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Witness: Paul M. Normand
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Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

PAUL M. NORMAND

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
January 2011**

KCP&L Exhibit No. GMD-30
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PAUL M. NORMAND

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

2 A: My name is Paul M. Normand. I am a management consultant and president with the
3 firm of Management Applications Consulting, Inc., 1103 Rocky Drive, Suite 201,
4 Reading, PA 19609. I am testifying on behalf of KCP&L Greater Missouri Operations
5 Company ("GMO" or the "Company").

6 **Q: Are you the same Paul M. Normand who prefiled direct and rebuttal testimony in**
7 **this matter?**

8 A: Yes.

9 **Q: What is the purpose of your surrebuttal testimony?**

10 A: The purpose of my surrebuttal testimony is to address certain parties' rebuttal testimony
11 presented in this case. Specifically, I will address the rebuttal testimony of Missouri
12 Public Service Commission Staff (Staff) witness Michael S. Scheperle and Ag
13 Processing, Inc., Sedalia Industrial Energy Users Association, and Federal Executive
14 Agencies (Industrials) witness Maurice Brubaker concerning class cost of service
15 ("CCOS") studies proposed in this case.

16 **Q: Would you summarize Mr. Scheperle's rebuttal?**

17 A: Mr. Scheperle discusses the CCOS study results offered by the other parties, highlighting
18 the benefits of the comprehensive studies performed by Staff and the Company with the
19 simple, class level studies offered by Mr. Brubaker. Mr. Scheperle then walks through

1 the rate design proposals offered by the parties and provides comments on each.
2 Company witness Tim Rush addresses the rate design aspects of this and other parties in
3 his surrebuttal testimony.

4 **Q: Do you have any specific concerns with Mr. Scheperle's CCOS-related comments?**

5 A: Yes. As noted in my rebuttal testimony, the purpose of a CCOS study is to directly
6 assign costs based on Company records or allocate each relevant and identifiable
7 component of cost on an appropriate basis in order to determine the proper cost to serve
8 the Company's customer classes under study. Mr. Scheperle suggests that usage of
9 annual kWh for base. I believe it is more appropriate to select a realistic method that
10 more closely matches the planning and operations of GMO's power system for all
11 functional cost levels. I have some concern that Staff's selection incorrectly skews the
12 results of the study.

13 **Q: Would you please comment on Staff's use of annual kWh for class allocation of base
14 units?**

15 A: Unfortunately, Mr. Scheperle's use of kWh for base and NCP in fact increases the class
16 distortion of these allocated costs. For example, I believe that base units are primarily
17 energy producers for the majority of the 8,760 hours of a calendar year. In using a
18 traditional class kWh allocation factor as Staff has done, a considerable amount of non-
19 base load energy is included in a disproportionate amount by customer class (see rebuttal
20 Figures 3 and 6). This oversight results in a "double dip" allocation to certain classes.

21 **Q: Do you agree with Staff's characterization of allocating fuel costs on class energy?**

22 A: No, I do not. GMO's cost studies carefully and correctly allocated the monthly fuel costs
23 based on the adjusted class sales each month. In other words, a simplistic annual energy

1 (kWh) was not used as alleged by Staff (i.e. monthly fuel costs times monthly class kWh
2 sales adjusted for losses).

3 **Q: Would you summarize Mr. Brubaker's rebuttal?**

4 A: Mr. Brubaker concentrates his discussion on the CCOS studies offered by Staff and the
5 Company and his concerns with the allocation methods employed. Mr. Brubaker
6 contends the BIP method is not appropriate for use in this case and offers the average and
7 excess and other methods as more suitable for production cost allocation. Finally, I
8 address what appears to be an error in Mr. Brubaker's rebuttal.

9 **Q: Please elaborate on your concerns with Mr. Brubaker's rebuttal.**

10 A: Mr. Brubaker asserts that the BIP method is not suitable for allocation of production
11 plant. This is fundamentally incorrect. The BIP method is documented as one of many
12 appropriate production allocation methods in the NARUC Cost Allocation Manual
13 (1992). The BIP method, as applied in my study, is the result of a systematic review of
14 historical hours of operation, generated kWh, and MW contribution to system peak to
15 arrive at a reasonable and representative allocation of production costs to customer
16 classes, rates and seasons. I contend the BIP method provides a more realistic and
17 consistent method which more closely matches the planning and operations of GMO's
18 power system for all functional cost levels.

19 My use of base energy, established as using the lowest monthly (non-zero) energy
20 use for the test year and applying this level to each month, forms the basis for allocating
21 the initial or base portion of production-related costs. This approach matches the base
22 portion of load served with the corresponding generation resources utilized to produce
23 this hourly energy demand. The remaining non-base production costs were then

1 subsequently allocated using a 4 CP demand-related method less any prior class
2 assignment responsibility. These layered or stacked approaches to production allocation
3 appropriately account for the demand and energy elements of customer usage contrary to
4 Mr. Brubaker's assertion. The base units have a capacity for each hour and since they are
5 to be used when available throughout the year, the hourly sum of each of these capacity
6 values equals annual base energy and not just one hour of capacity.

7 The BIP method is one of several methods that allow for a more complete
8 recognition of the dual nature of generating resources and provides a more structured and
9 precise way to model the costs and develop appropriate class allocators for production
10 plant. In other words, the production and transmission allocation process Staff and I
11 employed properly synchronizes the fixed and variable costs of the production functions
12 to customer classes.

13 **Q: Please compare this to the method proposed by Mr. Brubaker.**

14 **A:** The Average and Excess method also acknowledged by NARUC also attempts to provide
15 recognition (indirectly) that production plant serves both energy and demand
16 requirements. However, the BIP method is a much more robust approach to this energy
17 versus demand allocation tradeoff. The BIP method allows us to recognize the dual
18 nature (fixed and variable) of our generating resources and give us a structured and more
19 precise way to incorporate a large, base load unit into our rates in an equitable manner.
20 Furthermore, the BIP method can be easily replicated and introduces sufficient detail into
21 the causation of production costs to allow a detailed examination of seasonal costs and
22 the resulting seasonal rate allocations. This important characteristic is not provided by
23 the Brubaker proposal.

1 **Q: Do you agree with Mr. Brubaker's approach to the allocation of transmission plant?**

2 A: No, transmission plant costs are a function of many factors which include interconnection
3 to other utilities, connecting generation to the grid and single contingency analyses
4 relating to plant loads, maintenance outages, etc. In order to balance all of these factors
5 and recognize a relationship to generation, I simply allocated transmission plant and
6 related costs using a 12 CP average demand factor. This allocator was then used to
7 allocate all of transmission plant and related costs. The seasonal cost allocation was
8 determined by using each class's seasonal average demand ratio.

9 **Q: Have you provided any additional testimony regarding your transmission plant**
10 **allocation in this filing?**

11 A: Yes, I have prepared additional comments in my rebuttal testimony on pages 11 and 14.

12 **Q: After reviewing the rebuttal testimony of the other parties do you still believe the**
13 **methods and results of KCP&L's CCOS study as proposed provide the most**
14 **reasonable results?**

15 A: Yes, I do. The BIP method as applied in my study provides a more complete recognition
16 of the dual nature of generating resources and provides a more structured and precise way
17 to model the costs and develop appropriate class allocators for production plant in an
18 equitable manner. My study is more realistic and more closely matches the planning and
19 operations of GMO's power system for all functional cost levels. Accordingly, the
20 CCOS results are more appropriate for use by the Commission to guide the application of
21 any overall rate change to the Company's individual customer classes or rates.

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

23 A: Yes, it does.

