers you discussed on the calculation  
25 of jurisdictional allocations, but nothing which would

1 provide a criteria on when to apply one method versus  
2 another; is that correct?

3 A. That's correct.

4 Q. Prior to filing your testimony, did you  
5 consult any testimony filed in any other jurisdiction?

6 A. No, I did not.

7 Q. In your rebuttal testimony, and I'll give  
8 you the cite, but I'm sure you'll remember this document,  
9 it's Schedule DAF-7 starting at page 20, you reference a  
10 document entitled A Guide to FERC Regulation and  
11 Ratemaking of Electric Utilities and Other Power  
12 Suppliers. Do you recall that document?

13 A. Yes. That's a document that Staff relied  
14 upon for their determination of 4 CP/12 CP, and it was  
15 included in the, I believe, direct testimony of Staff  
16 witness Mantle in both the Empire case, and portions of it  
17 were included in the direct testimony of Ms. Mantle -- or  
18 I mean, excuse me, Ms. Maloney in our case.

19 Q. And prior to seeing that document as an  
20 attachment to Ms. Maloney's testimony, had you ever seen  
21 that document before?

22 A. I had not.

23 Q. So you never -- you didn't have a chance to  
24 consult that document prior to filing your direct  
25 testimony in this case?

1 A. That's correct.

2 Q. In that document, the author cites to a  
3 Carolina Power & Light decision of the FERC from 1978. Do  
4 you recall that?

5 A. That's correct.

6 Q. And prior to filing your testimony in this  
7 case and seeing that reference in Ms. Maloney's case, had  
8 you been aware of that decision?

9 A. No, I was not.

10 Q. Can you tell me today whether the rationale  
11 expressed by FERC in the Carolina Power & Light decision  
12 is still utilized by FERC today?

13 A. I don't know.

14 Q. You haven't done any independent research  
15 to determine whether that methodology is followed or has  
16 been modified at all by FERC?

17 A. No, I have not.

18 Q. Again, at the time you were given your  
19 assignment by KCPL management in this case, you had never  
20 done a jurisdictional allocation analysis before; is that  
21 correct?

22 A. That's correct.

23 Q. And at the time you were given your  
24 assignment to do this issue, the position regarding the  
25 use of a 12 CP methodology was dictated to you; is that

1 correct?

2 A. I don't know if I'd call it dictated. We  
3 file our cases in Kansas and Missouri on a consistent  
4 basis using a 12 CP allocator.

5 Q. You did not do any independent analysis to  
6 determine whether 12 or 4 CP was more appropriate; is that  
7 correct?

8 A. I did not.

9 Q. Okay. And the decision to use a 12 CP  
10 analysis was provided by someone other than you; is that  
11 correct?

12 A. That's correct.

13 Q. And the decision to use -- in your mind,  
14 the decision to use a 12 CP methodology came out of a  
15 desire to correct an inconsistency between the Missouri  
16 jurisdiction and the FERC and Kansas jurisdictions; is  
17 that correct?

18 A. It would -- was to maintain consistency in  
19 the current cases, yes.

20 Q. Okay. To maintain consistency. Prior to  
21 this case, there was an inconsistency between the  
22 jurisdictions; is that correct?

23 A. Well, our last case where this was  
24 specifically addressed was the Wolf Creek case in 1985.  
25 So the -- since that time, the KCPL Missouri cases have

1    been settlements without specifically addressing this.  So  
2    if you go back to the Wolf Creek case, yes, there was --  
3    in the Wolf Creek case there was an inconsistency between  
4    the allocations between the methodologies used for  
5    Missouri, Kansas and FERC, but it's got -- that would be  
6    the last time it was specifically addressed.

7           Q.       So one of the goals in undertaking a demand  
8    allocator in this case was to gain some consistency  
9    between the three jurisdictions; is that correct?

10          A.       That's correct.

11          Q.       Can you tell me when the last time that the  
12    Kansas Commission made a decision regarding the  
13    appropriate methodology to use for allocation of  
14    generation and transmission facilities for KCPL?

15          A.       I don't know about their determination.  
16    There was an agreement among the parties in the Kansas  
17    regulatory plan Stipulation & Agreement in this -- that  
18    preceded this current case, much like the Missouri  
19    regulatory plan Stipulation & Agreement.  In the Kansas  
20    regulatory plan Stipulation & Agreement, there was an  
21    agreement to use 12 CP allocation methodology.

22          Q.       Can you tell me when the last time that the  
23    demand allocator was litigated before the Kansas  
24    Commission and they had to make an independent conclusion  
25    on that issue?

1           A.       For KCPL, I would believe it would be the  
2   '95 Wolf Creek case. I don't know about any other company  
3   cases.

4           Q.       Can you tell me when the last time the FERC  
5   made a decision regarding KCP&L's demand allocator?

6           A.       I don't know that.

7           Q.       At the time that you filed your testimony  
8   in the pending Kansas case, had you conducted an  
9   independent analysis to determine whether the 4 CP  
10   methodology was the most appropriate methodology to use  
11   for allocating demand facilities?

12          A.       I had not. It was stipulated that that's  
13   what we would use in the Kansas case.

14          Q.       But you did not conduct an analysis to  
15   determine whether that was appropriate or not?

16          A.       I did not.

17          Q.       And you say that the demand allocation  
18   methodology was stipulated in the regulatory plan in  
19   Kansas; is that correct?

20          A.       That's correct.

21          Q.       And prior to that being stipulated, are you  
22   aware of any analysis conducted by KCP&L to determine what  
23   the most appropriate demand allocator would be for Kansas?

24          A.       I don't know if that was done or not.

25          Q.       You didn't do that analysis?

1           A.       I didn't do it.

2           Q.       So even if you found that the 4 CP analysis  
3 was the most appropriate, it is your belief that you are  
4 precluded from recommending that in Kansas; is that  
5 correct?

6           A.       It was agreed to in the Stipulation to use  
7 12, so yes, that's correct.

8           Q.       Can you tell me when the last time the  
9 Missouri Commission had an opportunity to address the  
10 appropriate demand allocator for KCP&L?

11          A.       The last time it was specifically addressed  
12 in a case would have been the last litigated case, which  
13 was the Wolf Creek case in '85.

14          Q.       You mention that Missouri decided the issue  
15 in 1985 and Kansas decided the issue in 1985; is that  
16 correct?

17          A.       I believe that's correct.

18          Q.       Okay. Can you tell me how KCP&L's load  
19 curve today compares to the load curve from 1985?

20          A.       I don't know that.

21          Q.       Okay. In your deposition you talked about  
22 some operating characteristics that help -- help lead to  
23 your recommendation for the 12 CP methodology. Do you  
24 recall that?

25          A.       Yes.

1           Q.       And it's my understanding that those  
2     operating characteristics were taken out of the FERC  
3     Carolina Power case; is that correct?

4           A.       They were -- they were addressed in that.  
5     The operating characteristics that we'd be talking about  
6     are maintenance performed in --

7           Q.       I'll get to that. But before reading of  
8     that decision in Ms. Maloney's direct testimony, you had  
9     never really considered the impact of those operating  
10    characteristics in formulating a jurisdictional allocation  
11    methodology; is that correct?

12          A.       I wouldn't say that's correct. The  
13    determination for 12 CP is, aside from doing a strict  
14    analysis, would be that KCP&L's generating facilities are  
15    utilized year round. We predominantly don't have  
16    facilities sitting idle in off-peak months.

17          Q.       Okay. One of the operating characteristics  
18    that is mentioned in that Carolina Power case and that you  
19    mention in your testimony is year-round planning; is that  
20    correct?

21          A.       That's correct.

22          Q.       And it is your understanding that every  
23    electric utility conducts year-round planning; is that  
24    correct?

25          A.       I would expect them to, yes.



1 Q. Okay. One of the other characteristics  
2 that you mentioned is performing maintenance in off-peak  
3 months. Do you recall that?

4 A. Yes.

5 Q. And is it your understanding that every  
6 electric utility would be expected to perform a  
7 maintenance in off-peak months?

8 A. I would expect that that's when they would  
9 do it.

10 Q. Can you tell me when the Carolina Power  
11 decision was issued?

12 A. I don't know for sure. I think it may have  
13 been 1978.

14 Q. Can you tell me what off-system sales are?

15 A. Off-system sales are sales that the company  
16 makes off of its generating units or off of purchases that  
17 it makes to customers that are not Missouri, Kansas or  
18 FERC jurisdictional customers.

19 Q. And can you tell me what your understanding  
20 is of the changes in the off-system sales market since  
21 1978?

22 A. Well, the market for off-system sales in  
23 1978 would have been largely a cost plus based pricing for  
24 that market. The market now is market price driven.  
25 Market price is largely driven by the unit, the marginal

1 cost, the unit that is on the margin for cost. So in  
2 general, the margins on off-system sales are much greater  
3 at this point in time than they would have been in 1978.

4 Q. Would you agree also that, since 1978, the  
5 number of transactions has increased significantly?

6 A. That would be my expectations. I don't  
7 have specific knowledge of the number of transactions in  
8 1978, but it wouldn't surprise me if that was the case.

9 Q. Okay. And certainly with the development  
10 of RTOs, you would expect transactions now, off-system  
11 transactions now to be greater than in 1978?

12 A. I think that's fair to say.

13 MR. WOODSMALL: Okay. I have no further  
14 questions. Thank you.

15 JUDGE PRIDGIN: Mr. Woodsmall, thank you.  
16 Any further cross from counsel?

17 MR. FREY: Yes, your Honor.

18 JUDGE PRIDGIN: Mr. Frey, when you're  
19 ready, sir.

20 MR. FREY: Thank you.

21 CROSS-EXAMINATION BY MR. FREY:

22 Q. I just have a few questions, Mr. Frerking.  
23 Good morning.

24 A. Good morning.

25 JUDGE PRIDGIN: Could I trouble you to

1 speak into the microphone? Thank you.

2 BY MR. FREY:

3 Q. Do you have a copy of the deposition with  
4 you?

5 A. I do not.

6 MR. FREY: May I approach the witness, your  
7 Honor?

8 JUDGE PRIDGIN: You may.

9 BY MR. FREY:

10 Q. Is that a copy of the deposition that --

11 A. Yes.

12 Q. -- you gave on September 29th of this year?

13 A. Yes, that's what it says.

14 Q. Okay. In your rebuttal testimony -- do you  
15 have that with you?

16 A. Yes, I do.

17 Q. I don't believe you need to consult it.

18 Just in case.

19 A. Okay.

20 Q. You refer to the fact that Staff witness  
21 Maloney recommended a 12 CP allocation methodology for the  
22 Empire District Electric Company in its pending rate case  
23 before this Commission. Do you recall that?

24 A. Yes.

25 Q. And in your review of that testimony, did

1     you notice a difference between the winter peaks  
2     experienced by Empire and those by KCPL?

3             A.       In Ms. Maloney's testimony, she addresses  
4     that, and that's factored in to the calculations, the FERC  
5     test that she did.

6             Q.       My question was, did you notice a  
7     difference between the winter peaks experienced by Empire  
8     and those by KCP&L?

9             A.       Based on the numbers that were provided in  
10    Ms. Maloney's testimony in the Empire case, yes.

11            Q.       And how would you characterize that  
12    difference?

13            A.       They would -- relative to KCPL, Empire  
14    probably has higher relative winter peaks in comparison to  
15    their summer peaks than KCPL.

16            Q.       Okay. Could you please turn to page 96 of  
17    the deposition and look at line 25, if you will.

18            A.       Okay.

19            Q.       I believe that's your answer to basically  
20    the same question, is it not?

21            A.       Yes.

22            Q.       Would you just -- would you just read your  
23    brief answer into the record, please.

24            A.       Beginning on line 25?

25            Q.       Line 25.

1           A.       Based simply on demands for peaks loads, it  
2       would -- they would show flatter if you will peak load  
3       dispersion between the months.

4           Q.       Okay. Thank you. Isn't it your contention  
5       that KCPL performs most of its maintenance on generating  
6       facilities in off-peak hours and that it sells a  
7       significant level of off-system energy during those times?

8           A.       That's correct.

9           Q.       You did not, however, provide any  
10      quantitative support for that view in your prefiled  
11      testimony, did you?

12          A.       I did not.

13          Q.       Have you performed any quantitative  
14      analysis to determine how scheduled maintenance on KCPL's  
15      nuclear and coal plants would affect capacity reserves in  
16      the off-peak months?

17          A.       I did not.

18          Q.       I believe with respect to this -- to  
19      identification of operational realities, the FERC  
20      identifies something called off-system sales commitments,  
21      does it not?

22          A.       Yes.

23          Q.       And do you regard the term off-system sales  
24      commitments as including non-firm off-system sales?

25          A.       I would consider our off-system sales to be

1 the non-firm sales or something that would be  
2 characterized as something that we should -- would have a  
3 responsibility to our shareholders and to the ratepayers  
4 to do when economically feasible.

5 The firm wholesale sales, those under  
6 contract, the off-system sales, those under contract would  
7 be more of a commitment than non-firm, but the non-firm  
8 would be what I would characterize as something that  
9 should be done when economically feasible.

10 Q. And so if I understand your answer, you're  
11 saying you would include that under the term off-system  
12 sales commitments?

13 A. I would have to have a better definition of  
14 commitments, but I think something that KCPL or any other  
15 utility would do to maximize the benefits to shareholders  
16 and ratepayers.

17 Q. Well, did you not include those non-firm  
18 off-system sales in your, I believe it was in your  
19 surrebuttal testimony, in your discussion of operational  
20 realities?

21 A. What I did in the surrebuttal testimony was  
22 an attempt to show the impact of the off-system sales in  
23 firm and non-firm on -- as far as the operating realities  
24 of KCPL. I included that as the off-system sales, the  
25 megawatt hour sales as a proxy to input into those same

1 FERC tests just to see what the results would show.

2 Q. And again, that includes non-firm  
3 off-system sales?

4 A. That's correct.

5 Q. And does KCPL have a commitment to make  
6 off-system sales to any entity other than the capacity  
7 contracts that have been considered in this case?

8 A. There's not a requirement to make those  
9 sales.

10 Q. Is there -- is there such a thing as a peak  
11 load requirement for off-system sales?

12 A. I'm sorry. I'm not -- I guess I don't  
13 understand the question.

14 MR. FREY: Pardon me, your Honor.

15 BY MR. FREY:

16 Q. Is there a demand charge when you make  
17 off-system sales?

18 A. There's a -- in the firm off-system sales,  
19 those under capacity contract, there's a demand payment  
20 that is made to the company that's providing those  
21 off-system sales.

22 Q. And for the non-firm off-system sales?

23 A. There is no demand payment, capacity  
24 payment in those non-firm sales.

25 Q. Is it not the nature of non-firm off-system

1 sales that there is no requirement -- excuse me --  
2 requirement to meet those loads?

3 A. There's no requirement to make those sales.

4 Q. I'm sorry. Make those sales, yes. So the  
5 plant is not dedicated to support those loads; is that  
6 correct?

7 A. That's correct.

8 Q. And that's why there are no demand charges  
9 associated with non-firm off-system sales; is that  
10 correct?

11 A. Those loads are not included in the demand  
12 allocation.

13 Q. So that's correct?

14 A. That's correct.

15 Q. Thank you. You are aware, are you not,  
16 that this Commission authorized a 4 CP methodology for  
17 KCPL in the Wolf Creek case some 20 years ago?

18 A. It chose to -- yes, it authorized a 4 CP in  
19 that case as opposed to the 1 CP proposed by Staff in that  
20 case.

21 Q. And that was, I believe, Cases  
22 No. EO-85-185 and EO-85-224; does that sound right?

23 A. I believe that's correct.

24 Q. And KCPL supported a 4 CP methodology in  
25 that case, did it not?



1           A.       That was the methodology that was proposed  
2     by the company as a compromise between the 12 CP and 1 CP.  
3     I can't speak to all the rationale behind it. I wasn't  
4     with the company at the time.

5           Q.       Do you agree that prior to the year 2005,  
6     the company allocated all off-system sales margins on the  
7     basis of an energy allocator?

8           A.       I don't know specifically what was done  
9     prior to '85. There wasn't a specific breakout of  
10    off-system sales margins prior to that time.

11          Q.       Okay. I'm going to ask you just a few  
12    questions about the company's annual earning surveillance  
13    reports. I believe you testified at the deposition that  
14    you are responsible for preparing them; is that the case?

15          A.       That's correct.

16                   MR. FREY: May I approach the witness, your  
17    Honor?

18                   JUDGE PRIDGIN: You may.

19    BY MR. FREY:

20          Q.       The document I've handed you is the  
21    company's response to the Staff's Data Request No. 520, is  
22    it not?

23          A.       Looks like 518.

24          Q.       I'm sorry. Yes, 518. I apologize.

25          A.       Yes, 518.

1           Q.       And I believe you saw this document at the  
2 deposition, too, didn't you? Do you recall seeing that?

3           A.       I believe that's correct.

4           Q.       And one of the attachments to the Data  
5 Request response is a Joint Agreement filed in the Wolf  
6 Creek case some 20 years old -- 20 years ago. Can you see  
7 that?

8           A.       Yes.

9           Q.       And was that Joint Agreement signed by KCPL  
10 and the Staff as well as a number of other parties?

11          A.       Yes.

12          Q.       Could you please turn to paragraph 4 of the  
13 Joint Agreement and read the sentence that I've  
14 highlighted? I hope it's highlighted.

15          A.       You say it's on page 4?

16          Q.       No. Paragraph 4. I'm sorry.

17          A.       Can I ask you to show me where you're  
18 pointing to?

19          Q.       (Indicating.)

20          A.       Okay. Again, from the Joint Recommendation  
21 of Kansas City Power & Light Company's phase-in plan rates  
22 in Case EO-85-185 and EO-85-224, page 3, and paragraph 4  
23 midway down, the cost of service report shall be based  
24 upon the Commission's Report and Order in the most recent  
25 rate or complaint case respecting KCPL.

1           Q.       And the Commission approved that Joint  
2 Recommendation, did it not?

3           A.       Yes.

4           Q.       Okay. Thank you. So according to the  
5 Joint Recommendation and Order approving the earnings  
6 surveillance reports, would it be prepared in accordance  
7 with the Commission's Report and Order in KCPL's most  
8 recent rate or earnings complaint case; is that correct?

9           A.       That's correct.

10          Q.       And the company's most recent such case  
11 would have been the Wolf Creek rate case some 20 years  
12 ago; is that correct?

13          A.       There's been a number of negotiated cases  
14 since then that would have addressed a number of issues.

15                   MR. FREY: May I have a moment, your Honor?

16                   JUDGE PRIDGIN: Certainly.

17 BY MR. FREY:

18          Q.       Those intervening cases did not change the  
19 underlying assumptions with regard to the 4 CP  
20 methodology, did they?

21          A.       The 4 CP or 12 CP issue or demand  
22 allocation issue was not addressed in any of those -- any  
23 of those negotiated cases in the interim between the 1985  
24 case and this current case.

25          Q.       Do you believe that prior to 2005 the

1 company was following Missouri Commission authorized  
2 allocation methodology when preparing its earnings  
3 surveillance reports for the Missouri jurisdiction?

4 A. Prior to 2005, for the surveillance  
5 reporting we used 4 CP allocation methodology for demand  
6 allocator.

7 Q. And would you regard that as consistent  
8 with the -- what was authorized in the --

9 A. The 4 CP --

10 Q. -- Wolf Creek?

11 A. The 4 CP was authorized in the 1985 case.

12 Q. And KCPL had been doing that since about  
13 when, back in the 1980s?

14 A. 1987, I believe.

15 Q. Isn't it true, then, by switching to a  
16 12 CP allocation methodology for purposes of its  
17 surveillance reports, the company was not complying with  
18 its agreement in the Joint Agreement and ultimately with  
19 the Commission's Order approving it?

