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REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0174

Staff Exhibit No. 239-NP
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Jefferson City, Missouri
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**** Denotes Highly Confidential Information ****

NP

Staff Exhibit - 239

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1 All firm OSS sales contracts, including Kansas Municipal Energy Agency (KMEA),
2 that are in effect as of the August 31, 2012 true-up date should be included in KCPL's cost of
3 service determination for setting rates in this case.

4 Staff opposes KCPL's proposed adjustments to Mr. Schnitzer's projected level of
5 non-firm OSS margins and alternately proposes that the adjustments be reflected as a
6 component of KCPL's annualized fuel and purchased power expense. Staff further proposes
7 that an additional adjustment be reflected for non-generation asset based sales.

8 Firm Off-System Sales

9 Q. Do you agree with Mr. Crawford's assessment of firm OSS revenues as
10 outlined on page 2 of his rebuttal testimony?

11 A. No. Mr. Crawford alleges (lines 4 and 5) that Staff "have essentially
12 double counted wholesale sales to the Kansas Municipal Energy Agency (KMEA)." His
13 reasoning is:

14 (1) The firm OSS contract with KMEA will expire on
15 November 30, 2012. KCPL assumed the energy that would
16 have been used in making the firm OSS will now be used to
17 make non-firm OSS. As a result, KCPL has included that
18 energy in its calculation of estimated non-firm OSS margin.

19 (2) Staff "accepted" the Company's estimate of non-firm
20 OSS margin.

21 (3) Staff "explicitly includes the KMEA sales in their
22 [sic] cost of service" (lines 16 and 17) and "should remove the
23 KMEA firm contract from their [sic] cost of service model"
24 (lines 18 and 19).

25 Q. Are there problems with Mr. Crawford's reasoning?

26 A. Yes. If KCPL included the firm OSS revenues in its calculation of non-firm
27 OSS margin, it should not have done so. The firm contract was in effect at the end of the

1 true-up period in this case (August 31, 2012) and therefore should have been treated as firm
2 revenue in the utility's cost of service, which is the way Staff treated it.

3 Staff has NOT "accepted" the Company's estimate of non-firm OSS. As stated on
4 page 89 of its COS, Staff included KCPL's projected level of net margin for the direct filing,
5 but will continue to evaluate OSS net margins through the true-up filing in this case. I
6 explicitly reiterated Staff's position on this issue at the bottom of page 5 of my rebuttal
7 testimony by stating that Staff included the Company projection of OSS margins as a
8 "placeholder" in its direct filing but will continue to review and analyze all available data to
9 determine the most appropriate level of OSS margins for the true-up. This treatment is
10 consistent with Staff's approach in the most recent KCPL rate cases, in that Staff will not
11 make a final determination of OSS margin positions until the final stages of the case.

12 If the firm OSS revenues associated with the KMEA contract, which continues to be in
13 effect well beyond the end of the true-up period in this case, are reflected in KCPL's
14 calculation of non-firm OSS margin, then KCPL should remove them from its calculation.
15 These firm OSS revenues should not be removed from Staff's cost of service model as the
16 Company suggests.

17 Q. Does Staff have cause to doubt Mr. Crawford's claim?

18 A. Yes. Mr. Crawford made a similar "double counting" allegation in KCPL's
19 last rate filing in Case No. ER-2010-0355 with respect to a firm OSS contract with the
20 Missouri Joint Municipal Electric Utility Commission (MJMEUC). The firm contract for
21 ** _____ ** expired on December 31, 2010, subsequent to Staff's direct filing on
22 November 17, 2010. Mr. Crawford claimed the firm OSS associated with the MJMEUC
23 contract were included in KCPL's calculation of non-firm OSS. Staff was not convinced that

1 the firm OSS were reflected in KCPL's calculation (the Schnitzer model) of non-firm OSS.

2 The following is from page 4, lines 17 through 23, of my surrebuttal testimony in Case No.

3 ER-2010-0355:

4 Q. Does Staff have cause to doubt Mr. Crawford's claim?

5 A. Yes. KCPL filed its direct case on June 4, 2010,
6 based on a 2009 test year during which the MJMEUC contract
7 was in effect. Mr. Schnitzer's model initially produced an
8 OSS margin of ** _____ **. Mr. Schnitzer's latest
9 estimate is ** _____ **. Staff would expect the newly-
10 available energy associated with the expired MJMEUC
11 contract to elevate Mr. Schnitzer's level by approximately
12 ** _____ ** not to reduce it by ** _____ **.