20 A. For the 19-- for the 2005 surveillance  
21 report, we used a 12 CP allocator to be consistent with  
22 what we filed in the current case. There was no  
23 Commission order authorizing a 12 -- the use of a 12 CP --  
24 specifically authorizing the use of a 12 CP allocator.

25 Q. Okay. There was a Commission Order

1 specifically authorizing the 4 CP, was there not?

2 A. The Commission Order in the 1985 case  
3 suggested that it was authorizing 4 CP for the purposes of  
4 that case.

5 Q. Okay. I would direct you to the deposition  
6 again, on page 108, and ask you to read starting on  
7 line 25, and over into the following page through line 6.  
8 Would you please read that.

9 A. Answer: With regard to the 4 CP and 12 CP,  
10 it's like I said, in retrospect, I would have used a 4 CP  
11 based on the language in that -- in the Report and Order  
12 in Case No. EO-85-185 and Case No. EO-85-224. It states  
13 pretty specifically that 4 CP was for the purpose --- that  
14 4 CP was for purposes of that case, that is our case,  
15 litigated case where -- obviously.

16 Q. Thank you. And now if you could turn to  
17 page 111, and start with the sentence on line 13, reading  
18 through line 17.

19 A. Says, I would agree with --

20 MR. BLANC: I'm going to object to this  
21 line of questioning, your Honor. He's explained what he's  
22 done with the 4 CP methodology, and how KC-- or the demand  
23 allocation methodology included in its surveillance report  
24 has no bearing on the Commission's determination in this  
25 case, which allocation methodology is appropriate.

1 JUDGE PRIDGIN: Mr. Frey?

2 MR. FREY: Your Honor, I'm trying to  
3 establish the fact that the witness has admitted that the  
4 company unilaterally going to a 12 CP methodology was not  
5 in compliance with the Commission's Order back in 1987.  
6 I'm just having him read a sentence from the deposition to  
7 support that.

8 MR. BLANC: I'd say Mr. Frerking has  
9 explained what he's done, and it would ultimately be up to  
10 the Commission to decide whether that was in compliance  
11 with the prior Order.

12 JUDGE PRIDGIN: Thank you. I'll overrule  
13 and let him testify.

14 THE WITNESS: Could you repeat the  
15 question?

16 BY MR. FREY:

17 Q. Could you just read the sentence beginning  
18 on line 13 and extending through line 17?

19 A. I would agree with you that it should have  
20 been, it should have been done on a 4 CP basis. I would  
21 have done differently in retrospect, but I can't -- I  
22 can't state the legal opinions on it. I'm not qualified  
23 to do that.

24 Q. Thank you. Did you notify the Staff or any  
25 other party to the Joint Agreement of your plans to change

1 to 12 CP?

2 A. I did not, not for the purposes of the  
3 surveillance report, if that's what you're referring to.

4 Q. Did you notify them for any other purpose?

5 A. We -- in the case that we filed, in this  
6 current -- or in the filing that we made in this current  
7 case, we specifically noted that we used 12 CP demand  
8 allocator.

9 Q. Okay. So notification then came by virtue  
10 of your filing the case, correct?

11 A. In this case, yes.

12 Q. So there was no prior notification?

13 A. Not that I'm aware of. I can't speak to  
14 what was talked about in Stipulation & Agreements for the  
15 regulatory plan.

16 Q. Did you have any discussions with any Staff  
17 member regarding your plan to change to a 12 CP prior to  
18 making the change?

19 A. What change are you referring to?

20 Q. From a 4 CP to a 12 CP.

21 A. I'm aware of that, but are you referring  
22 specifically to the surveillance report or to what was  
23 done in the case?

24 Q. Either one.

25 A. Could you be more -- could you pick one,

1 please?

2 Q. Okay. The surveillance report.

3 A. The surveillance report, no, we did not.

4 Q. And how about for the case?

5 A. For the case, as I mentioned before, we  
6 mentioned -- we noted it in prefiled testimony, direct  
7 testimony.

8 Q. Prior to filing the case, did you have any  
9 discussions with Staff, any Staff member regarding this  
10 change?

11 A. As -- well --

12 Q. Prior to filing your testimony?

13 A. I did not have -- I personally did not have  
14 discussions. I can't speak to whether there were any  
15 discussions on that in -- by anyone else or in the context  
16 of the regulatory plan stipulate -- the meetings with  
17 regard to the regulatory plan Stipulation & Agreement, and  
18 this is not a -- for the purposes of our case, that is not  
19 a change. We filed what we believed was the right  
20 allocator.

21 MR. FREY: Thank you, Mr. Frerking. I have  
22 no further questions, your Honor.

23 JUDGE PRIDGIN: Thank you. Any further  
24 cross from counsel? See if we have any questions from the  
25 Bench. Commissioner Murray?



1 COMMISSIONER MURRAY: No questions.

2 JUDGE PRIDGIN: Thank you. Commissioner  
3 Appling?

4 COMMISSIONER APPLING: No questions.

5 JUDGE PRIDGIN: I have no questions. May  
6 this witness be excused for this issue?

7 MR. BLANC: Just a couple redirect, your  
8 Honor.

9 JUDGE PRIDGIN: Redirect, yes, sir.

10 REDIRECT EXAMINATION BY MR. BLANC:

11 Q. To the best of your knowledge, should the  
12 demand allocator that KCPL used in its surveillance  
13 reports submitted to the Commission have any bearing on  
14 the Commission's determination in this case as to which  
15 demand allocation factor --

16 MR. WOODSMALL: Your Honor, I object. He's  
17 leading the witness.

18 JUDGE PRIDGIN: I'm going to overrule. I  
19 think he's asking him a yes or no question.

20 MR. BLANC: I'm not suggesting an answer.  
21 I'm asking a yes or no question, but I'm not suggesting an  
22 answer.

23 JUDGE PRIDGIN: I'll overrule.

24 THE WITNESS: The surveillance report  
25 submitted for 2005 has no bearing on this case. Both the

1 company and the Staff and all other parties have  
2 independently provided their cases that, while based on  
3 2005, are not based on the surveillance report and the  
4 actuals. The cases that all the parties including KCPL  
5 and Staff have presented are all based on normalized,  
6 annualized 2005 test year data, not actual 2005 unadjusted  
7 test year data, which would be what would be provided in  
8 surveillance reporting.

9 BY MR. BLANC:

10 Q. Thank you. And one additional follow-up  
11 question concerning a question Mr. Woodsmall asked you  
12 about the goals KCPL was trying to accomplish. I believe  
13 in response to one of his questions, you indicated that  
14 one of the goals of proposing the 12 CP in this case was  
15 consistency among the jurisdictions?

16 A. That's correct.

17 Q. Did KCPL have any other goals related to  
18 matching operational realities?

19 MR. WOODSMALL: Your Honor, I'd object.  
20 He's leading the question. If he asks if there was other  
21 goals, that's fine, but if he suggests what the other goal  
22 is, then he's leading the witness.

23 JUDGE PRIDGIN: I believe the question  
24 was -- ask your question again. I thought the question  
25 was asking about what the other goals were.

1 MR. BLANC: That's correct.

2 MR. WOODSMALL: He started with that, and  
3 then he continued on.

4 MR. BLANC: The witness is free to say no  
5 if I'm portraying something incorrectly.

6 JUDGE PRIDGIN: I'll overrule. Ask your  
7 question again, please.

8 BY MR. BLANC:

9 Q. Did KCPL consider any other goals when it  
10 decided to propose the 12 CP allocation methodology?

11 A. When we proposed the 12 CP allocator in the  
12 case, it was primarily to maintain consistency among all  
13 the jurisdictions, but it reflects the operating realities  
14 of our system, of our production/transmission system in  
15 that it's used throughout the year.

16 MR. BLANC: No further questions.

17 JUDGE PRIDGIN: All right. Thank you.

18 Mr. Frerking, thank you very much.

19 Is Ms. Maloney prepared to testify on this  
20 issue? All right. If you'll raise your right hand to be  
21 sworn, please.

22 (Witness sworn.)

23 JUDGE PRIDGIN: Thank you very much.

24 Please have a seat.

25 ERIN L. MALONEY testified as follows:

1 JUDGE PRIDGIN: Okay. Which counsel wish  
2 cross-examination? I'm sorry. Mr. Frey, anything to  
3 clear up before cross?

4 MR. FREY: Yes. I don't think it's time to  
5 offer Ms. Maloney's testimony into evidence because she'll  
6 be up on the next issue, but I believe she has a  
7 correction that perhaps should be mentioned at this point  
8 because it's in connection with this issue.

9 JUDGE PRIDGIN: Okay.

10 THE WITNESS: On page 4 of my rebuttal  
11 testimony, at the top of the page, I refer to the wrong  
12 case number as the last Kansas City Power & Light rate  
13 increase case. It should be ER-85-something. I didn't  
14 write it down.

15 MR. FREY: I think it's 185.

16 THE WITNESS: 185. And 224?

17 MR. FREY: 224.

18 THE WITNESS: Sorry.

19 MR. FREY: Okay. With that, I'd tender the  
20 witness for cross.

21 JUDGE PRIDGIN: Mr. Frey, thank you.  
22 Counsel who wish to cross Ms. Maloney on this issue?  
23 KCPL. Other parties? Mr. Blanc, when you're ready, sir.

24 MR. BLANC: Thank you, your Honor.

25 CROSS-EXAMINATION BY MR. BLANC:

1 Q. Good morning, Ms. Maloney.

2 A. Good morning.

3 Q. Did you provide testimony in Empire's  
4 pending rate case, Case No. ER-2006-0315, concerning what  
5 demand allocation factor would be appropriate in that  
6 case?

7 A. Yes, I did.

8 Q. Do you have a copy of that testimony with  
9 you? It's attached to the rebuttal of Mr. Frerking, if  
10 that's helpful, or I can provide you with a copy.

11 A. I need a copy.

12 MR. BLANC: May I approach?

13 JUDGE PRIDGIN: You may.

14 BY MR. BLANC:

15 Q. And is that a copy of your direct testimony  
16 from the Empire case?

17 A. It appears to be.

18 Q. And when did you prepare that testimony?

19 A. This was prepared in June 2006.

20 Q. And what demand allocation factor did you  
21 recommend in your testimony?

22 A. The actual number or the methodology?

23 Q. Sorry. The 12 CP or 4 CP?

24 A. I recommended the 12 CP methodology in this  
25 case.

1           Q.       Okay. Thank you. Now, in the Empire case,  
2 did you perform the three quantitative tests suggested by  
3 FERC in the Carolina Power & Light decision?

4           A.       I did.

5           Q.       I'd like you to refer to page 9 of your  
6 direct testimony in the Empire case.

7           A.       Okay.

8           Q.       Could you please read your answer in  
9 response to the question, are there any other factors to  
10 consider in determining the appropriate allocation  
11 methodology?

12          A.       Yes. These FERC tests are part of a larger  
13 set of factors historically utilized by the FERC in its  
14 determination of which coincident peak methodology should  
15 be used in electric utility cases. In a rate case  
16 decision involving Carolina Power & Light Company, for  
17 example, the FERC states, it is necessary to consider the  
18 full range of the company's operating realities, including  
19 an addition to system demand, scheduled maintenance,  
20 unscheduled outages, diversity, reserve requirements and  
21 off-system sales commitments. Footnote omitted. In the  
22 adoption of the 12 CP methodology, FERC decided these  
23 operating realities, all of which affect a utility's  
24 effective capacity, as important to its determination.

25          Q.       Thank you. And the first line of that

1 answer, the FERC test you're referring to, those are the  
2 three quantitative tests you performed?

3 A. That's correct.

4 Q. Okay. Thank you. So according to your  
5 testimony in the Empire case, in addition to those  
6 quantitative tests, it's, quote, necessary to consider the  
7 full range of a company's operating realities, including  
8 an addition to system demand, scheduled maintenance,  
9 unscheduled outages, diversity, reserve requirements and  
10 off-system sales commitments; is that correct?

11 A. I'm not quite sure what the question was.

12 Q. According to your testimony, that in  
13 addition to the quantitative tests, the three you  
14 performed, it's also necessary to look at the list of  
15 operating realities you --

16 A. That's correct.

17 Q. Thank you. You attached a chapter from a  
18 back to your testimony in the Empire case and in this  
19 case, correct?

20 A. Correct.

21 Q. Is that -- is that chapter in essence a  
22 treatise on how to determine the appropriate allocation  
23 methodology for a utility, demand allocation methodology?

24 A. It's a chapter in a book titled A Guide to  
25 Ratemaking, FERC Ratemaking for Electric Utilities.

1           Q.       And did you utilize the analysis provided  
2   in that chapter?

3           A.       I did.

4           Q.       And does it state anywhere in that chapter  
5   that it's unnecessary to look at a utility's operating  
6   realities if the three quantitative tests turn out a  
7   particular way?

8           A.       It does not.

9           Q.       Thank you. In the Empire case, did you  
10   include a description of your consideration of Empire's  
11   operating realities? I refer you to page 10 of your  
12   testimony in that case.

13          A.       I believe I did.

14          Q.       Could you please read your answer in  
15   response to the question, the first question on the page,  
16   or the first answer on the page, and the question is, how  
17   do these operational realities apply to Empire?

18          A.       There are periods of time typically in the  
19   spring or fall when the usage level of the company's  
20   native load customer is reduced. At such times, the  
21   company is able either to perform necessary maintenance on  
22   its power plants or to pursue off-system sales while  
23   retaining sufficient capacity to adequately meet its  
24   customers' requirements. Furthermore, the company's  
25   capacity planning process takes into account all the hours



1 of the year, not just the peak hour or any seasonal peak.

2                   These operational realities along with the  
3 test results and aforementioned analysis provide ample  
4 evidence to support Staff's recommendation to adopt a 12  
5 CP methodology in the current proceeding.

6           Q.       Let's walk through those operational  
7 realities with respect to KCPL. First, are there periods  
8 of time, typically in the spring or fall, when the usage  
9 level of KCPL's native load customers is reduced?

10          A.       Yes, virtually the eight non-peak months.

11          Q.       And at such times is KCPL either able to  
12 perform necessary maintenance on its power plants or  
13 pursue off-system sales?

14          A.       Yes.

15          Q.       Does KCPL's capacity planning process take  
16 into account all the hours of the year, not just the peak  
17 hour or any seasonal peak?

18          A.       That's correct.

19          Q.       Although not considered in the Empire case,  
20 another operational reality considered in the FERC  
21 analysis that you relied upon in the Empire case and in  
22 this case is the diversity of a company's generation  
23 portfolio; is that correct?

24          A.       That's correct.

25          Q.       And do you have an opinion as to whether

1 KCPL is primarily an intermediate peaking unit utility or  
2 a base load unit, a base load utility?

3 A. Kansas City Power & Light has a large  
4 percentage of base load capacity.

5 Q. And are you aware how FERC treats  
6 generation diversity under its demand allocator factor  
7 analysis?

8 A. They -- they have stated that it's not a  
9 large factor.

10 Q. You cited a case, a Commonwealth Edison  
11 case, a decision by a FERC ALJ in your supplemental  
12 testimony; is that correct?

13 A. Which case citing are you talking about?

14 Q. I'm sorry. In your surrebuttal testimony  
15 in this case, in the KCPL case.

16 A. Which -- I cited a number of cases.

17 Q. I can find the page number of that citation  
18 if that would be helpful.

19 A. Commonwealth Edison, it's page No. 3 in my  
20 surrebuttal. Okay.

21 MR. BLANC: May I approach the witness?

22 JUDGE PRIDGIN: You may.

23 BY MR. BLANC:

24 Q. Is that the decision you cited in your  
25 surrebuttal testimony in this case?

1           A.       That's what this page says.

2           Q.       Fair enough. I would like to refer you to  
3 page 18 of that decision, and the page numbers are a  
4 little confusing. The page number's in the top right-hand  
5 corner if that helps.

6           A.       Page 18 of 104?

7           Q.       Yes. Correct. Thank you. Could you  
8 please read the highlighted section from that decision?

9           A.       Edison and the Staff argued that the  
10 4 CP method is reasonable because Edison experiences  
11 pronounced peak in those four months that is significantly  
12 higher than the peaks in the eight non-summer months.  
13 Edison and Staff assert that Edison plans and builds  
14 generating capacity solely to meet these summer -- this  
15 summer peak. In this regard, Staff contends that Edison's  
16 large percentage of intermediate and peaking units as  
17 opposed to base load capacity shows that Edison designs  
18 and operates its system to meet its summer peak, not  
19 relatively even loads in all seasons of the year.

20          Q.       Okay. So based upon that, would you agree  
21 that the FERC Staff was arguing that Edison's large  
22 percentage of intermediate and peaking units was a factor  
23 for a less than 12 CP methodology?

24          A.       I wouldn't be able to make a conclusion  
25 without reading the complete ruling.

1           Q.       Does the quote you just read indicate that  
2   Staff's argument that a large percentage of intermediate  
3   and peaking units as opposed to base load capacity was  
4   treated -- that FERC Staff was arguing that indicated that  
5   Edison designs and operates its system to meet summer  
6   peak? I can rephrase the question if that --

7           A.       Yeah, I'm not --

8           Q.       Reading the quote you just read, doesn't it  
9   appear to indicate that FERC Staff was arguing that  
10   Edison's reliance on intermediate and peaking load  
11   indicated that it designs and operates its system to meet  
12   a summer peak as opposed to year-round demand?

13          A.       What this sentence is saying is Staff --  
14   that FERC Staff's contentions -- contends that Edison's  
15   large percentage of intermediate and peaking units as  
16   opposed to base load capacity shows that Edison designs  
17   and operates its system to meet its summer peak. That's  
18   what this sentence says.

19                 MR. BLANC: Thank you. No further  
20   questions, your Honor.

21                 JUDGE PRIDGIN: All right. Thank you. Any  
22   further cross from counsel?

23                 (No response.)

24                 JUDGE PRIDGIN: Let's see if we have  
25   questions from the Bench. Commissioner Murray?

1 COMMISSIONER MURRAY: Thank you.

2 QUESTIONS BY COMMISSIONER MURRAY:

3 Q. Good morning.

4 A. Hi.

5 Q. Your counsel, Mr. Dottheim, this morning  
6 apparently passed out a new revenue requirement  
7 reconciliation.

8 A. He did.

9 Q. And do you have a copy of that?

10 A. Yes, I do.

11 Q. Since you're here on the jurisdictional  
12 allocation issue, maybe you can help clarify something for  
13 me regarding the change between the reconciliation that was  
14 filed on -- I'm not sure of the date -- October 11th it  
15 looks like, and this one was revised October 19. On the  
16 October 11 filing, do you have it before you as well or do  
17 you just have --

18 A. I have the most recent one. The last one I  
19 saw, it was a lot bigger number.

20 Q. Okay. On the original one, the October 11  
21 reconciliation, I don't see jurisdictional allocation  
22 issues set out separately as it is here on the revised  
23 reconciliation, and what I'm -- I guess the bottom line  
24 that you can probably answer for me -- and apparently you  
25 were just handed a copy of the earlier version. What has

1     happened with that issue that has changed this  
2     reconciliation statement?

3             A.       I don't know.

4             Q.       Okay.  Is it your understanding that there  
5     was a \$6.2 million difference between the Staff and the  
6     company on this issue from the beginning?

7             A.       I never actually knew what the  
8     quantification was and the dollar value until I looked at  
9     the sheet two days ago.

10            MR. FREY:  Commissioner, if I might  
11     interrupt, I think Staff witness Steve Traxler will be  
12     taking the stand and probably will be able to give you an  
13     answer to that question.

14            COMMISSIONER MURRAY:  All right.  Thank  
15     you.

16     BY COMMISSIONER MURRAY:

17            Q.       I do have a couple of other questions for  
18     you, however.  Is the reason that Staff chose the 4 CP  
19     method in this case over the 12 CP method solely based  
20     upon a Stipulation & Agreement from 1987?

21            A.       No, ma'am.

22            Q.       Okay.  On cross of Mr. Frerking, it  
23     appeared that Staff was concerned that in 1987 there was  
24     an agreement that the company would use 4 CP in its next  
25     rate case.  Is that your understanding?

1           A.       My understanding was that Staff was  
2       concerned that they switched without notifying us in 2005,  
3       that an agreement in the Stipulation and Order was under  
4       effect, and they changed it at 2005.

5           Q.       Without notifying Staff?

6           A.       Without notifying Staff.

7           Q.       And you -- was Staff contending that that  
8       was a violation of the Stipulation & Agreement?

9           A.       I believe that's the contention, that they  
10      had an agreement. I think the biggest concern would be  
11      what changed, what changed -- was there a big change in  
12      peak demand between 2004 and 2005.

13          Q.       Okay. So when you analyzed for this rate  
14      case, did your analysis show that there was a change  
15      between 2004 and 2005?

16          A.       No, ma'am.

17          Q.       You were questioned on cross regarding your  
18      testimony in the Empire rate case in which you found that  
19      12 CP was the appropriate methodology. Can you quantify  
20      the differences between the peak loads and the other  
21      factors that you considered in KCP&L versus those you  
22      considered in Empire to come up with those two different  
23      analyses?

24          A.       Yes, I can. Each case was uniquely  
25      determined as far as I could -- when I began my analysis,

1 the first thing that I learned was that each utility is  
2 a -- behaves differently or operates differently. And in  
3 the Empire analysis, looking at the peak demand as part of  
4 it showed large winter peaking,

5 Q. Empire?

6 A. In Empire. And there's a reason for that.  
7 The territory that Empire serves is different than the  
8 territory that Kansas City Power & Light serves, and the  
9 load that Empire serves is different than the load that  
10 Kansas City Power & Light serves.

11 The Empire territory encompasses a lot of  
12 rural areas, and it doesn't -- and the gas distribution  
13 system isn't as developed as in the Kansas City territory.  
14 Therefore, you have a lot of winter heating that causes  
15 those peaks. So because you have those peaks in the cold  
16 winter months, then that narrows down your opportunity to  
17 do scheduled maintenance, that you don't have December and  
18 January to do that maintenance. So that kind of makes it  
19 look, you know, like a more evenly peaked demand.

20 Q. Which company has the more evenly peaked  
21 demand?

22 A. Empire because of its winter peaks, as well  
23 as the fact that they have a shorter window of opportunity  
24 to do their scheduled maintenance. Kansas City Power &  
25 Light basically has the fall, January -- they start



1 January, first week in January with scheduled maintenance.  
2 Empire doesn't have that luxury. They have to serve their  
3 native load at that time. They don't have those  
4 opportunities that Empire -- or Kansas City Power & Light  
5 does.

6 Q. So you're saying that that creates more  
7 peaks for KCP&L during the winter months?

8 A. Empire. Empire District Electric.

9 Q. More peaks for Empire?

10 A. In the winter, which makes them more of a  
11 consistent 12 peaking utility, which was my recommendation  
12 in that case. My rec-- Kansas City Power & Light's  
13 argument that I should recommend the same thing isn't a  
14 good argument because it's an entirely different utility.

15 Q. I understand that. I'm trying to  
16 understand the differences and how they relate to which  
17 methodology is chosen.

18 A. The system demand tests that I use look at  
19 those averages. They look at the system averages. They  
20 look at the monthly averages as a percentage of the peak,  
21 and in certain -- certain ranges lead one to a  
22 recommendation of a 4 CP or a 12 CP. If you have a high  
23 average as a percentage of your annual, then that means  
24 you're using -- you have pretty much 12 peaks a year. If  
25 you have a low average, then you have a summer peaking

1 utility.

2 Q. Which would lead to four peaks?

3 A. Correct.

4 Q. 4 CP choice?

5 A. Correct system. That demand is a factor in  
6 determining what the jurisdictions are demanding. This  
7 issue is jurisdictional allocation, what peaks should be,  
8 how much of an that plant should each jurisdiction pay  
9 for. So that jurisdictional allocation should reflect how  
10 that demand -- what is that actual demand.

11 Q. Okay. So you're saying that the low -- low  
12 average, that equals summer peaking?

13 A. Correct.

14 Q. And that is Empire's situation?

15 A. That's Kansas City Power & Light's  
16 situation.

17 Q. Okay. Which means that you can look at  
18 4 peaks rather than an average of 12?

19 A. Correct. That's what's driving your system  
20 demand.

21 Q. So in your analysis, were you -- were you  
22 considering -- let me rephrase my question.

23 If you eliminated any consideration of the  
24 Stipulation & Agreement in 1987 or any consideration that  
25 KCPL had changed its methodology in 2005, would you have

1 still come up with --

2 A. 4 CP.

3 Q. You would have?

4 A. Yes, ma'am.

5 COMMISSIONER MURRAY: Thank you. That's  
6 all the questions I have.

7 COMMISSIONER APPLING: I have no questions,  
8 Judge.

9 JUDGE PRIDGIN: Thank you. I have no  
10 questions. Recross-examination?

11 MR. BLANC: No, your Honor.

12 JUDGE PRIDGIN: Redirect?

13 MR. FREY: No, your Honor. Thank you.

14 JUDGE PRIDGIN: All right. Thank you. May  
15 this witness be excused on this issue?

16 (No response.)

17 JUDGE PRIDGIN: All right. Ms. Maloney,  
18 thank you very much.

19 This looks to be a convenient time to take  
20 a break. I show five after ten on the clock at the back  
21 of the room. One more thing while we're still on the  
22 record, while I'm thinking of it. Mr. Dottheim, did I  
23 recall correctly that you had announced that Staff and  
24 KCPL and OPC had some sort of agreement in principle on  
25 regulatory amortizations and that you weren't putting any

1 witnesses on?

2 MR. DOTTHEIM: That Stipulation & Agreement  
3 is still being reduced to writing. There are a couple of  
4 items that are unresolved that we propose to have heard by  
5 the Commission at the -- at the time cost of money, rate  
6 of return is heard next week.

7 JUDGE PRIDGIN: Because those would be the  
8 same witnesses who would have testified?

9 MR. DOTTHEIM: Yes.

10 JUDGE PRIDGIN: And they're interrelated  
11 and we can take care of that?

12 MR. DOTTHEIM: They're related and they're  
13 very discrete, they're very discrete items.

14 JUDGE PRIDGIN: All right.

15 MR. FISCHER: Judge?

16 JUDGE PRIDGIN: I'm sorry. Mr. Fischer?

17 MR. FISCHER: Just on that point, Mr. Jay  
18 Williams from Empire is scheduled to be taken out of order  
19 today in the afternoon. He addresses what we call the tax  
20 gross-up issue on behalf of Empire. I understand he is  
21 coming in from the Lake. It's also my understanding that  
22 the parties have waived cross, and he just didn't know  
23 whether any of the Commissioners would have questions. He  
24 is apparently going to be presented by Empire, but if he's  
25 not needed, then we could probably give him a call.

1                   MR. DOTTHEIM: Well, once -- once the  
2   Stipulation & Agreement is filed with the Commission, and  
3   I expect it will be a Nonunanimous Stipulation &  
4   Agreement, then the parties will have seven days to object  
5   or indicate what position they may have. The Commission  
6   may want to hold an on-the-record conference,  
7   presentation. A party may object.

8                   So there may be some need to convene a  
9   hearing, and there may be a need at that time for  
10  Mr. Williams to appear or ask the question again if anyone  
11  has any cross for Mr. Williams.

12                  JUDGE PRIDGIN: Okay. I'm sorry.  
13  Commissioner, did you have a question?

14                  COMMISSIONER MURRAY: I have a couple of  
15  questions because I have -- I'm experiencing great  
16  confusion in terms of these particular issues and their  
17  effect on the total. And it was my understanding from the  
18  opening statements that the regulatory plan amortization  
19  had a huge effect on cash flow for the company, but then  
20  I -- in a question to a company witness, I was told that  
21  was -- had no effect on cash flow, and my -- and I was  
22  also from the understanding -- under the understanding  
23  from opening statements that this was the largest issue in  
24  the case.

25                  Now, if there is a settlement being

1 proposed regarding this issue, is the -- I'm not sure how  
2 to phrase this. Is its effect on cash flow, if any, going  
3 to be apparent to us?

4 MR. DOTTHEIM: Commissioner, the settlement  
5 is to methodology. There still will be an issue as to,  
6 once the Commissioners decide the various issues in the  
7 case, as to whether there still is the effect of the  
8 regulatory plan amortizations.

9 There would appear that there will be no  
10 issue, for example, on what has been referred to as the  
11 tax gross-up issue. There still will be an issue, though,  
12 depending upon whatever revenue requirement the Commission  
13 determines, whether there will be additional  
14 amortizations.

15 COMMISSIONER MURRAY: Okay. Well, it's my  
16 understanding that the tax gross-up is just a very small  
17 portion of that entire issue. So I don't understand how  
18 we're saying that there's a Stip & Agreement coming on  
19 that issue when all you're talking about is tax gross-up.

20 MR. DOTTHEIM: At one time the tax gross-up  
21 was a very large issue dollar-wise. So I don't know that  
22 the parties would characterize the tax gross-up issue as  
23 a -- as a small issue.

24 Again, the regulatory plan amortizations,  
25 because there's a Stipulation & Agreement as to -- as to

1 methodology, as to the calculation, doesn't eliminate that  
2 item from the -- from the case or from future cases. It  
3 eliminates --

4 COMMISSIONER MURRAY: Let me ask you this,  
5 because I thought a major part of the disagreement was  
6 whether there should be the regulatory plan amortization  
7 to begin with. Now, if you're saying that the settlement  
8 is involving just methodology, that doesn't settle the  
9 issue of whether there should be the amortization.

10 So is this issue going away or is it still  
11 before us and all we're doing -- all you-all are agreeing  
12 on is, if you do it, what method you're going to use?

13 MR. MILLS: Can I take a shot at this? I  
14 think I can explain it quickly, or maybe not too quickly.  
15 I had some of the same confusion you did when I heard the  
16 company talking about the fact that this didn't have an  
17 effect on cash flow, and I think I have figured out what  
18 they're saying.

19 What they're saying is that amortization,  
20 like depreciation, is a non-cash expense, which means that  
21 you treat it as an expense but you don't pay anybody for  
22 it. So to the extent you collect cash for it from your  
23 ratepayers but you don't pay it out to a supplier, it  
24 has -- its entire effect is on cash flow. So it's not  
25 that it's not a cash flow item, it's a non-cash expense,

1 is the way they're referring to it.

2                   So that unlike buying coal, for example,  
3 you recover the cost of coal from your customers and then  
4 you go out and you pay it to your coal supplier, you  
5 recover the cost of depreciation and amortizations in this  
6 case from your ratepayers, but you don't pay it to  
7 anybody, so it flows directly to the bottom line and helps  
8 the cash flow.

9                   So I think that may be the confusion about  
10 whether or not it's a cash flow effect. It has a large  
11 cash flow effect. In fact, that's the entire purpose for  
12 it.

13                   With respect to where there is agreement  
14 and where there's not agreement, I think that the general  
15 disagreement is over revenue requirement, and the company  
16 is saying the Commission should award us a really large  
17 revenue requirement increase, in which case -- and this  
18 is -- this should sound familiar to you from the Empire  
19 case. They're saying the Commission should award a  
20 relatively large revenue requirement and so that the  
21 amount of amortization needed to meet cash flow targets  
22 will be fairly small.

23                   The other parties are saying the revenue  
24 requirement increase should be much smaller, in some cases  
25 negative. So in order to be able to meet the cash flow



1 target set out in the regulatory plan, there needs to be a  
2 large amortization.

3 Where we're heading with this Stipulation  
4 is, I think we're going to be able to agree on how to  
5 calculate what the amortization amount should be once the  
6 Commission decides what the revenue requirement increase  
7 should be in this case.

8 So we still won't know what the  
9 amortization number is, and this agreement won't provide  
10 it to you, but it will provide an agreement on how that  
11 number is calculated once we know the revenue requirement  
12 number. I hope that's helpful.

13 COMMISSIONER MURRAY: That's the clearest  
14 explanation I've heard. Thank you.

15 JUDGE PRIDGIN: What I'd like to do,  
16 Mr. Fischer, I'll let you go ahead, and then I do want to  
17 take a break here a minute.

18 MR. FISCHER: I was just going to address  
19 the Commissioner's questions from our perspective. It's  
20 my understanding that the Stipulation & Agreement that we  
21 would be talking about on the amortization issue does deal  
22 with methodology or what I've called the mechanics of  
23 calculating that amortization. There will be extensive  
24 cross, I think, on the regulatory amortization and its  
25 interrelationship with the rate of return on equity issue,

1 as well as the off-system sales issue in this case  
2 beginning on Monday.

3 It's also my understanding that the  
4 signatory parties to the regulatory plan case have agreed  
5 to use the regulatory plan amortization, and that is  
6 incorporated in the Staff, Public Counsel and Kansas City  
7 Power & Light's revenue requirement.

8 The issue, I think, is how much should be  
9 in the cash earnings or revenues related to cash earnings  
10 versus how much should be in the amortization, and that's  
11 a very important and I think the biggest issue in the case  
12 as I tried to convey in the opening statement.

13 COMMISSIONER MURRAY: Thank you.

14 MR. CONRAD: And Commissioner, from my  
15 client's perspective, I'll -- I think our position, too,  
16 would be affected by whether the company can be paid and  
17 the bills that they send to my client can be paid with  
18 non-cash-flow dollars. If we can pay those bills with  
19 non-cash-flow dollars and just, you know, use like we had  
20 in an earlier case green tags, you know, our position  
21 might very well change.

22 COMMISSIONER MURRAY: Thank you.

23 JUDGE PRIDGIN: All right. Thank you. I  
24 understand that the next witness will be Mr. Dittmer from  
25 DOE; is that correct? He's due to be in around ten

1 o'clock or so?

2 MR. DOTTHEIM: Mr. Dittmer is here, but I  
3 think the company had some questions for Mr. Featherstone.  
4 I don't know if they -- well, would want to take  
5 Mr. Featherstone now because the other Staff witness had  
6 first taken the stand.

7 MR. BLANC: We're flexible to accommodate  
8 the DOE's witness's schedule. If he has scheduling need  
9 that requires him to go first, we would have no objection  
10 to that.

11 MR. WOODSMALL: I guess just to clarify,  
12 absent Mr. Dittmer's testimony, we will be done with the  
13 4 CP/12 CP, and everything else is related to unused  
14 energy, is my understanding.

15 MR. BLANC: Mr. Featherstone is going to  
16 take the stand with respect to 4 CP/12 CP.

17 JUDGE PRIDGIN: I'm sorry. Just a second.

18 MR. BOGART: Mr. Dittmer does not have  
19 testimony on the 4 CP/12 CP issue.

20 JUDGE PRIDGIN: Okay. So then we can go on  
21 to Mr. Featherstone after the break.

22 MR. DOTTHEIM: And as far as the Staff, the  
23 Staff views Mr. Featherstone as having testimony on the  
24 unused energy allocator, but if the company wants to  
25 cross-examine Mr. Featherstone because of testimony he has

1 that makes reference to 4 CP/12 CP on the jurisdictional  
2 allocations issue, the Staff is amenable to putting  
3 Mr. Featherstone on the stand.

4 JUDGE PRIDGIN: All right. Let's go to  
5 Mr. Featherstone after the break. And also, before we go  
6 off the record, let me continue to encourage the parties  
7 to try to keep moving things forward. If rate design has,  
8 in fact, settled, and it sounds like that it has, that may  
9 free up some time to where maybe we can, instead of  
10 going -- taking breaks then going Friday, if we can move  
11 some things forward earlier in the week. So if you can  
12 start discussing what can be moved up.

13 MR. FISCHER: Judge, again, I might ask the  
14 question. It's my understanding that Empire is planning  
15 to bring Mr. Williams in pursuant to the schedule to take  
16 questions from the Bench. Is that the Bench's desire?

17 JUDGE PRIDGIN: And I don't know if the  
18 Bench knows. We may need to discuss that off the record.  
19 This is Mr. Williams from Empire, and the purpose of his  
20 testimony, Mr. Fischer?

21 MR. FISCHER: He addresses the tax gross-up  
22 issue, which is going to be subject of the Stipulation.

23 MR. DOTTHEIM: I assume since the  
24 additional amortizations issue was originally scheduled  
25 earlier in the week, Mr. Williams wasn't available earlier

1 in the week, so he was scheduled for today. So that's why  
2 he's still scheduled --

3 MR. FISCHER: That's correct.

4 MR. DOTTHEIM: -- for today. So --

5 JUDGE PRIDGIN: And I don't know if the  
6 bench knows or needs some time to know if they have any  
7 questions for Mr. Williams.

8 COMMISSIONER MURRAY: It's part of the  
9 settlement. I don't think I need to question him.

10 MR. DOTTHEIM: Yes, Mr. Williams' testimony  
11 would be covered by the settlement, I do believe.

12 MR. FISCHER: Yes. It is my understanding  
13 he addresses the tax gross-up issue solely.

14 JUDGE PRIDGIN: I don't think we'll need  
15 any cross-examination of Mr. Williams. So if you wanted  
16 to call him off, that's fine.

17 And also, after the break, Mr. Dottheim,  
18 the Commission may have some questions on the updated  
19 reconciliation. They may just want to get the Staff's  
20 perspective on what the changes are before we go on to  
21 Mr. Featherstone.

22 MR. DOTTHEIM: Yes. In particular, we  
23 could put Mr. Traxler on the stand probably.

24 JUDGE PRIDGIN: Mr. Traxler could probably  
25 answer those questions as well?

1 MR. DOTTHEIM: Yes.

2 JUDGE PRIDGIN: Very good.

3 MR. DOTTHEIM: I think that would be the  
4 best way to proceed.

5 JUDGE PRIDGIN: We'll do it that way. I  
6 show the clock at the back of the room to be 10:20. Let's  
7 reconvene at 10:35. We're off the record.

8 (A BREAK WAS TAKEN.)

9 JUDGE PRIDGIN: We're back on the record,  
10 and I understand Mr. Featherstone will be the next  
11 witness. And Mr. Cooper, did you have something?

12 MR. COOPER: Yes, your Honor. I was  
13 listening to the proceedings from afar, heard the  
14 discussion concerning Empire's witness, Mr. Williams, who  
15 is otherwise scheduled to be here this afternoon. In  
16 light of your discussion, I would like at this time to  
17 offer Mr. Williams' rebuttal testimony, which is I believe  
18 Exhibit 401, into evidence.

19 JUDGE PRIDGIN: Exhibit No. 401 has been  
20 offered. Any objections?

21 (No response.)

22 JUDGE PRIDGIN: Hearing none, Exhibit  
23 No. 401 is admitted.

24 (EXHIBIT NO. 401 WAS RECEIVED INTO  
25 EVIDENCE.)

1 MR. COOPER: Thank you, your Honor.

2 JUDGE PRIDGIN: Thank you, Mr. Cooper.

3 Okay. Is Mr. Featherstone available? I'm  
4 sorry. Mr. Frey?

5 MR. FREY: Your Honor, I understood from  
6 the last session that Mr. Traxler maybe was going to take  
7 the stand first and respond to a couple questions on the  
8 reconciliation.

9 JUDGE PRIDGIN: That's fine with me.

10 MR. DOTTHEIM: Excuse me. Also, I believe  
11 the company has indicated that there are no questions for  
12 Mr. Featherstone at this time, but Mr. Featherstone will  
13 take the stand on the unused energy allocator issue.

14 MR. BLANC: That's correct.

15 JUDGE PRIDGIN: So if there are no  
16 questions for Mr. Featherstone on jurisdictional  
17 allocations, then is Mr. Traxler your next witness?

18 MR. DOTTHEIM: Yes.

19 JUDGE PRIDGIN: All right. If you'll come  
20 forward to be sworn, please.

21 (Witness sworn.)

22 JUDGE PRIDGIN: Thank you very much. If  
23 you would please have a seat, sir.

24 And, Mr. Dottheim, any housekeeping matters  
25 before he's tendered for cross?

1 MR. DOTTHEIM: No, other than --

2 STEVE M. TRAXLER testified as follows:

3 DIRECT EXAMINATION BY MR. DOTTHEIM:

4 Q. Mr. Traxler, you have a copy of the  
5 reconciliation/reconcilement that was distributed this  
6 morning and yesterday that was revised as of yesterday,  
7 10/19/2006?

8 A. Yes, I do.

9 Q. And you prepared that reconciliation/  
10 reconcilement?

11 A. Yes, I did.

12 MR. DOTTHEIM: The Staff would offer  
13 Mr. Traxler for any questions at this time regarding the  
14 reconciliation/reconcilement. Mr. Traxler can explain  
15 that document and any changes from prior versions of that  
16 document.

17 JUDGE PRIDGIN: Mr. Dottheim, thank you.  
18 Let me see what kind of cross-examination we have from  
19 counsel on, I guess, jurisdictional issues and perhaps  
20 also any questions on the revised reconciliation.

21 MR. WOODSMALL: Just one, your Honor.

22 JUDGE PRIDGIN: Mr. Woodsmall.

23 CROSS-EXAMINATION BY MR. WOODSMALL:

24 Q. In preparing the reconciliation, do you do  
25 that in cooperation with any other parties?



1           A.       Yes, I do. I rely on information from all  
2 the parties that have an issue that has a revenue  
3 requirement impact.

4           Q.       Thank you.

5           A.       For purposes of this case, it was  
6 considerable assistance provided by Kansas City Power &  
7 Light representative Christine Davidson in getting their  
8 case into the model.

9                   MR. WOODSMALL: Thank you.

10                  JUDGE PRIDGIN: Mr. Woodsmall, thank you.  
11 Any further cross on this issue?

12 REDIRECT EXAMINATION BY MR. DOTTHEIM:

13           Q.       Mr. Traxler, did you also indicate who else  
14 from what other parties you've worked with regarding this  
15 version of --

16           A.       Mr. Trippensee with OPC and Mr. Dittmer  
17 with Department of Energy.

18           Q.       And I believe there were some questions  
19 from the Bench earlier regarding in particular the  
20 jurisdictional allocation portion of the reconciliation/  
21 reconciliation as to the changes in the numbers from a  
22 prior version to the version of October 19.

23           A.       That's the primary change.

24           Q.       Could you explain the changes, Mr. Traxler?

25           A.       Yes, I will. Due to the timing, we got

1 kind of a late start with regard to getting all the  
2 information available that's necessary to provide a  
3 complete reconciliation. It normally takes -- it normally  
4 requires all the data from all the parties available at  
5 least three days before the due date. In this particular  
6 instance, for whatever reason, I didn't have the company  
7 data until noon of the day that the reconciliation was  
8 done.

9                   And again, I want to add, the data that I  
10 did receive was much more of an assistance than I normally  
11 have. I normally have to do the entire thing myself. So  
12 I want to make sure that it's understood that Kansas City  
13 Power & Light Company did provide considerable assistance  
14 in completion of this reconciliation.

15                   However, because of the timing, we weren't  
16 able -- the most difficult thing to reconcile in any  
17 electric rate case is jurisdictional allocations, because  
18 it impacts all the plant accounts, all of the operation  
19 and maintenance accounts, and it's just a difficult thing  
20 to get a reasonable estimate for. We didn't have time,  
21 sufficient time to -- the initial reconciliation to  
22 adequately break out the jurisdictional impacts.

23                   That's the primary change today, and that's  
24 what -- if you'll look on the revised reconciliation dated  
25 10/19, lines 24 through 27 are the new lines that were

1 added to the initial reconciliation to quantify the  
2 approximate impact of jurisdictional allocations. And I  
3 need to make clear that the value there on line 27 of 6.2  
4 million is due to not only the 4 CP/12 CP issue, but in  
5 addition the difference in the energy allocator and all  
6 other differences in allocations that are fairly minor  
7 with regard to, like, administrative and general accounts.  
8 So this is a combination of all the differences on  
9 jurisdictional allocations.

10                   The other differences that were -- there  
11 were two corrections made for the revenue requirement  
12 value for the Department of Energy. I was not aware until  
13 I heard the Department of Energy raise this issue a few  
14 days ago that they were opposed or did not sign the  
15 regulatory plan and agreement, which means that they're  
16 not in support of the regulatory plan amortization.

17                   So the regulatory -- their revenue  
18 requirement on line 98 is really the difference between  
19 the Staff's negative revenue requirement before the  
20 amortization on line 86 and the additional issues  
21 reflected for their position on lines 95 through 97. So  
22 their recommended revenue requirement is a negative  
23 46 million for Kansas City Power & Light Company, which  
24 excludes any consideration of the regulatory plan  
25 amortization.

1                   The other correction which was made, I had  
2 a misunderstanding with regard to the issue for OPC on  
3 line 93, SO-2 liability, the difference between the Staff  
4 and OPC, and that's been corrected from a positive 99,000  
5 to a negative 133,000. And those are the primary changes  
6 in the reconciliation.

7                   JUDGE PRIDGIN: All right. Mr. Traxler,  
8 thank you. Let me see -- try to get counsel back on  
9 track, see if we have any cross-examination for  
10 Mr. Traxler on jurisdictional allocation or on what he's  
11 just testified to on the revised reconciliation.

12                  MR. WOODSMALL: I guess just a real brief  
13 follow-up.

14 RE-CROSS-EXAMINATION BY MR. WOODSMALL:

15                  Q. In the revised reconciliation, you show  
16 that jurisdictional allocations being worth a total of  
17 6.2 million. That isn't something that just came out of  
18 thin air, that 6.2 million in the previous reconciliation  
19 would have been scattered between a number of different  
20 issues; is that correct?

21                  A. That's a good point. Let me make that  
22 clear. If you look at the reconciliation, the comparison  
23 between the two, you'll note that the Staff -- the total  
24 revenue requirement from the Staff and the company did not  
25 change. There's no change in any position. All we're

1 doing from the initial reconciliation is breaking out  
2 jurisdiction allocation issues which were buried in mainly  
3 the depreciation issue and some of the other issues in the  
4 initial reconciliation.

5 MR. WOODSMALL: Nothing further. Thank  
6 you.

7 JUDGE PRIDGIN: Thank you. Any further  
8 cross?

9 MR. BLANC: Just one question for  
10 clarification.

11 CROSS-EXAMINATION BY MR. BLANC:

12 Q. Will the reconciliation be updated to  
13 reflect September 30 data?

14 A. Yes, it will.

15 MR. BLANC: Thank you.

16 JUDGE PRIDGIN: Thank you. Mr. Dottheim?

17 MR. DOTTHEIM: Yes.

18 FURTHER REDIRECT EXAMINATION BY MR. DOTTHEIM:

19 Q. And Mr. Traxler, if I could direct you to  
20 line 32, and for that line it's entitled off-system sales,  
21 unused energy allocator. Is that the quantification that  
22 is shown there for the next issue, the unused energy  
23 allocator issue?

24 A. Yes, it is. That's an additional change  
25 from the initial reconciliation. The initial reconciliation

1 combined the value of the allocation and method difference  
2 on off-system sales. This reconciliation breaks that out  
3 between the method difference and the allocation  
4 difference.

5 Q. So if one views the unused energy allocator  
6 issue as a jurisdictional allocation issue also, then one  
7 would have to add that 4.3 million to the 6.2 million to  
8 come up with a total quantification for the jurisdictional  
9 allocation issues?

10 A. If that were your perception, that would be  
11 correct.

12 Q. And the issue that is scheduled to be heard  
13 on Monday, which at this point now is just the off-system  
14 sales margin issue, is shown in line 31?

15 A. That's correct.

16 MR. DOTTHEIM: Thank you. And Mr. Traxler  
17 will take the stand again on the unused energy allocator  
18 issue.

19 JUDGE PRIDGIN: All right. Thank you,  
20 Mr. Dottheim. Let me see if we have any questions from  
21 the Bench. Commission Murray?

22 QUESTIONS BY COMMISSIONER MURRAY:

23 Q. Just one, and I really appreciate the  
24 explanation. It was very clear. Thank you very much.

25 Just -- I'd just like you to refresh my

1 memory, if you would. What does the categorization  
2 non-issue true-up mean?

3 A. I'm sorry, Commissioner. Which category?

4 Q. Non-issue true-up by an item, what does  
5 that reflect?

6 A. That means there's an understanding between  
7 the Staff and the company that although we have a  
8 difference right now on that issue, we think with the  
9 true-up we're going to be at the same -- we're going to  
10 have the same answer. It's not an issue to be -- there's  
11 no theoretical or method difference to be tried before the  
12 Commission, and we think those issues will take care of  
13 themselves when we true-up the case.

14 COMMISSIONER MURRAY: Thank you.

15 JUDGE PRIDGIN: Thank you. Commissioner  
16 Appling?

17 COMMISSIONER APPLING: Sir, I just want to  
18 thank you for your explanation. That's all I needed. You  
19 answered the questions, so thank you.

20 THE WITNESS: You're certainly welcome.

21 JUDGE PRIDGIN: Thank you. I have no  
22 questions. Any cross on this issue?

23 RECROSS-EXAMINATION BY MR. MILLS:

24 Q. I just have one follow-up question from  
25 Commissioner Murray's question. Have you done any kind of

1 a calculation to see what the -- what the reconciliation  
2 would look like if you took out all the non-issues, the  
3 issues that are labeled non-issue/true-up?

4 A. No, sir, I haven't.

5 MR. MILLS: Okay. Thank you.

6 JUDGE PRIDGIN: No further recross.

7 Redirect? No redirect?

8 MR. FREY: No, thank you, your Honor.

9 JUDGE PRIDGIN: Thank you. Mr. Traxler,  
10 you're excused for this issue. Thank you very much.

11 And if we're not having testimony from  
12 Mr. Featherstone, do I understand that Ms. Mantle is the  
13 final witness on jurisdictional allocation because  
14 Mr. Dittmer's testimony goes more towards unused energy  
15 allocator?

16 MR. DOTTHEIM: Ms. Mantle was a witness on  
17 the unused energy allocator.

18 JUDGE PRIDGIN: As well? Okay.

19 MR. DOTTHEIM: Not on jurisdictional  
20 allocation. And I believe the company has indicated they  
21 have no questions for Ms. Mantle on the unused energy  
22 allocator issue.

23 JUDGE PRIDGIN: Okay.

24 MR. DOTTHEIM: But she is here in case the  
25 Bench has any questions.



1                   MR. WOODSMALL: So going to your point, the  
2 only witness left on jurisdictional allocations is  
3 Mr. Brubaker, who will be up next week.

4                   JUDGE PRIDGIN: Right. I understand he'll  
5 be our next witness, so --

6                   MR. WOODSMALL: We're done with all others.

7                   JUDGE PRIDGIN: So if I'm understanding,  
8 we're leaving jurisdictional allocation, going on to  
9 unused energy allocator, which would be -- my  
10 understanding, Mr. Brubaker will be here later or next  
11 week, but that Ms. Mantle and Mr. Dittmer will be our  
12 current witnesses on unused energy allocator; is that  
13 correct?

14                  MR. MILLS: In addition to several company  
15 witnesses.

16                  JUDGE PRIDGIN: Yes, yes. I'm sorry. I  
17 mean the witnesses that are here right now. Okay. Will  
18 there be any cross-examination for Ms. Mantle on this  
19 issue?

20                  MR. BLANC: Not from the company, your  
21 Honor.

22                  JUDGE PRIDGIN: Seeing no  
23 cross-examination. Does the Bench have any questions for  
24 Ms. Mantle on this issue? I'm seeing none.

25                  All right. Mr. Dittmer.

1                   MR. MILLS: Your Honor, wouldn't we  
2 typically proceed with the company witnesses on this issue  
3 first?

4                   JUDGE PRIDGIN: That's perfectly fine.  
5 Maybe my notes are just scattered. That's how I  
6 understood that the parties wanted to proceed, and I  
7 apologize if I misunderstood. We'll be then going on to  
8 Mr. Giles?

9                   MR. BLANC: That's our understanding,

10                  JUDGE PRIDGIN: Mr. Giles. Thank you. And  
11 thanks for clearing that up.

12                  MR. FREY: Your Honor, if I might, I  
13 believe Ms. Mantle only has testimony on the unused energy  
14 allocator, so I think this might be time to offer her  
15 testimony into the record, her rebuttal, which would be  
16 Exhibit 125.

17                  JUDGE PRIDGIN: Thank you. 125 has been  
18 offered. Any objections?

19                         (No response.)

20                  JUDGE PRIDGIN: 125 is admitted.

21                         (EXHIBIT NO. 125 WAS RECEIVED INTO  
22 EVIDENCE.)

23                  JUDGE PRIDGIN: All right. Mr. Giles is  
24 back on the stand and still under oath. Any housekeeping  
25 matters before he's tendered for cross?

1 MR. BLANC: No, your Honor.

2 JUDGE PRIDGIN: Any counsel wish to cross  
3 on this issue? Mr. Mills.

4 MR. MILLS: I sort of lost track of what  
5 the order is. I guess I'm first.

6 CHRIS B. GILES testified as follows:

7 CROSS-EXAMINATION BY MR. MILLS:

8 Q. Mr. Giles, let me refer you to your  
9 surrebuttal testimony. Specifically page 5, lines 13 to  
10 16, you state that total revenue received from the sale of  
11 energy was allocated to KCPL's Missouri and Kansas  
12 jurisdictions based upon a jurisdictional energy ratio  
13 because most of the revenue was simply offsetting the fuel  
14 costs; is that correct?

15 A. Yes, I believe so.

16 Q. In how many prior KCP&L rate cases was the  
17 off-system sales revenue allocated between jurisdictions  
18 using a jurisdictional energy ratio?

19 A. The revenue or the margin? I didn't hear  
20 your question.

21 Q. The revenue.

22 A. Revenue prior to this case had always been  
23 allocated, as far as I know, on an energy allocator basis.

24 Q. Okay. Now, I think in referring to prior  
25 cases on that same page, line 19, you state that total

1 revenue was allocated on an MWH ratio; is that correct?

2 A. That's correct.

3 Q. And that's megawatt hour ratio?

4 A. Correct.

5 Q. A megawatt hour ratio is an energy ratio,  
6 isn't it?

7 A. That's correct.

8 Q. So as far as you know, in all prior KCPL  
9 rate cases where off-system sales revenue was allocated  
10 between jurisdictions, it was done using an unused energy  
11 allocator; is that correct?

12 A. That's correct for revenue, but in this  
13 case we're not allocating revenue. We're allocating  
14 off-system sales margin or profit.

15 Q. And I think I misspoke when I asked that  
16 question. I meant it was not done using the unused energy  
17 allocator in prior cases, is that your understanding, in  
18 terms of revenue?

19 A. Revenue has -- this is the first case that  
20 KCPL has ever allocated off-system sales margin, the  
21 profit component of the off-system sales. In prior cases  
22 we did not break those two components out between revenue  
23 and fuel, so we didn't know what the margin was, so we  
24 allocated all of it on energy.

25 Q. Right. And I haven't asked you any

1 question about margin. If I have, I don't mean to confuse  
2 you. I just want to --

3 A. No.

4 Q. I think I misspoke when I asked my last  
5 question, so I want to make sure that my question and your  
6 answer are in sync. Can you identify any prior KCPL rate  
7 cases where the unused energy allocator was used for  
8 off-system sales revenues?

9 A. I believe I stated no --

10 Q. Okay.

11 A. -- already.

12 Q. And I thought you had, but I think I might  
13 have boggled the question and misled you. Just wanted to  
14 clear that up.

15 In prior cases, off-system sales revenue  
16 and related fuel costs were both allocated among  
17 jurisdictions using an energy ratio; is that correct?

18 A. I believe I stated that also.

19 Q. Now, the result of using an unused energy  
20 allocator is to decrease the amount of off-system sales  
21 revenue that's allocated to the Missouri jurisdiction; is  
22 that not correct?

23 A. I don't know that to be a fact in all  
24 cases.

25 Q. In this case?

1           A.       Compared to what?

2           Q.       Compared to the use of the energy allocator  
3       that the other parties are proposing.

4           A.       If you were to allocate revenue based on  
5       the energy allocator as we used to do it, there would be  
6       less -- there would be more profit attributable to  
7       Missouri, if that's your question.

8           Q.       It wasn't, but it's a satisfactory answer.  
9       I think it gets us to the point.

10                   Now, in the KCPL, the Kansas jurisdiction  
11       of KCPL filed a rate case at approximately the same time  
12       as they filed in Missouri; is that correct?

13           A.       That's correct.

14           Q.       That case is settled, is it not?

15           A.       It has settled. It's pending approval of  
16       the Commission.

17           Q.       Pursuant to the terms of that settlement  
18       agreement, what amount of off-system sales revenue is set  
19       out in that agreement?

20           A.       We didn't set out an amount in the  
21       agreement.

22           Q.       It's what's been called a black box  
23       settlement?

24           A.       That's correct.

25           Q.       So is there any way to determine how much

1 off -- how much of your off-system sales margin or revenue  
2 is attributed to the Kansas jurisdiction based on that  
3 settlement agreement?

4 A. Well, there's not a specific reference to a  
5 number in the settlement agreement. KCPL filed  
6 consistently in both states and used the unused energy  
7 allocator to allocate the off-system sales margin. The  
8 Commission Staff nor any other party opposed that  
9 allocation.

10 Q. Did they agree to it in the terms of the  
11 settlement?

12 A. It was not an issue in the settlement since  
13 no one had opposed it.

14 Q. So are you saying that the off-system sales  
15 revenues were not addressed in the agreement?

16 A. No, they were not.

17 Q. So you have no agreement on how off-system  
18 sales revenue should be treated in Kansas?

19 A. I don't believe we do.

20 Q. Okay.

21 A. As I said --

22 Q. So from the terms of the settlement  
23 agreement, there's no way to know what level of off-system  
24 sales revenues are built into your Kansas rates if the  
25 settlement is approved; is that correct?

1           A.       No, I wouldn't say that's correct. I --

2                   JUDGE PRIDGIN: That's the answer to his  
3 question.

4                   THE WITNESS: I wouldn't say that's  
5 correct.

6                   JUDGE PRIDGIN: Okay.

7 BY MR. MILLS:

8           Q.       So you think you can look at the settlement  
9 agreement and determine the level of off-system sales  
10 revenues that are built into your Kansas rates going  
11 forward if the settlement agreement is approved?

12           A.       I didn't say that.

13           Q.       Can you do that?

14           A.       I said you could not do that.

15           Q.       Okay. Thank you. That's --

16           A.       I'm trying to --

17           Q.       -- my final question.

18           A.       I'm trying to answer your questions, and --

19                   MR. MILLS: I understand, and I think -- I  
20 think that's -- I think that's all the questions I have.

21                   JUDGE PRIDGIN: All right. Mr. Mills,  
22 thank you. Further cross on this issue from counsel?

23                   (No response.)

24                   JUDGE PRIDGIN: All right. From the Bench?

25                   COMMISSIONER MURRAY: I don't think so.



1 Thank you.

2 COMMISSIONER APPLING: Not from me.

3 JUDGE PRIDGIN: I don't have any questions.

4 All right. Mr. Giles, you're excused for this issue.

5 Thank you. I'm sorry. Redirect?

6 MR. BLANC: No, your Honor.

7 JUDGE PRIDGIN: All right. Thank you.

8 Mr. Giles, you're excused for this witness.

9 And I apologize if I had bungled my notes,  
10 and I think I'm seeing some -- an old sheet that I marked  
11 over on unused energy allocator. Did the parties  
12 anticipate the next witness on this issue being  
13 Mr. Frerking?

14 MR. BLANC: Yes, your Honor.

15 JUDGE PRIDGIN: All right. Mr. Frerking,  
16 if you'd come forward. You're still under oath.

17 Is there anything to clear up before he's  
18 tendered for cross?

19 MR. BLANC: No, your Honor.

20 JUDGE PRIDGIN: Thank you. Counsel who  
21 wish cross?

22 MR. WOODSMALL: Very briefly, your Honor.

23 JUDGE PRIDGIN: Mr. Woodsmall.

24 DON A. FRERKING testified as follows:

25 CROSS-EXAMINATION BY MR. WOODSMALL:

1 Q. Good morning, again, sir.

2 A. Good morning.

3 Q. In your deposition, I believe that you  
4 mentioned that historically KCPL has recorded off-system  
5 sales revenues as part of overall revenues and allocated  
6 those on the basis of an energy allocator; is that  
7 correct?

8 A. We have not prior to this case split out  
9 the margin component and the cost component. We only  
10 allocated the total revenues, and prior to this case those  
11 total revenues for non-firm energy were allocated using an  
12 energy allocator.

13 Q. Okay. Now, jumping backwards, I guess, a  
14 bit, can you -- would you agree that off-system sales  
15 margins is equal to off-system sales revenues minus the  
16 cost of fuel?

17 A. The margins would be the revenues less the  
18 cost.

19 Q. Okay. And you said that included with  
20 other revenues, that those revenue -- off-system sales  
21 revenues have historically been allocated on the basis of  
22 an energy allocator; is that correct?

23 A. The total revenues have historically been  
24 allocated on an energy allocator. We have not split out  
25 the margin piece and the cost piece prior to this case.

1           Q.       And since total revenues are allocated on  
2     the basis of an energy allocator, necessarily the  
3     off-system sales revenues are allocated on the basis of an  
4     energy allocator; is that correct?

5           A.       Since total revenues were allocated using  
6     an energy allocator, all those components contained  
7     therein would have been necessarily --

8           Q.       Okay.

9           A.       -- allocated using an energy allocator.

10          Q.       I'm asking yes or no questions, so we might  
11     be able to get through this quicker. And would you also  
12     agree that historically the fuel underlying off-system  
13     sales has been reported on the basis of energy; is that  
14     correct?

15          A.       That's correct.

16          Q.       Okay. You may recall in your deposition we  
17     went through and talked about a hypothetical company  
18     operating in two jurisdictions, and I'll do that again.  
19     Assume the first jurisdiction is a state that has  
20     100 percent load factor, and the second jurisdiction has a  
21     50 percent load factor.

22                   In your deposition you agreed with me that  
23     in this hypothetical that this company's overall fuel cost  
24     is less for the jurisdiction with the higher load factor;  
25     is that correct?

1           A.       That's correct. I'm --

2           Q.       That's all my --

3           A.       Can I clarify that answer.

4                    JUDGE PRIDGIN: No, sir.

5                    MR. WOODSMALL: You may on redirect.

6                    JUDGE PRIDGIN: You can simply answer his

7 questions. You can clarify on redirect.

8                    THE WITNESS: Well, I -- the answer --

9 BY MR. WOODSMALL:

10          Q.       Can you tell me, sir --

11                    JUDGE PRIDGIN: I'm sorry. Let him go on

12 and ask his questions, please.

13 BY MR. WOODSMALL:

14          Q.       Can you tell me the extent to which KCPL

15 engages in purchasing power for the purpose of off-system

16 sales?

17          A.       I don't know the level of that number.

18          Q.       Do you know whether it does that?

19          A.       We purchase power for retail load and to

20 some extent purchase power that is -- that is also sold

21 off-system.

22          Q.       Okay. You don't know the amount of that on

23 an annual basis?

24          A.       I don't know the amount of that.

25          Q.       Do you know anything regarding the timing

1 of such transactions?

2 A. I don't.

3 Q. Can you tell me how such resale of

4 purchased power would affect your load curve?

5 A. I don't know the answer to that.

6 Q. Would you agree with me that, since it's

7 just a resale, it would not affect your load curve?

8 A. It wouldn't affect the retail and firm

9 wholesale load curve.

10 Q. Okay. Thank you. Can you tell me what

11 spinning reserve is?

12 A. I don't have -- I'm not qualified to

13 explain exactly what that is.

14 Q. Do you have any understanding of what that

15 is?

16 A. I have a rough understanding of it.

17 Q. Tell me what your understanding is of

18 spinning reserve.

19 A. My rough understanding -- once again, I'm

20 not probably qualified --

21 Q. Understood.

22 A. -- to answer this -- would be -- well, I

23 guess my answer would be I don't have enough of an

24 understanding to answer it.

25 Q. Do you have any understanding of what the

1 phrase non-spinning reserve is?

2 A. The same would be true.

3 Q. Can you tell me what KCP&L's policy is  
4 regarding the sale of energy out of spinning reserve?

5 A. I don't know the policy.

6 Q. Okay. Can you tell me if KCP&L sells  
7 energy in the off-system market out of spinning reserve?

8 A. I don't know that for sure.

9 MR. WOODSMALL: Okay. I have no further  
10 questions, your Honor.

11 JUDGE PRIDGIN: Mr. Woodsmall, thank you.  
12 Any further cross? Mr. Mills.

13 MR. MILLS: Thank you.

14 CROSS-EXAMINATION BY MR. MILLS:

15 Q. Mr. Frerking, let me turn your attention to  
16 your surrebuttal testimony. Specifically on page 13, you  
17 have a question and answer towards the bottom of that  
18 page. KCPL doesn't dispute that it's proposed unused  
19 energy factor is simplistic and that other more  
20 sophisticated methods of determining an allocation of  
21 off-system sales margins could be derived for use in  
22 future cases; is that correct?

23 A. I don't dispute that there's -- there could  
24 be more sophisticated approaches for doing this, so yes,  
25 that is correct.

1           Q.       Does KCPL have the capability of measuring  
2     the amount of off-system sales revenues and related costs  
3     on an hour-by-hour basis?

4           A.       I don't specifically know the answer to  
5     that.

6           Q.       Okay. Explain for me a little more what  
7     you mean by you don't specifically know.

8           A.       Could you --

9           Q.       What do you know?

10          A.       Could you reask the question?

11          Q.       Does KCPL have the capability of measuring  
12     the amount of off-system sales revenue and related costs  
13     on an hour-by-hour basis?

14          A.       Yes, it does.

15          Q.       Okay. Could KCPL produce an after-the-fact  
16     hour-by-hour accounting of its off-system sales revenues?

17          A.       We can do that by a -- a modeling, a  
18     redispatch of the -- of the generation and the sales.

19          Q.       Okay. Could you do the same for the cost  
20     of off-system sales?

21          A.       Yes.

22          Q.       Okay. Now, on a -- in terms of the unused  
23     energy allocator, what other electric utilities in the  
24     U.S. allocate off-system sales margin between  
25     jurisdictions using the same type of unused energy

1 allocator proposed by KCPL in this case?

2 A. I don't know if any do.

3 MR. MILLS: That's all I've got. Thank  
4 you.

5 JUDGE PRIDGIN: Mr. Mills, thank you.  
6 Further cross?

7 (No response.)

8 JUDGE PRIDGIN: Questions from the Bench?

9 MR. FREY: Your Honor, I have cross.

10 JUDGE PRIDGIN: I'm sorry.

11 CROSS-EXAMINATION BY MR. FREY:

12 Q. Hello again, Mr. Frerking.

13 A. Hello.

14 Q. Has KCPL revised or reallocated the 2005  
15 surveillance report using an energy allocator and a 4 CP  
16 jurisdictional allocation to allocate off-system sales?

17 A. At the request of, I believe it was the  
18 Staff Data Request, we reran the surveillance report with  
19 a 4 CP demand allocator and using an energy allocator to  
20 allocate all -- all of the non-firm energy, off-system  
21 energy sales, yes.

22 Q. And what were the results of this run for  
23 Missouri jurisdictional operations?

24 A. I don't remember the results.

25 Q. Can you give us -- do you have an estimate?



1           A.       I don't remember what the results are.

2           Q.       Would it result in an increased ROE to  
3   Missouri?

4           A.       In the surveillance reporting, yes, it did  
5   result in an increased ROE from the 2005 actuals when you  
6   allocate using a 4 CP demand allocator and using an energy  
7   allocator instead of an unused energy allocator.

8           Q.       And was the increase significant?

9           A.       I don't remember what the result was, and  
10   so I can't answer whether it's significant or not.

11                   MR. FREY:   May I approach the witness, your  
12   Honor?

13                   JUDGE PRIDGIN:   You may.

14   BY MR. FREY:

15           Q.       After you've reviewed those numbers, can  
16   you say whether the increase was significant now?

17           A.       That would depend on the definition of  
18   significant.

19           Q.       Can you tell us how much the basis point  
20   difference was?

21           A.       The original and --

22           Q.       The increase.

23           A.       The original filed surveillance report --  
24   and once again, this is not the basis of this case -- is  
25   an ROE of 9.321 percent.   Adjusting the demand allocator

1 to a 4 CP instead of a 12 CP and allocating the off-system  
2 non-firm energy margins using an energy allocator rather  
3 than an unused energy allocator resulted in an ROE of  
4 10.328 percent.

5 Q. 10.328, and the other one was 9. what?  
6 Could you repeat that?

7 A. 9.321 percent.

8 Q. And was that for Missouri jurisdictional  
9 operations?

10 A. Yes.

11 Q. Okay. Thank you. In your surrebuttal over  
12 on page 9, you state that before this case the company had  
13 not separated out the margin component from the cost  
14 associated component of the total revenues for non-firm  
15 off-system sales; is that correct?

16 A. That's correct.

17 Q. And is this what prompted the development  
18 of the unused energy allocator?

19 A. Yes, that's correct.

20 Q. And the unused energy allocator is also  
21 reflected in KCPL's 2005 earnings surveillance report, a  
22 report that KCPL now files annually, correct?

23 A. In the 2005 surveillance report that we  
24 filed, we used the unused energy allocator to allocate  
25 off-system margins.

1           Q.       Okay. I misspoke. My understanding is  
2   that you do not file it, but you submit the report. It's  
3   not actually filed; is that correct?

4           A.       It is submitted to the signatory parties in  
5   that -- in the Stipulation & Agreement that provided for  
6   the surveillance reporting.

7           Q.       Okay. And prior to that time, the company  
8   did not split out OSS, off-system sales margins?

9           A.       That is correct.

10          Q.       In fact, are you familiar with Mr. Giles'  
11   testimony and in particular his surrebuttal testimony in  
12   this case?

13          A.       Yes, I am.

14          Q.       Okay. And he backs you up in that  
15   statement, does he not?

16          A.       Yes.

17                   MR. FREY: May I approach the witness, your  
18   Honor?

19                   JUDGE PRIDGIN: You may.

20   BY MR. FREY:

21          Q.       Can you identify that document as  
22   Mr. Giles' surrebuttal testimony in this case?

23          A.       Yes, that's what it is.

24          Q.       Okay. And can you read for me the  
25   sentences -- I think there are three of them -- that have

1     been highlighted on page 5?

2             A.       This is beginning on page 5, line 13. In  
3     each of KCPL's prior cases, margin was never separately  
4     identified. Total revenue received from the sale of  
5     energy was allocated to KCPL's Missouri and Kansas  
6     jurisdictions based upon a jurisdictional energy ratio  
7     because most of the revenue was simply offsetting the fuel  
8     costs.

9             And then a sentence that begins the end of  
10    line 17 on page 5, revenue in excess of fuel costs was not  
11    enough to attempt to separate the margin from fuel cost  
12    for allocation purposes during prior rate cases. Thus,  
13    total revenue was allocated on a megawatt -- on an MWH  
14    ratio.

15            Q.       Okay. Thank you.

16            MR. FREY: May I approach, your Honor?

17            JUDGE PRIDGIN: You may.

18    BY MR. FREY:

19            Q.       Can you identify that document which I've  
20    just handed you?

21            A.       This is a Report and Order from Case  
22    No. ER-82-66.

23            Q.       And that's a KCPL rate increase case, is it  
24    not?

25            A.       It says, in the matter of Kansas City

1 Power & Light Company of Kansas City, Missouri for  
2 authority to file tariffs increasing rates for electric  
3 service provided to customers in the Missouri service area  
4 of the company.

5 Q. Okay. And could you turn to page 28,  
6 please, and read the highlighted sentence or sentences?

7 A. It says, 10,000 barrels of the 32,000  
8 barrels used in the first three months of 1982 were, as  
9 admitted by the company, used for interchange sales.

10 Q. You mentioned barrels. Are they talking  
11 about barrels of oil here?

12 A. I don't know.

13 Q. Okay. Let me refer you to page 27, the  
14 second paragraph below fuel mix and interchange.

15 A. Okay.

16 Q. And there it refers to oil used in the  
17 company's fuel mix, does it not?

18 A. It says, the Staff and company disagree on  
19 the amount of oil and gas to be used in the company's fuel  
20 mix.

21 Q. Second paragraph, oil used in the company's  
22 fuel mix is 110,000 barrels; whereas, the Staff's mix  
23 calls for 53,000 barrels. Did I read that correctly?

24 A. It says, oil used in the company's fuel mix  
25 is 111,000 barrels; whereas, Staff's mix calls for 53,000

1 barrels.

2 Q. Okay. So have you convinced yourself that  
3 we're talking about barrels of oil there, fuel oil?

4 A. I will accept that. I assume so. I don't  
5 know.

6 Q. Well, if you'd like, you can take a moment  
7 and read the intervening language between that passage and  
8 the passage on page 28, and that may give you a greater  
9 comfort level.

10 A. It appears they're talking about barrels of  
11 fuel oil, yes.

12 Q. Thank you. Now, if you would, please turn  
13 to page 30 and read the highlighted language there.

14 A. As concerns interchange sales and  
15 purchases, Staff priced interchange sales from KCPL's  
16 system using 1982 fuel prices and the cost of interchange  
17 purchases using 1981 prices. The company does not appear  
18 to protest Staff's pricing of interchange sales but uses  
19 it as evidence that Staff has been inconsistent in the  
20 treatment of interchange sales and purchases.

21 Q. And when the language speaks of interchange  
22 sales, would you agree that it's referring to off-system  
23 sales?

24 A. Yes.

25 Q. Okay. Thank you. Now, based on that

1 language, Mr. Frerking, don't those passages indicate that  
2 margins were being identified as far back as 1982 or 1983?

3 A. I don't think it specifically addressed  
4 margins in any of those passages you had me read.

5 Q. Well, they do -- they do point out that  
6 there were -- that there was efforts directed at  
7 quantifying the price of interchange sales, do they not?

8 A. It addressed fuel oil barrels for  
9 interchange sales. I don't -- I'm -- I don't know the  
10 basis behind any of those -- those -- the modeling  
11 therein. I don't have any -- I wasn't with the company  
12 then. I don't have any understanding of that case.

13 Q. So when the language speaks of pricing up  
14 or costing the fuel to go into interchange sales, you  
15 don't agree that they were determining the cost of  
16 interchange sales?

17 A. I don't believe there's enough information  
18 therein for me to make that determination.

19 Q. Okay. Is it true, Mr. Frerking, that you  
20 yourself developed this unused energy allocator that's the  
21 subject of this proceeding at this time?

22 A. That's true.

23 Q. Did anyone else at least suggest that you  
24 look into the possibility of developing such an allocator?

25 A. No, they did not.

1           Q.       So that was totally your doing as well  
2 then, correct?

3           A.       When we broke out the margin component,  
4 that's when I began to think about whether it was  
5 appropriate to allocate the margins and the cost the same  
6 way that the total revenues had previously been allocated.

7           Q.       So you alone came up with the idea to do  
8 that?

9           A.       Yes.

10          Q.       Okay. Is it fair to say, then -- I would  
11 assume it is -- that you are unable to point to any rate  
12 order anywhere which used an unused energy allocator?

13          A.       I'm not aware of any if there are.

14          Q.       Has any -- to your knowledge, has any  
15 utility company besides KCPL ever proposed or advocated  
16 such an allocator?

17          A.       If they have, I don't know.

18          Q.       Any intervenor?

19          A.       Not that I'm aware of.

20          Q.       Any commission staff anywhere?

21          A.       Not that I'm aware of.

22          Q.       In fact, do you know of any of these  
23 entities who have advocated allocation of off-system sales  
24 on the basis of an energy?

25          A.       When you say off-system sales --



1 Q. Non-firm.

2 A. Well, sales, are you talking revenues or  
3 margins?

4 Q. Margins.

5 A. Margins. I'm not -- I'm not aware of how  
6 anyone else has specifically allocated margins.

7 Q. But the Kan-- no Kansas utilities have  
8 proposed such an allocation, have they?

9 A. Not that I'm aware of.

10 Q. And the KCC Staff, Kansas Corporation  
11 Commission Staff has not proposed it?

12 A. Not that I'm aware of.

13 Q. And no Kansas intervenors?

14 A. Not that I'm aware of.

15 Q. The unused energy allocator has not been  
16 discussed in any textbook or any learned treatise, has it,  
17 to your knowledge?

18 A. Not to my knowledge.

19 Q. At the time it occurred to you to look into  
20 the allocation of non-firm off-system sales margins, did  
21 you share this with your supervisors to get the okay to  
22 proceed?

23 A. Yes, I did.

24 Q. And with whom did you share that?

25 A. Chris Giles, Tim Rush, Lois Liechti.

1           Q.       And was this before you had anything in  
2 particular in mind, just that you wanted to look at it?

3           A.       I addressed it with them. This was an  
4 ongoing function, but I addressed when we broke out the  
5 margins that I didn't believe it was appropriate to  
6 allocate margins using an energy allocator. So I made it  
7 known to them that I was going to attempt to develop what  
8 I thought was the appropriate way to allocate margins.

9           Q.       So they gave you the go ahead to do that?

10          A.       Yes.

11          Q.       And can you state what was the basis for  
12 their decision?

13          A.       I would suggest that there was an agreement  
14 that they also thought it was an inappropriate to allocate  
15 margins using an energy allocator.

16          Q.       And in what sense was it inappropriate?

17          A.       It's based on the way that the total costs,  
18 the plant costs and variable costs are allocated.  
19 Allocation margins are essentially a contribution to fixed  
20 costs, and that's not unique to a utility. It's -- you  
21 know, all businesses, the margins on sales are a  
22 contribution to fixed cost.

23                   As such, they should be allocated the way  
24 the fixed costs of plant are allocated, which fixed cost  
25 of KCPL's plant are not allocated using an energy

1 allocator, so it wouldn't be appropriate to allocate the  
2 margins using an energy allocator.

3 Q. In connection with your charge to go ahead  
4 and take a look at this, did anyone instruct you or give  
5 you any guidelines as to how to develop this methodology?

6 A. They did not.

7 Q. And in the course of your efforts to  
8 develop it, did you have reviews with your supervisors,  
9 your superiors on how things were going?

10 A. I showed them the results of using this,  
11 yes.

12 Q. But that's when you had completed your  
13 work, correct?

14 A. This would -- I would have updating --  
15 updated them on my -- on my rationale and thinking for why  
16 this was an appropriate way to allocate off-system energy  
17 margins.

18 Q. Were there any mid-course corrections  
19 offered by your superiors?

20 A. I don't -- I don't think that that would be  
21 true.

22 Q. I'm going to --

23 MR. FREY: May I approach the witness.

24 JUDGE PRIDGIN: You may.

25 BY MR. FREY:

1           Q.       I'm going to rehand you a copy of the  
2 deposition which I gave earlier, and could you turn to  
3 page 34 of that document, and could you read your answer,  
4 please, beginning at line 25. Excuse me. 20-- excuse me.  
5 Start by reading the question beginning at line 24, the  
6 first full sentence.

7           A.       Question. As to how to do it, did anyone  
8 assist you in developing this idea?

9                    Answer: I sought -- I presented the idea  
10 and the quandary, if you will, that we now have margins  
11 split out and what would be the appropriate way to  
12 allocate that given that we hadn't done it in the past, we  
13 didn't have a track record, I guess, allocated in any  
14 way -- in any particular way. So I developed this  
15 methodology and explained what I was trying to accomplish  
16 to my superiors, and they agreed with the determination  
17 that this is -- this is a more appropriate way to allocate  
18 this piece of the off-system revenues.

19          Q.       Thank you. Now, when you referred to  
20 presenting the idea, again, to whom did you present that  
21 idea?

22          A.       To Chris Giles, Tim Rush and Lois Liechti.

23          Q.       Okay. And when you referred to what you  
24 were, I think, quote, trying to accomplish, can you please  
25 tell us what it is you were trying to accomplish?

1           A.       To develop an appropriate methodology for  
2 allocating off-system energy margins.

3           Q.       As I understand from your deposition, all  
4 superiors with whom you reviewed the concept agreed to it,  
5 did they not?

6           A.       Yes, they agreed that this was more  
7 appropriate than allocating off-system margins using an  
8 energy allocator.

9           Q.       Nobody disagreed?

10          A.       That's correct.

11          Q.       And how long approximately did it take you  
12 to develop this idea for inclusion in the 2005 earning  
13 surveillance report?

14          A.       I don't know.

15          Q.       As you sit here today, do you still support  
16 the unused energy allocator as the appropriate means of  
17 allocating non-firm off-system sales margins?

18          A.       Yes, I do.

19          Q.       On pages 1 and 2 of your rebuttal  
20 testimony, could you turn to that? You --

21          A.       Okay.

22          Q.       You indicate that you needed to make what  
23 you referred to as a correction to your unused energy  
24 allocator calculation; is that correct?

25          A.       That's correct.

1           Q.       Could you please explain the change you  
2     made?

3           A.       The change that I made was the -- was to  
4     recalculate the total available energy.  Originally the --  
5     the core of a -- of this unused energy allocator is a  
6     demand allocator.  So what I was allocating was  
7     available -- available capacity or available energy using  
8     the demand allocator.

9                   Originally I'd used the loads associated  
10    with the 12 CP demand allocator that the company was  
11    proposing, so the 12 coincident peak, average of the 12  
12    coincident peak loads as the basis for developing the  
13    total level of available capacity and energy.

14                  What it should have been was the available  
15    capacity associated with the generating units and  
16    purchased power agreements, purchased power contracts that  
17    the company has.  So that's -- that is the correction that  
18    was made is developing the level of available energy based  
19    on 8,760 hours in a year times the total capacity of  
20    KCPL's generating units and purchased power contracts as  
21    opposed to the -- and then allocating that using the  
22    demand allocation percentages, as opposed to using the  
23    loads that were used to derive those demand allocation  
24    percentages.

25          Q.       Okay.  And can you tell us when you made

1 the -- prior to making that change, how much was this  
2 issue worth, approximately?

3 A. It would depend on the level of margins  
4 you're applying the number to, but prior to making that  
5 change, the -- prior to making that change, the unused  
6 energy allocation factor was 46.97 percent for Missouri.  
7 After making the change, it was 51.55 percent.

8 Q. But the issue itself, dispute between the  
9 Staff and the company, what was the dollar value of the  
10 issue, do you recall, approximately?

11 MR. BLANC: I would just like to jump in.  
12 The dollar value of the difference is an HC, but depending  
13 on where these questions and answers would go, the margin  
14 values themselves are HC, so just to remind everyone of  
15 that.

16 THE WITNESS: I believe -- actually, I  
17 believe -- this wasn't filed as HC, my rebuttal testimony.

18 JUDGE PRIDGIN: Okay.

19 THE WITNESS: So I think I can answer.  
20 This is on page 2 of my rebuttal testimony it refers to,  
21 based on the June update that the company filed, and that  
22 would be the level of margins in that case, it was  
23 approximately 3.6 million more margin being allocated to  
24 Missouri after the correction.  
25 BY MR. FREY:

1           Q.       Okay. Again, I'm going to ask, though,  
2   what -- so that left how much in dispute -- maybe that's  
3   the way I'll ask the question -- once you moved the  
4   3.6 million?

5           A.       Approximately the level that's on -- on  
6   Mr. Traxler's reconciliation. There are probably issues  
7   related to the differences in the energy allocator and the  
8   12 CP versus 4 CP that affect this unused energy  
9   allocator, but I would say that the amount that's shown on  
10  Mr. Traxler's reconciliation would be representative of the  
11  differences between the parties between using our unused  
12  energy allocator as corrected versus an energy allocator  
13  that the Staff is -- Staff and other parties are  
14  proposing.

15          Q.       Okay. But in any event, you moved -- the  
16  result was to move about \$3.6 million in revenues from  
17  Kansas to Missouri; is that correct? Is that your  
18  testimony?

19          A.       Base -- that was the effect of the  
20  correction, yes.

21          Q.       So isn't it fair to say that if the parties  
22  hadn't pursued the issue of this unused energy allocator,  
23  KCPL's customers in Kansas would have received about a  
24  \$3.6 million windfall at the expense of the company's  
25  Missouri customers?



1           A.       If we hadn't found the error and found the  
2     correction, whether it's the parties or the company, and  
3     fully allocated -- fully -- full allocation of the  
4     margins, without the correction, Kansas would have been  
5     allocated more margin than they are after the correction.

6           Q.       And that would have been about  
7     \$3.6 million, correct?

8           A.       Based on the numbers in this June update.

9           Q.       Right. And in your deposition, you  
10    acknowledged, did you not, that this change was more along  
11    the lines of an evolving development in your methodology;  
12    is that true?

13          A.       What change are you referring to?

14          Q.       The change that led to the \$3.6 million  
15    being shifted to Missouri ratepayers.

16          A.       I don't believe that's -- that's what I  
17    said. This is a correction. It's not an evolution of the  
18    methodology.

19          Q.       Okay. Can I refer you then to your  
20    deposition, page 63, line 24?

21          A.       Okay.

22          Q.       I've given you the wrong cite. Make it 68,  
23    page 68, line 11. I would just ask you to read your  
24    answer actually on page -- on line 20.

25          A.       Page 68, line 20?

1 Q. Yeah.

2 A. Okay. The answer -- do you want me to read  
3 the question?

4 Q. You can if you like.

5 A. The question begins on line 11?

6 Q. Right.

7 A. Based on this latest and significant change  
8 in the allocation development, isn't it fair to say that  
9 you and others are still in a thinking through of the  
10 appropriateness of unused energy allocator as well as its  
11 actual development -- let me just ask, isn't this really a  
12 work in progress? Aren't we really in a development --  
13 aren't we really in the developmental stages of your  
14 unused energy allocator? Isn't this evidence of that?

15 On line 20 is the answer. I would -- I  
16 would agree that I was attempting when I did this to come  
17 up with what I considered to be the correct approach. So  
18 given that it is something that I was essentially  
19 developing, I think it is fair to say that I'm open to  
20 reasonable suggestions. What I would add to that, though,  
21 is that doesn't change my opinion that using an energy  
22 allocator for this is inappropriate.

23 Q. Okay. That's enough. Thank you. You then  
24 go on to support that --

25 A. Yes.

1 Q. -- that it's not inappropriate?

2 A. That the unused energy is not  
3 inappropriate.

4 Q. Yes.

5 A. The inappropriate referring to the energy  
6 allocator.

7 Q. Okay. Yes. So couldn't we conclude from  
8 that statement that you did indicate in your deposition  
9 that the concept was still something of a work in progress  
10 and that you indicated a willingness to consider other  
11 reasonable suggestions in connection with this effort?

12 A. Yes, but that didn't have -- that wasn't  
13 with regard to the correction.

14 Q. I guess I need to return to that page then.

15 Okay. Let's move on. Are there any  
16 further changes in the works at this time, Mr. Frerking?

17 A. No.

18 Q. I'd just like to talk for a minute about  
19 this whole term unused energy. I confess that I have  
20 something of a problem with that term because I think of  
21 energy as a transient thing; that is, either you use it or  
22 lose it, so to speak. And so when we speak of energy  
23 supplies, that's really a misnomer. What we're really  
24 talking about is supplies of sources of energy. Would you  
25 agree with that?

1           A.       I think you could characterize this as an  
2 adjusted demand allocator if that's -- if that helps.

3           Q.       Do you understand the difficulty in  
4 wrapping one's head around the concept of unused energy?

5           A.       Could you rephrase the question?

6           Q.       Wouldn't you agree that, as a technical  
7 matter, what we're really talking about is available or  
8 unused capacity?

9           A.       That's correct.

10          Q.       So you speak of available energy, but in  
11 reality, all that may be available is the capacity to  
12 produce the energy; is that correct?

13          A.       There's available capacity to produce the  
14 energy. To the extent it's not used for the retail load,  
15 it's available to sell off-system. So that's -- it's  
16 the -- it's -- it creates the ability to sell off-system.

17          Q.       And if that's the case, if you have unused  
18 capacity, is the company suggesting that if it has excess  
19 capacity and, therefore, some of it should be removed from  
20 rate base?

21          A.       No, I'm not suggesting that.

22          Q.       Is it possible that you came up with the  
23 term unused energy because you didn't want to suggest that  
24 the company, in fact, had unused excess capacity?

25          A.       No.

1           Q.       As far as you understand, does -- do Staff  
2     and KCPL allocate revenues from firm off-system sales in  
3     the same manner?

4           A.       Are you referring to the capacity or energy  
5     or both?

6           Q.       Capacity.

7           A.       And you said firm?

8           Q.       Yes.

9           A.       The company is currently allocating the  
10    capacity revenues from past contracts for the firm  
11    off-system sales using a demand allocator for that, and  
12    that is consistent with how the plant costs are allocated.

13                   The company is using an energy allocator to  
14    allocate the total energy revenues associated with firm --  
15    the energy sales related to those firm sales because we  
16    haven't broken out the margin and the cost component of  
17    those energy sales for those firm off-system sales. To  
18    the extent that we were able to break that out, we would  
19    allocate the margins using an unused energy allocator.

20          Q.       Okay. So if we can kind of just go through  
21    this a little bit more crisply, how does KCPL allocate  
22    capacity costs from firm off-system sales? It uses a  
23    demand allocator, doesn't it?

24          A.       That's correct.

25          Q.       And does the Staff also use a demand

1 allocator?

2 A. I believe so, but they're probably using a  
3 4 CP demand allocator and KCPL was using a 12 CP demand  
4 allocator.

5 Q. And how does KCPL allocate energy costs  
6 from firm off-system sales?

7 A. In our current filing, because we haven't  
8 broken out the margin and cost component, we are  
9 allocating the total energy revenues associated with those  
10 firm off-system sales using an energy allocator.

11 Q. And is that how the Staff does it?

12 A. I believe so, yes.

13 Q. And how does the company allocate cost of  
14 energy -- cost of energy for non-firm off-system sales?

15 A. The company is allocating the cost  
16 component of non-firm off-system energy sales using an  
17 energy allocator because that's consistent with how the  
18 energy, the cost of the energy are allocated to the  
19 jurisdictions.

20 Q. And would it be fair that the Staff  
21 allocates that component, although they don't split it up,  
22 on that basis as well?

23 A. Yes. To the extent that that's the way the  
24 costs are being allocated, it would make sense to allocate  
25 the revenues that cover those costs in the same manner.

1           Q.       So the only difference between the way the  
2   Staff is doing its allocations and the way the company is  
3   doing it is on this one little -- one -- I shouldn't say  
4   little -- one piece of revenues that constitute the  
5   margin; is that correct?

6           A.       The difference is the piece that  
7   constitutes the margin, and I would agree with you, it's  
8   not little, otherwise we wouldn't be having this  
9   conversation.

10          Q.       And we're talking here about non-firm  
11   off-system sales, correct?

12          A.       That's correct.

13          Q.       And up 'til 2005 and the proposal in this  
14   rate case, how did KCPL allocate that component from  
15   non-firm off-system sales?

16          A.       We didn't specifically allocate the  
17   components of the non-firm energy sales. So prior to this  
18   case, we allocated the total revenues associated with  
19   non-firm energy sales using an energy allocator.

20          Q.       But in effect, the effect was to allocate  
21   those dollars on the basis of an energy allocator, was it  
22   not?

23          A.       That is correct.

24          Q.       And isn't that the way the Staff did it and  
25   does it?

1           A.       That's correct.

2           MR. FREY: I have no further questions,  
3 your Honor. Thank you, Mr. Frerking.

4           JUDGE PRIDGIN: Thank you, Mr. Frey.

5           Any further cross from counsel?

6           (No response.)

7           JUDGE PRIDGIN: I don't normally like to do  
8 this, but I am going to break in the middle of a witness.  
9 We will have Bench questions afterwards. And I also want  
10 to clarify in my mind where the parties see this afternoon  
11 going. We also have Ms. Maloney to testify on this issue  
12 and Mr. Dittmer; is that correct? And Mr. Featherstone.  
13 Excuse me. And then Mr. Brubaker would be next week. All  
14 right.

15          MR. BLANC: And the company has no  
16 questions for Ms. Maloney on this issue, if that's  
17 helpful.

18          JUDGE PRIDGIN: All right. Thank you.

19          MR. FREY: Mr. Traxler as well.

20          JUDGE PRIDGIN: Mr. Traxler as well. Thank  
21 you.

22          MR. BLANC: Same with respect to  
23 Mr. Traxler.

24          JUDGE PRIDGIN: All right. It is noon,  
25 according to the clock on the back of the wall. Let's



1 reconvene at 1:15, if there's nothing further from  
2 counsel. All right. Thank you very much. We will go off  
3 the record.

4 (A BREAK WAS TAKEN.)

5 JUDGE PRIDGIN: We're back on the record.  
6 I want to get Mr. Frerking back on the stand. I think  
7 that's where we left off is that we had Bench questions  
8 for him.

9 And just again to be sure that I'm on the  
10 same page with counsel, we will also at least potentially  
11 have Ms. Maloney, Mr. Traxler and Mr. Dittmer also on the  
12 stand on jurisdictional allocations and/or unused energy  
13 allocator. Is that --

14 MR. WOODSMALL: I think you had  
15 Mr. Featherstone, and they've already waived on Maloney.

16 JUDGE PRIDGIN: I'm sorry. And I'll double  
17 check. I don't know if anybody has any cross for  
18 Mr. Featherstone, but thank you for pointing that out.

19 Anything else from counsel before we  
20 resume?

21 (No response.)

22 JUDGE PRIDGIN: All right. Mr. Frerking,  
23 if you'd have a seat, and you are under oath. And,  
24 Commissioner Murray, whenever you're ready.

25 COMMISSIONER MURRAY: Thank you.

1 QUESTIONS BY COMMISSIONER MURRAY:

2 Q. Good afternoon.

3 A. Good afternoon.

4 Q. You've been playing up and down on that  
5 chair a lot in the last couple days, haven't you?

6 I just wanted to ask you a couple questions  
7 regarding this issue because I'm fairly confused about it  
8 at this point.

9 A. Okay.

10 Q. And I have to apologize, because I was  
11 hoping to review the testimony and get a little more  
12 clarity on this issue during the lunchtime and I did not  
13 get a chance to do that. So if my questions don't make a  
14 lot of sense, perhaps you can clarify them.

15 A. Okay.

16 Q. Is the company's position that -- or is the  
17 company taking a position that, in terms of the allocation  
18 of off-system sales margins, that they should be treated  
19 in a whole new manner than they have ever been treated  
20 before?

21 A. We have never split out the margin  
22 component of off-system energy sales revenues from the  
23 component that covers the costs.

24 Q. So that would be a yes?

25 A. Yes.

1           Q.       And tell me if I'm correct in this  
2 understanding or tell me if I'm not, but it appears that  
3 rather than placing 100 percent into the revenue  
4 requirement, which would have been done in the past, is  
5 that right, that the company is suggesting that -- and  
6 maybe I'm getting issues mixed up here, but the company is  
7 suggesting only including 25 percent?

8           A.       That's a completely separate issue. This  
9 is the allocation of the margins, not the level of the  
10 margins. The 25th percentile that was discussed -- and  
11 I'm not sure which witnesses discussed it before -- would  
12 be regarding the dollar value of the margins included in  
13 the case, not how those margins are allocated. This  
14 unused energy allocator versus the energy allocator for  
15 allocating margins is simply allocating the --

16          Q.       Jurisdictional allocations is all you're  
17 dealing with?

18          A.       Yes.

19          Q.       Okay. Now, help me here with the -- what  
20 the margin covers. It's my understanding that it would  
21 cover the amount of revenue over cost would be the margin?

22          A.       That's correct. The energy revenues for  
23 off-system, the non-firm energy revenues will be at a  
24 certain level of dollars, and those revenues would  
25 presumably, if they're being sold profitably, would have a

1 level that covers the cost of those sales, which would be  
2 fuel and purchased power, and then the margin would be the  
3 revenues in excess of those fuel and purchased power  
4 costs.

5 Q. And the cost of the facilities, personnel,  
6 that kind of thing, is that included?

7 A. The cost of the facilities, the margin is a  
8 contribution to the cost of the facilities that are being  
9 allocated to the jurisdictions. The cost of the  
10 facilities are being allocated to the Missouri, Kansas and  
11 FERC wholesale jurisdictional customers through a demand  
12 allocator.

13 The margins on off-system sales on the  
14 non-firm off-system sales could be considered a  
15 contribution to those -- to the fixed costs of the plant  
16 and other fixed costs that the jurisdictions have paid  
17 through -- paid for through their demand allocation of  
18 those fixed costs.

19 Q. Contribution to the cost?

20 A. The margins on off-system sales are very  
21 similar to margins in any business. You have plant and  
22 fixed costs that are there regardless of how much you  
23 sell. The amount of the revenues in excess of the  
24 variable costs then are contribution to those fixed costs.

25 The margins on off-system sales would be

1 very similar to that. They're a contribution to the fixed  
2 costs that the jurisdictional customers are being charged  
3 for.

4 Q. And where does the cost of energy fit in  
5 that?

6 A. The cost of the energy, the component of  
7 the cost of the off-system sales that would be the cost of  
8 energy, the two components would be the margin and the  
9 cost of energy. The cost of energy, the cost of those --  
10 of the energy, whether it be fuel or purchased power, has  
11 been allocated to the Missouri, Kansas and FERC  
12 jurisdictional customers based on an energy allocator.

13 So even in those -- even for those megawatt  
14 hours that are for the off-system generation, the  
15 jurisdictional customers are being allocated those costs.  
16 The revenues that cover those costs, the cost piece are  
17 being allocated back to the jurisdictions or credited to  
18 the jurisdictions using an energy allocator. So that  
19 exactly covers the cost that they've been charged.

20 The margin piece would be the revenues in  
21 excess of those variable costs and those -- that margin  
22 would be considered a contribution to the fixed costs, and  
23 those fixed costs of plant and other operating,  
24 maintenance-type fixed costs are allocated to the  
25 jurisdictions based on a demand allocator, not an energy

1 allocator.

2 Q. But there is an energy allocator being used  
3 in this case, is there not?

4 A. The energy allocator is how the fuel and  
5 purchased power costs, both for retail and the off-system,  
6 are allocated to the jurisdictions. The energy allocator  
7 is then also used to allocate the off-system revenues that  
8 cover the fuel and purchased power costs that are used to  
9 generate those off-system sales. So that piece of it is  
10 allocated consistently between the cost and the revenue.

11 Then the off-system energy revenues that  
12 are in excess of the cost of the fuel and purchased power  
13 costs that are used to generate those sales, the margin  
14 piece, that is allocated -- we're proposing using the  
15 unused energy allocator for that. That's the piece that  
16 Staff and the other parties have suggested using an energy  
17 allocator to also allocate, but that's where we're saying  
18 it's inappropriate to allocate the margin piece using an  
19 energy allocator because that's not how the fixed costs of  
20 the plant have been allocated.

21 Q. Inappropriate to use an energy allocator?

22 A. For the margin piece. It's appropriate to  
23 use an energy allocator for the cost of sales piece of the  
24 off-system energy revenues because that's how those costs  
25 were allocated to the jurisdictions. So if you've

1 allocated the cost to the jurisdictions on that basis, the  
2 revenues to exactly cover those costs would then be  
3 allocated on that same basis, and the jurisdictions would  
4 be neither benefited nor harmed.

5                   The benefit comes from the margins on those  
6 off-system sales, and those margins are appropriately  
7 allocated not using an energy allocator, but we're  
8 proposing the unused energy allocator because then the  
9 unused energy allocator is essentially an adjusted demand  
10 allocator. The demand allocation part of it is how the  
11 plant and other fixed costs have been allocated to the  
12 jurisdictions, and we're describing this as the margins  
13 are a contribution to fixed costs.

14                   The reason for the adjustment or the unused  
15 energy piece of it is because of how the off-system sales  
16 are available to be made in the first place. They're  
17 available to be made because there are hours of the year  
18 when there's not full utilization of the ex-- of the  
19 generating facilities.

20           Q.       And that's what Mr. Frey was asking you  
21 about being unused capacity when he was --

22           A.       There are hours of the year -- it's not  
23 excess capacity. The capacity is there to meet the retail  
24 requirements, but there are times --

25           Q.       But it was unused at that time?

1           A.       Right.

2           Q.       Otherwise would have been unused at that  
3     time.

4                    COMMISSIONER MURRAY:  I still have more  
5     homework to do before I understand this one, but thank  
6     you.

7                    JUDGE PRIDGIN:  Commissioner Murray, thank  
8     you.  Commissioner Appling?

9                    COMMISSIONER APPLING:  No questions.

10                   JUDGE PRIDGIN:  I don't have any questions.  
11    Recross?

12                   MR. FREY:  Just one, your Honor.

13                   JUDGE PRIDGIN:  Mr. Frey.

14                   MR. FREY:  Thank you.

15    RE CROSS-EXAMINATION BY MR. FREY:

16           Q.       Mr. Frerking, I think Commissioner Murray  
17    was asking you to kind of break down the -- these --  
18    what's included, what costs are included and what costs  
19    are recovered on the demand charge and the energy charge.

20                    I guess my question is, you indicated that  
21    in recovering off-system sales costs, you needed to  
22    recover fuel, purchased power and plant fixed costs; is  
23    that correct?

24           A.       The margins would be considered a  
25    contribution to the fixed costs that the jurisdictions



1 have paid for.

2 Q. But my question is, what costs need to be  
3 recovered for off-system sales? Let's say we're talking  
4 about firm off-system sales.

5 A. Firm off-system sales would be -- depend on  
6 the terms of the contract, but firm off-system sales would  
7 have a capacity or demand payment, and then the contract  
8 would allow -- would allow for the sale of energy in  
9 accordance with that contract. So --

10 Q. Are there payroll-related costs associated  
11 with off-system sales transactions, accounting functions,  
12 billing, that sort of thing?

13 A. There's probably some small amount of that.  
14 I don't know exactly what that -- that's factored in in  
15 the determination of -- there is some component of  
16 variable O&M that is factored into the determination of  
17 whether or not to make sales. That has not been factored  
18 in as a determination of what the margin is in what we  
19 have in this case.

20 That's been discussed with Staff and other  
21 parties on how we're going to define margin. The margin  
22 has been defined as the revenues less the fuel and  
23 purchased power costs.

24 MR. FREY: Thank you. No further  
25 questions.

1 JUDGE PRIDGIN: Thank you. Any further  
2 recross?

3 (No response.)

4 JUDGE PRIDGIN: Redirect?

5 MR. BLANC: Yes, your Honor.

6 REDIRECT EXAMINATION BY MR. BLANC:

7 Q. Staff and some of the other parties, did  
8 they criticize your UEA, your unused energy allocator, as  
9 too simplistic?

10 A. Some of the parties in their -- in their  
11 rebuttal testimony and surrebuttal testimony have  
12 described it as being too simplistic, but they haven't  
13 offered a different answer. And my argument would be that  
14 it's -- that it's still not appropriate to use an energy  
15 allocator as the fallback just because there may be some  
16 more sophisticated way of determining the unused energy.

17 Q. And so why wouldn't it be appropriate just  
18 to fall back to the energy allocation methodology if  
19 there's a more sophisticated potential way to do unused  
20 energy?

21 A. Regardless of how you make the  
22 determination of what the level of unused energy is, the  
23 fallback position, and even if -- even if there's no  
24 determination, even if there's no adjustment for unused  
25 energy, the fallback position would be to a demand

1 allocator because the margins are a contribution to the  
2 fixed costs that have been allocated, and those have been  
3 allocated on a demand allocation. The basis of the unused  
4 energy allocator is a demand allocator applied to the  
5 available capacity.

6 A fallback, it doesn't make any sense to  
7 use an energy allocator to allocate the margins because  
8 that's not how the fixed costs have been allocated.

9 Q. How would you describe the goal you were  
10 trying to achieve when you developed the unused energy  
11 allocator?

12 A. The goal that I was trying to achieve was  
13 to develop an appropriate level or appropriate methodology  
14 for allocating the margin component of off-system energy  
15 sales. As we -- as has been addressed here before, the  
16 historically we and other jurisdictions presumably have  
17 allocated total off-system revenues using an energy  
18 allocator.

19 Historically, those margins have been  
20 small, so that probably, while not completely correct, was  
21 a reasonable assumption. But with a -- the level of  
22 margin, the margin component that KCPL is now seeing, that  
23 it becomes much more important to appropriately allocate  
24 the margin component and not just use an energy allocator  
25 to cover both the cost component and the margin component.

1           Q.       So for lack of a better term, the goal --  
2       was the goal to shortchange Missouri customers to the  
3       benefit of Kansas customers?

4           A.       No.   The goal was to come up with an  
5       appropriate way to allocate the off-system margins.

6                   MR. BLANC:  No further questions.

7                   JUDGE PRIDGIN:  All right.  Thank you.  May  
8       this witness be excused?  Any other questions?

9                   (No response.)

10                  JUDGE PRIDGIN:  We'll excuse him on this  
11       issue.  And I want to -- Mr. Frerking, thank you.  You may  
12       step down.

13                   I want to see who has cross-examination on  
14       these further witnesses.  If I recall correctly, KCPL had  
15       no cross for Mr. Featherstone on this issue; is that  
16       correct?

17                  MR. BLANC:  We do, your Honor.

18                  JUDGE PRIDGIN:  You do have cross.  Excuse  
19       me.  I'm sorry.

20                  MR. BLANC:  But before we move on to the  
21       next witness, I would like to offer the testimony, the  
22       direct, rebuttal and surrebuttal, which are Exhibits 9, 10  
23       and 11, of Mr. Frerking.

24                  JUDGE PRIDGIN:  Exhibits 9 -- and I show 9  
25       as being NP and HC.

1 MR. BLANC: Correct.

2 JUDGE PRIDGIN: -- 10 and 11 have been  
3 offered. Any objections?

4 (No response.)

5 JUDGE PRIDGIN: Hearing none, Exhibit 9NP  
6 and HC, Exhibit 10, Exhibit 11 are admitted.

7 (EXHIBIT NOS. 9NP, 9HC, 10 AND 11 WERE  
8 RECEIVED INTO EVIDENCE.)

9 JUDGE PRIDGIN: And, Mr. Featherstone, you  
10 are still under oath.

11 Mr. Frey, anything we need to take up  
12 before cross?

13 MR. FREY: Judge, before I forget, I'm  
14 hearing that Ms. Maloney is not going to be required to  
15 take the stand again on the unused energy allocator issue.  
16 Is that the case? Has that not been determined?

17 JUDGE PRIDGIN: Do any of the parties wish  
18 cross of Ms. Maloney on that?

19 (No response.)

20 JUDGE PRIDGIN: I'm seeing nos.

21 MR. FREY: In that event, I think it would  
22 be -- it's time to offer her testimony into evidence, and  
23 that would be direct Exhibit 122, rebuttal 123 and  
24 surrebuttal Exhibit 124.

25 JUDGE PRIDGIN: Exhibits 122, 123 and 124

1 have been offered. Any objections?

2 (No response.)

3 JUDGE PRIDGIN: Seeing none, 122, 123 and  
4 124 are admitted.

5 (EXHIBIT NOS. 122, 123 AND 124 WERE  
6 RECEIVED INTO EVIDENCE.)

7 MR. FREY: Thank you.

8 JUDGE PRIDGIN: You're welcome. Anything  
9 further before Mr. Featherstone stands cross on this? Is  
10 he ready, Mr. Frey, for cross-examination? No  
11 corrections?

12 MR. FREY: Well, thank you, Judge. There  
13 was a correction that you may recall that I passed out to  
14 the various parties as well as to you. Mr. Featherstone  
15 does have a corrections to his surrebuttal testimony, and  
16 he's going to go through that now.

17 CAREY G. FEATHERSTONE testified as follows:

18 THE WITNESS: I can do the surrebuttal or  
19 the rebuttal. I've got a couple corrections on the  
20 rebuttal.

21 MR. FREY: Okay. Do the rebuttal first,  
22 then.

23 THE WITNESS: Rebuttal is the easiest.  
24 Page 5, line 13, there is an of between Missouri of any.  
25 It should be Missouri or any. So the of should be

1 replaced with or.

2 The next correction is page 15, line 13.

3 Where you see the word demand, the first of that line, it  
4 should have been energy allocator.

5 Page 16, there are two corrections.

6 Line 21, at the very end of the line, there is a 4. That  
7 should be stricken. Line 22, there is a -- the third word  
8 is it. That should be stricken as well.

9 Those are all of the corrections to my  
10 knowledge relating to my rebuttal testimony. Go ahead?

11 MR. FREY: Move on.

12 THE WITNESS: I have a correction, and it's  
13 somewhat convoluted, and I apologize to the Commission and  
14 the other parties. My word processing skills are not  
15 particularly good, and they have shown that in this  
16 instance. We were using the track changes, and two  
17 sentences got very garbled.

18 I've handed -- counsel handed out just a  
19 replacement for that Q and A. It really relates to the  
20 two sentences, the first two sentences, and in the  
21 handout, the bold type is what needed to be fixed to make  
22 the sentences read. It's a replacement of these two  
23 sentences, first of the answer in their entirety, it is --  
24 the question is, how are the fixed costs allocated in a  
25 rate case? The generating assets that produce the

1 electricity, which permit KCPL to make off-system sales  
2 transactions, have been allocated by KCPL using a demand  
3 allocator in its case, which is 53.82 percent based on the  
4 12 CP methodology. Staff is allocating these generating  
5 assets using Staff's demand allocator of 53.46  
6 percent based on the 4 CP methodology.

7                   The remaining of the answer to that  
8 question is the same. And again, I apologize to the  
9 Commission and the parties.

10                   JUDGE PRIDGIN: Anything further before  
11 cross?

12                   MR. FREY: Just that I would offer  
13 Mr. Featherstone's -- I guess it's time to offer his  
14 testimony into evidence. That would be direct, Exhibit  
15 No. 113, rebuttal 114, and surrebuttal HC and NP would be  
16 115.

17                   JUDGE PRIDGIN: Exhibits 113, 114 and 115  
18 have been offered. Any objections?

19                   (No response.)

20                   JUDGE PRIDGIN: Seeing none, Exhibits 113,  
21 114 and 115NP and HC are admitted.

22                   (EXHIBIT NOS. 113, 114, 115NP AND 115HC  
23 WERE RECEIVED INTO EVIDENCE.)

24                   JUDGE PRIDGIN: Is Mr. Featherstone ready  
25 for cross-examination?



1 MR. FREY: Yes.

2 JUDGE PRIDGIN: All right. Thank you. Any  
3 parties wish cross? Mr. Blanc, are you ready, sir?

4 CROSS-EXAMINATION BY MR. BLANC:

5 Q. Good afternoon, Mr. Featherstone.

6 A. Good afternoon.

7 Q. A lot of your prefiled testimony pertains  
8 to KCPL's historical treatment of off-system sales. If  
9 the Commission determines that KCPL's proposed unused  
10 energy allocator is appropriate for allocating off-system  
11 sales margins, would KCPL's historical treatment of  
12 off-system sales revenues prohibit the Commission from  
13 adopting KCPL's proposed methodology?

14 A. If I understand your question, I don't  
15 think so. I want to make sure that I'm understanding your  
16 question. You're saying that if the Commission changes  
17 the approach to how off-system sales have been allocated  
18 in the past, is there any precedent finding from the  
19 previous Commission orders, is that --

20 Q. I guess my question is simply, does the  
21 Commission's past treatment and KCPL's past treatment of  
22 off-system sales revenues, prohibit the Commission from  
23 treating off-system sales margins differently in this  
24 proceeding?

25 A. Not at all.

1           Q.       When KCPL builds a generating unit, does it  
2     designate the unit as a Missouri unit or a Kansas unit?

3           A.       They designate it as a system unit to  
4     provide capacity and the output generation to all three of  
5     its respective jurisdictions.

6           Q.       Thank you. So would it be accurate to say  
7     that KCPL jointly constructs and operates its generating  
8     units to serve the three jurisdictions you referenced?

9           A.       It is.

10          Q.       Are there any economies of scale or other  
11     efficiencies that result from doing so, as compared to  
12     designing, building and operating generating units for  
13     each jurisdiction separately?

14          A.       Yes. The larger system, they have more  
15     opportunities to intermix their generating capacities for  
16     base, intermediate and peak load. Generally speaking, the  
17     systems with the better load factors such as Missouri is  
18     going to look at the --

19          Q.       We'll get to load factor in just a moment,  
20     but thank you for the answer to the question.

21                   Are intermediate and peaking units cheaper  
22     to construct than base load units on a per megawatt basis?

23          A.       Their initial installed costs are cheaper.  
24     However, their fuel costs are considerably higher.

25          Q.       We're just discussing construction costs at

1     this time.

2             A.     Okay.

3             Q.     And those would be higher for a base load

4     unit?

5             A.     The construction cost, install costs

6     initially are higher.

7             Q.     For a base load unit?

8             A.     For a base load unit, yes.

9             Q.     KCPL uses a demand allocation factor to

10    allocate generation plant costs, correct?

11            A.     It does.

12            Q.     It uses an energy allocation factor to

13    allocate fuel costs?

14            A.     Yes.

15            Q.     Using the energy allocator, isn't

16    Missouri's share approximately 57 percent?

17            A.     You're asking about KCPL's or Staff's?

18            Q.     Correct. I -- both, I guess, because I'm

19    not aware of a difference on this issue.

20            A.     There is a slight difference. I think

21    57 percent is the rounded. They're not --

22            Q.     Yeah, roughly.

23            A.     It's roughly 57 percent for both the Staff

24    and the company.

25            Q.     Okay. I know there's a dispute about

1 4 CP/12 CP that we won't get into here, but doesn't the  
2 demand allocator allocate roughly 53 percent to Missouri?

3 A. Yes.

4 Q. So am I correct in saying that roughly  
5 53 percent of KCPL's plant costs are allocated to KCPL's  
6 Missouri customers?

7 A. That's correct.

8 Q. If I could refer you to page 17 of your  
9 surrebuttal.

10 A. Yes, sir.

11 Q. On lines 8 through 10, do you state that  
12 under KCPL's proposed unused energy allocator, Kansas will  
13 receive approximately 47.6 percent of off-system sales  
14 margins yet be required to pay for only 45.3 percent of  
15 the plant necessary to generate these costs -- or these  
16 sales? I'm sorry.

17 A. Yes.

18 Q. Are you suggesting that it's inequitable  
19 for Kansas to receive a greater share of off-system sales  
20 margins than its share of generation plant costs?

21 A. Under the company's unused energy allocator  
22 proposal, yes.

23 Q. But you're comparing off-system sales  
24 margins to generation plant costs?

25 A. In this instance, I'm saying that the

1 Kansas jurisdiction paying the lower plant cost is  
2 receiving a greater share of revenues from off-system  
3 sales.

4 Q. Thank you. And that's correct, doesn't  
5 KCPL's proposed unused energy allocator allocate  
6 approximately 51.6 percent of KCPL's off-system sales  
7 margins to Missouri?

8 A. The rebuttal corrected position, yes.

9 Q. Thank you. And so doesn't KCPL's proposed  
10 unused energy allocator result in an allocation of  
11 off-system sales margins that more closely follows the  
12 allocation of generation plant costs than Staff's proposal  
13 to allocate off-system sales margins using an energy  
14 allocator?

15 A. No, I don't think so.

16 Q. Well, I believe you just stated that KCPL's  
17 corrected allocation was 51.6 percent?

18 A. That's right.

19 Q. And that the demand basis on which  
20 generation plant is allocated is 53 percent?

21 A. That's correct.

22 Q. And then the energy allocator that Staff is  
23 proposing for off-system sales is 57 percent?

24 A. That's correct.

25 Q. So isn't 51.6 percent closer to 53 percent

1     than it is to 57 percent?

2             A.       In terms of numeric value, yes.

3             MR. BLANC: Thank you. No further  
4     questions.

5             JUDGE PRIDGIN: Thank you. Any further  
6     cross?

7             (No response.)

8             JUDGE PRIDGIN: Questions from the Bench,  
9     Commissioner Murray?

10            COMMISSIONER MURRAY: I don't think so.

11            JUDGE PRIDGIN: All right. Thank you.  
12     Commissioner Appling?

13            COMMISSIONER APPLING: I have no questions.

14            JUDGE PRIDGIN: All right. Thank you.

15     Mr. Featherstone, thank you. I'm sorry. Redirect.

16            MR. FREY: Thank you, your Honor.

17     REDIRECT EXAMINATION BY MR. FREY:

18            Q.       Mr. Featherstone, Mr. Blanc was asking you  
19     some questions about joint construction of KCPL's plant.  
20     Do you recall that?

21            A.       I do.

22            Q.       Are Missouri electric utilities encouraged  
23     by the Staff to have higher load factor?

24            A.       Well, certainly Staff would be one entity  
25     that would encourage utilities to have better load factors

1 and to do what reasonably should be done to improve those  
2 load factors.

3 Q. And why would that be?

4 A. It's a better utilization, more efficient  
5 to have a higher load factor. That generally brings costs  
6 down. So average system costs would be lower with  
7 improved load factors, all things considered equal.

8 Q. And does the regulatory plan approval in  
9 EO-2005-0329 include 14 million for demand response and  
10 efficiency and affordability programs?

11 A. I don't recall off the top of my head the  
12 dollar amount. There is a significant, for the state of  
13 Missouri, significant increase in those programs in terms  
14 of funding. There are numerous programs that were  
15 identified and are ongoing in its development and  
16 implementation to try to be more efficient with the --  
17 with the energy that's delivered to the state of Missouri.

18 MR. FREY: May I approach?

19 JUDGE PRIDGIN: You may.

20 BY MR. FREY:

21 Q. Can you identify that document?

22 A. This appears to be the Report and Order  
23 from Case No. EO-2005-0329, and it was issued by the  
24 Missouri Public Service Commission on July 28, 2005.

25 Q. Okay. And at the bottom of the page to

1     which I opened it, there's a reference to a dollar figure  
2     there?

3             A.       There is.

4             Q.       And could you read that into the record?

5             A.       It's -- I'll just read the sentence. The  
6     initially budgeted expenditures for the five-year period  
7     for Missouri are \$13.8 million for demand response  
8     programs, \$2.5 million for affordability programs, and  
9     \$12.7 million for efficiency programs.

10            Q.       Okay. And if KCPL is successful in  
11    increasing its load factor as a result of these programs  
12    in the regulatory plan, what impact will that have on the  
13    level of off-system sales margin using the unused energy  
14    factor?

15            A.       If the company's proposal is adopted on the  
16    unused energy factor, to the extent that Missouri becomes  
17    more efficient, it sort of is odd, but to the extent that  
18    we become a better load factored state, if I can phrase it  
19    that way, there is almost a disincentive not to because we  
20    will lose off-system sales revenues.

21            Q.       I believe you said a lower load factor  
22    state. Did you mean --

23            A.       I'm sorry. I mean a better improved,  
24    increased load factor.

25            Q.       Thank you. Why is it more appropriate to



1 use an energy allocator than a demand allocator or the  
2 unused energy allocator as proposed by the company?

3 A. Well, there's been a lot of discussion  
4 today about what the margins relate to, that it relates to  
5 an offset to plant cost. That's not how Staff views the  
6 off-system sales revenues. And, in fact, because the  
7 off-system sales, non-firm component of the off-system  
8 sales have no dedicated plant facilities, transmission  
9 facilities, there's no relationship between these revenue  
10 dollars and fixed costs.

11 The only cost that is identified with  
12 off-system sales is fuel and purchased power costs, which  
13 are variable costs. In other words, they go in proportion  
14 to the units in production. In the case of an electric  
15 utility, units of production are megawatt hours, either  
16 generated by the company's generating facilities or  
17 purchased in the open market.

18 As the revenues increase, your variable  
19 costs increase, and as they decrease, correspondingly they  
20 decline. But there is no dedicated fixed cost associated  
21 with these sales. They are strictly variable. There lies  
22 the rationale for using the energy allocator. The energy  
23 allocator is the allocation that is for variable costs  
24 that we assign costs to the given jurisdictions.

25 The contributions or the margins are used

1 as really an offset to the total revenue requirement.  
2 There are other costs associated with off-system sales  
3 besides just the plant facilities. The KCPL witness has  
4 spoke to those. They are not identified. They're buried  
5 in the other parts of the company's operations. And as  
6 long as there's a positive margin or contribution that's  
7 made, it isn't necessary to identify those costs.

8 Again, off-system sales have do with  
9 variable costing and pricing and nothing to do with demand  
10 allocation and demand costs.

11 MR. FREY: Nothing further. Thank you,  
12 Mr. Featherstone.

13 JUDGE PRIDGIN: All right. Thank you.

14 MR. MILLS: Your Honor, this is a little  
15 bit out of order, but can I ask a clarifying question?

16 JUDGE PRIDGIN: You may.

17 RECROSS-EXAMINATION BY MR. MILLS:

18 Q. Mr. Featherstone, I think when you were  
19 talking about incentive and load factor, I think the  
20 answer you gave was that there is almost no disincentive  
21 not to become a lower load factor state, and I got a  
22 little twisted around in the negatives. Can you  
23 straighten that out for me?

24 A. I will try with that in mind. If you are a  
25 lower load factor state, as Kansas is, in the -- it's the

1 oddity of the company proposal is that more revenues then  
2 are shifted over to the lower factored state, the state  
3 that has poorer load factor. So conversely, if you try to  
4 improve your load factor, by virtue of the mathematics,  
5 the way the company's proposal works, you will end up with  
6 less off-system sales revenues. Therein lies the  
7 disincentive to become a better load factor state.

8 MR. MILLS: Thank you.

9 JUDGE PRIDGIN: Mr. Mills, thank you.  
10 Anything further?

11 (No response.)

12 JUDGE PRIDGIN: Mr. Featherstone, thank you  
13 very much.

14 THE WITNESS: Thank you.

15 JUDGE PRIDGIN: Did counsel have a  
16 preference on the order in which to take these remaining  
17 unused energy allocator witnesses? I believe that's  
18 Ms. Maloney, Mr. Traxler, Mr. Dittmer, if I'm not  
19 mistaken.

20 MR. FREY: Your Honor, I think we said  
21 Ms. Maloney would not be subject to cross on this issue.

22 JUDGE PRIDGIN: Any cross-examination for  
23 Ms. Maloney?

24 (No response.)

25 JUDGE PRIDGIN: I'm seeing none. I see no

1 Bench questions for Ms. Maloney. All right. Thank you.

2 MR. BLANC: The company also has no  
3 cross-examination of Mr. Traxler.

4 JUDGE PRIDGIN: All right. Any  
5 cross-examination for Mr. Traxler on this issue?

6 (No response.)

7 JUDGE PRIDGIN: Seeing none. Bench  
8 questions for Mr. Traxler on unused energy allocator?

9 (No response.)

10 JUDGE PRIDGIN: Mr. Dittmer then. Will  
11 there be cross-examination for this witness? All right.

12 MR. FREY: If I might, your Honor, if  
13 Mr. Traxler is not going to take the stand, perhaps I  
14 could offer his -- oh, is he coming back up? I'm sorry.

15 JUDGE PRIDGIN: Off-system sales.

16 MR. FREY: I'm sorry. I forgot.

17 (Witness sworn.)

18 JAMES R. DITTMER testified as follows:

19 JUDGE PRIDGIN: Thank you very much, sir.  
20 If you would please have a seat. And anything from  
21 counsel before he's tendered for cross-examination?

22 MS. BOGART: There are some corrections.

23 THE WITNESS: I have a few corrections.

24 JUDGE PRIDGIN: Yes, sir. Whenever you're  
25 ready.

1                   THE WITNESS: On my direct testimony, the  
2 first one is on page 2, line 12 and 13, we have listed as  
3 a class cost of service witness Mr. Louis Renaud. It was  
4 actually Mr. Jerry Price.

5                   On page 7, there's three changes. First on  
6 line 12, the word MIDAS in capital letters should just be  
7 stricken, as well as on line 3 the word MIDAS should be  
8 stricken. And on line 16, still on page 7, the word  
9 understated should be overstated.

10                  On page 13, line 13 -- and this is an HC  
11 number, so I don't know if that causes special concerns or  
12 not.

13                  JUDGE PRIDGIN: It does. Do we need to go  
14 in-camera for him to state those HC numbers? I'm assuming  
15 so, unless there's some other way he can -- I mean, if he  
16 actually needs to change numbers that are HC? All right.  
17 Let's -- give me just a moment.

18                  MR. MILLS: Another way to do it would be  
19 simply to have them submit an errata sheet as an HC  
20 exhibit.

21                  THE WITNESS: I could do that. It's not  
22 substantive. I don't think that counsel will care. It's  
23 just number changes, but whatever the parties want to do.

24                  JUDGE PRIDGIN: It doesn't -- it's just a  
25 matter of me going in-camera or keeping it entirely public

1 and he can submit the numbers later HC. I'm sorry. If  
2 we're agreeable, if we can do that and just stay in a  
3 public forum, that would be great. Thank you.

4 THE WITNESS: On page 19, line 11, after  
5 the word volatility, insert the word of. And on page 21,  
6 line 1, after the word according, insert the word to. And  
7 that's the end of the changes to the direct testimony.

8 I have no changes to the rebuttal  
9 testimony, but I have one change on the surrebuttal.  
10 Page 2, line 20, the word attempt should be plural,  
11 attempts. And that's the end of my corrections.

12 JUDGE PRIDGIN: Mr. Dittmer, thank you.  
13 Anything further before he stands cross?

14 MS. BOGART: No.

15 JUDGE PRIDGIN: All right. Thank you. Who  
16 wishes cross-examination of this witness? KCPL.  
17 All right. Mr. Blanc when you're ready, sir.

18 CROSS-EXAMINATION BY MR. BLANC:

19 Q. Good afternoon, Mr. Dittmer.

20 A. Good afternoon.

21 Q. Has KCPL previously sought to separately  
22 allocate off-system sales margins?

23 A. Not according to the testimony I've heard  
24 throughout this proceeding. I haven't gone back to check  
25 it, but that's --

1 Q. I'll go with the caveat to your knowledge.

2 A. To my knowledge, no.

3 Q. Thank you. When was KCPL's last litigated  
4 rate case in Missouri?

5 A. Approximately 1985.

6 Q. Are off-system sales margins generally  
7 larger today than they were in 1985?

8 A. Depends upon the company.

9 Q. For KCPL?

10 A. Yes.

11 Q. If the Commission determines in this  
12 proceeding that KCP&L's proposed unused energy allocator  
13 is appropriate for allocating off-system sales margins,  
14 would KCP&L's historical treatment of off-system sales  
15 revenues prevent the Commission from adopting KCPL's  
16 proposal in this case?

17 A. I don't believe so. I don't think the  
18 precedent is binding.

19 Q. Thank you. Were you here for  
20 Mr. Featherstone's cross-examination?

21 A. I was.

22 Q. And do you agree with his testimony that  
23 the joint construction and operation of KCPL's units in  
24 Missouri and Kansas City result in economies of scale and  
25 other efficiencies?

1           A.       I'm sure it has and does. I didn't go back  
2 to the feasibility studies, but that's pretty standard in  
3 the industry, yes.

4           Q.       Thank you. On page 5 of your rebuttal  
5 testimony, I don't think you'll need to refer to it, but  
6 turn to it if you think that would be helpful. You  
7 testify that customer demands can be met by adding base  
8 load units with a high fixed cost but low variable costs  
9 or by adding intermediate peaking units that have  
10 relatively low fixed costs but high fixed -- high variable  
11 costs; is that correct?

12          A.       That's correct.

13          Q.       You state or, but on a portfolio-wide  
14 scale, doesn't KCP&L need all three types of units to  
15 efficiently serve its customers?

16          A.       It will need some level of -- some amount  
17 of each of the three classifications of units, yes.

18          Q.       And doesn't KCPL's Missouri customers  
19 benefit from that generation portfolio diversity?

20          A.       I have to be careful here.

21          Q.       I can rephrase the question.

22          A.       You can if you care.

23          Q.       Do Missouri's KCPL customers benefit from  
24 generation diversity?

25          A.       They have to have diversity, yes. Even if



1 KC-- even if the Missouri jurisdiction was on a  
2 stand-alone company, they would have to have some  
3 different -- they'd have to have different amounts of  
4 peak, intermediate and base load capacity.

5 Q. And is it more expensive to construct a  
6 base load facility?

7 A. The fixed cost, the initial cost is more  
8 expensive on a base load unit for sure.

9 Q. And that's comparing to an intermediate or  
10 peaking unit?

11 A. Either one of those, yes.

12 MR. BLANC: No further questions.

13 JUDGE PRIDGIN: Thank you. Any further  
14 cross-examination?

15 (No response.)

16 JUDGE PRIDGIN: All right. I have no  
17 questions. May this witness be excused on this issue?  
18 All right. Thank you. Let me -- I'm sorry. Mr. Dittmer,  
19 you stay step down.

20 Let me speak with counsel a little bit to  
21 see if we have any other witnesses on either  
22 jurisdictional allocation or the unused energy allocator.  
23 Have we gone through them all?

24 MR. WOODSMALL: Brubaker will be --

25 JUDGE PRIDGIN: Excuse me. I keep

1     forgetting Mr. Brubaker will be here later. I keep  
2     forgetting him.

3                   MR. WOODSMALL: Along those lines, do you  
4     intend to take him up first thing on Monday to finish up  
5     these two issues or just take him up when we do off-system  
6     sales? Your pleasure.

7                   JUDGE PRIDGIN: I was going to say, I have  
8     no preference, and I don't know if the parties have a  
9     preference one way or the other, so however that -- okay.  
10    Looks like the parties -- whatever's convenient for the  
11    parties. Okay.

12                  MR. BLANC: Similar point with respect to  
13    Mr. Frerking. Although he's listed as an off-system sales  
14    witness, that was only with respect to the unused energy  
15    allocator. So unless the parties object, we would ask  
16    that he be excused from appearing on Monday, unless a  
17    party has cross for him. Mr. Frerking only speaks -- with  
18    respect to off-system sales, Frerking was only on that  
19    list for unused energy allocator.

20                  MR. MILLS: I have no questions.

21                  MR. WOODSMALL: We'd waive.

22                  JUDGE PRIDGIN: Is there any further cross  
23    for him on off-system sales, or I guess that would be the  
24    completion of his testimony, would it not? All right. So  
25    we can release him, sounds like.

1                   MR. FREY: And, your Honor, I believe the  
2 same would be true of Mr. Featherstone. He was listed  
3 under off-system sales, but only as to the unused energy  
4 allocator portion of that subject.

5                   JUDGE PRIDGIN: Any other parties wish  
6 cross-examination of Mr. Featherstone? His off-system  
7 sales again, his testimony seems to go to the unused  
8 energy allocator. So seeing no objections, sounds like he  
9 can also be released.

10                  MR. FREY: Yes. The same is true, then, of  
11 Ms. Lena Mantle. Apparently she's on that list, too, and  
12 Ms. Maloney as well.

13                  JUDGE PRIDGIN: Does anyone wish any  
14 further cross of Ms. Maloney or Ms. Mantle on off-system  
15 sales?

16                         (No response.)

17                  JUDGE PRIDGIN: Okay. It sounds as though  
18 they can also be released. So by my list, it looks like  
19 off-system sales witnesses will be Mr. Giles,  
20 Mr. Schnitzer, Mr. Traxler, Mr. Kind. And Mr. Smith has  
21 already testified on that; is that correct?

22                  MR. MILLS: Yes.

23                  JUDGE PRIDGIN: Mr. Brubaker and  
24 Mr. Dittmer. Is Mr. Dittmer's testimony related only to  
25 the unused energy allocator or also on off-system sales?

1 All right.

2 MR. WOODSMALL: And Mr. Schnitzer will go  
3 up Wednesday.

4 MR. BLANC: He's available on the 25th.

5 JUDGE PRIDGIN: Thank you. All right. I'm  
6 sorry. Mr. Dottheim, did you have something?

7 MR. DOTTHEIM: Do we know what the schedule  
8 is for after off-system sales?

9 MR. WOODSMALL: Cost of capital.

10 MR. DOTTHEIM: Yes, I know it's cost of  
11 capital, but are we assuming that that goes Monday,  
12 Tuesday? I think --

13 JUDGE PRIDGIN: It looks like we will  
14 have --

15 MR. DOTTHEIM: At one point I thought it  
16 was even being discussed as starting no earlier than  
17 Wednesday, but the schedule that was filed with the  
18 Commission had cost of capital starting on Tuesday, the  
19 24th.

20 JUDGE PRIDGIN: I would anticipate it might  
21 go Monday afternoon, if not Tuesday, because I'm counting  
22 Mr. Giles, Mr. Traxler, Mr. Kind, Mr. Brubaker and  
23 Mr. Dittmer as our off-system sales witnesses for Monday;  
24 is that correct?

25 Okay. So that would be five witnesses to

1 cross-examine. I anticipate that would take a while, but  
2 I don't know if it would take all day.

3 MR. BLANC: And with respect to Monday  
4 morning, I nearly forgot KCPL witness for incentive  
5 compensation.

6 JUDGE PRIDGIN: Mr. Cross.

7 MR. BLANC: I don't anticipate that being a  
8 big issue scheduling-wise. We'll work him in Monday.

9 JUDGE PRIDGIN: Okay. And I don't -- I  
10 mean, it is -- I kind of hate to leave all this time on  
11 Friday afternoon, but I don't want to -- I mean, we've  
12 been pushing pretty hard. I mean, if parties are ready to  
13 go, I'm sitting here and we have a court reporter and we  
14 can keep going, but I don't want to unreasonably push  
15 people into going forward with topics that they're simply  
16 not ready go on yet because I know we've been going at a  
17 pretty good pace. Does counsel have any preference?

18 MR. WOODSMALL: Adjourn.

19 MR. DOTTHEIM: Staff would, yes, prefer  
20 starting on Monday morning with the incentive compensation  
21 and going into off-system sales.

22 JUDGE PRIDGIN: Because it sounds as though  
23 as we're moving things up, that counsel may need time to  
24 consult with witnesses and prepare for these things  
25 getting moved up. It looks like cost of capital is

1 currently set for Tuesday, and depending on how quickly  
2 off-system sales goes, some of that might start going  
3 Monday afternoon.

4 MR. MILLS: And --

5 JUDGE PRIDGIN: Mr. Mills?

6 MR. MILLS: Cost of capital is another one  
7 of those issues in which most of the -- or many of the  
8 witnesses are from out of town. I'm not sure that all of  
9 them are going to be here Monday.

10 JUDGE PRIDGIN: I understand.

11 MR. MILLS: To the extent we can, I'd be  
12 happy to try and move up the ones that are here.

13 JUDGE PRIDGIN: Right. I'm not asking any  
14 out of town witnesses to change their schedule. I know  
15 that's -- that's very tough to do and very expensive.

16 So if rate design and class cost of  
17 service, which was set for Wednesday and Thursday, and  
18 something else I would like counsel to consider doing is,  
19 once we go off the record, see what else, if anything, we  
20 can move up maybe from Friday or even from Thursday, to  
21 move that up since we're going to be having some lag time.

22 MR. WOODSMALL: I believe there was an  
23 indication earlier from Mr. Fischer that he had spoken  
24 with DNR, and Ms. Randolph was not available any earlier.

25 JUDGE PRIDGIN: Than the 27th?

1                   MR. WOODSMALL: Right. And my indications  
2 are from hearing from people is that no one knows how to  
3 get ahold of Mr. Dias, so --

4                   MR. MILLS: I don't know who you've spoken  
5 to, but I think he's fairly easy to get ahold of.

6                   MR. BLANC: Not here, but I believe counsel  
7 for Trigen indicated that he would like to potentially  
8 take up Trigen's issues on Tuesday.

9                   JUDGE PRIDGIN: Yes. Yes. And that would  
10 be -- I believe that was already listed for Tuesday on a  
11 schedule on space heating discounts, Mr. Rush, Mr. Herz, I  
12 believe. Okay.

13                   Okay. So we're all on the same page. I'm  
14 assuming that Monday we would start with the off-system  
15 sales, those five witnesses, and we will take up the other  
16 witness, like Mr. Schnitzer, we would take him up later,  
17 and then we will see how that day goes and then, if time  
18 permits, begin cost of capital.

19                   And also Tuesday, Wednesday and Thursday we  
20 will have to adjourn somewhat earlier because of local  
21 public hearings, so we won't have completely full days.  
22 So that's something else to keep in mind for Monday.  
23 Depending on how quickly off-system sales goes, we may go  
24 a little late. Probably not terribly late. And then I  
25 don't know how much we can move from Friday, but anything

1     that can be done would be appreciated.

2                     Is there anything else counsel wishes to  
3     address before we adjourn?

4                     (No response.)

5                     JUDGE PRIDGIN: Okay. Hearing nothing  
6     further, we will adjourn until Monday morning at 8:30, and  
7     we will begin hearing cross-examination on off-system  
8     sales. If there's nothing further from counsel?

9     Mr. Dottheim?

10                    MR. DOTTHEIM: And incentive compensation?

11                    JUDGE PRIDGIN: Yes, sir. I'm sorry. And  
12     incentive compensation as well.

13                    All right. Thank you very much. We are  
14     off the record.

15                    WHEREUPON, the hearing of this case was  
16     recessed until October 23, 2006.

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## I N D E X

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## 1 C E R T I F I C A T E

2 STATE OF MISSOURI )  
 ) ss.  
3 COUNTY OF COLE )

4 I, Kellene K. Feddersen, Certified  
5 Shorthand Reporter with the firm of Midwest Litigation  
6 Services, and Notary Public within and for the State of  
7 Missouri, do hereby certify that I was personally present  
8 at the proceedings had in the above-entitled cause at the  
9 time and place set forth in the caption sheet thereof;  
10 that I then and there took down in Stenotype the  
11 proceedings had; and that the foregoing is a full, true  
12 and correct transcript of such Stenotype notes so made at  
13 such time and place.

14 Given at my office in the City of  
15 Jefferson, County of Cole, State of Missouri.

16

17 Kellene K. Feddersen, RPR, CSR, CCR  
18 Notary Public (County of Cole)  
My commission expires March 28, 2009.

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