13 A similar issue existed in KCPL's previous rate filing in Case No. ER-2009-0089 in that

14 KCPL claimed that Mr. Schnitzer's model included ** _____ ** of firm bulk sales

15 (OSS) from expiring contacts with KMEA and MJMEUC. The following is from pages 5 and

16 6 of my surrebuttal testimony in KCPL Case No. ER-2010-0355:

17 Q. Has KCPL proposed significantly reduced off-system sales in
18 the past?

19 A. Yes. On pages 69 and 70 of its Cost of Service (COS) Report
20 dated February 11, 2009 in KCPL Case No. ER-2009-0089 (the 2009
21 rate case), Staff addressed the firm bulk sales adjustments KCPL was
22 proposing in that rate case:

23 KCPL removed off-system sales for two agreements expected
24 to be terminated in May 2009 which is beyond the true-up cut
25 off in this case. Normally Staff would be opposed to such
26 adjustments as out of period and beyond the scope of this case
27 but KCPL has stated that the model used by KCPL to annualize
28 non-firm off-system considered the freed up energy resulting in
29 higher non-firm off-system sales margin. However, Staff has
30 recently learned that KCPL has changed its position regarding
31 off-system sales levels it originally supported in its September
32 30, 2008 direct filing as result of lower natural gas prices than
33 what was originally used. Currently, Staff cannot make the

1 determination if the increase in off-system sales which was
2 supposed to have occurred as result of the loss of KMEA and
3 MJMEUC has actually occurred. While KCPL's initial filing
4 had off-system sales levels that would support the position that
5 the lost firm customers were made up in non-firm off-system
6 sales, the Company's updated case has substantially reduced the
7 level of off-system sales it now claims should be in the case.
8 Therefore, Staff will continue to review the adjustments
9 proposed by KCPL regarding off-system sales for both firm
10 and non-firm customers. After obtaining and reviewing
11 additional information, the Staff will make a determination
12 on the appropriateness of making any of the adjustments
13 proposed by KCPL. [emphasis added]

14 Subsequent to the Staff's direct filing in the 2009 rate case, Staff
15 continued to review the adjustments through the issuance of numerous
16 data requests and KCPL continued to change its position on the level of
17 off-system sales (OSS) margins at the 25th percentile.

18 Q. How did KCPL's position on the level of OSS margins at the
19 25th percentile continue to change in the 2009 rate case?

20 A. For its direct filing made on September 8, 2008,
21 [sic September 5, 2008] KCPL's position regarding the 25th percentile
22 of OSS margins was ** _____ ** on a total Company basis.
23 When KCPL updated its case for the update period ending
24 September 30, 2008, KCPL's position regarding the appropriate OSS
25 level was ** _____ ** total Company. When Staff filed its COS
26 Report KCPL's position had changed to ** _____ ** total
27 Company, and the Company further changed its position for its rebuttal
28 filing in the 2009 rate case, to ** _____ ** total Company. These
29 changes combined with KCPL's proposed adjustments for firm and
30 non-firm off-system sales had the following impact (all amounts are
31 total Company):

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36 *continued on next page*

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KCPL Case No. ER-2009-0089—

25 th percentile level	** _____ **	** _____ **	** _____ **	** _____ **
SPP line losses	(\$2,035,923)	(\$1,844,000)	(\$1,844,000)	(\$1,844,000)
Purchases for resale	(\$5,612,157)	(\$4,772,000)	(\$4,772,000)	(\$4,772,000)
Firm Bulk Sales	** _____ **	** _____ **	** _____ **	** _____ **
Related demand charges	** _____ **	** _____ **	** _____ **	** _____ **
After adjustments	** _____ **	** _____ **	** _____ **	** _____ **

After reviewing all data it had received subsequent to the filing of its COS Report, Staff determined it could no longer accept the notion that the OSS model's result (** _____ ** when rebuttal was filed) included the firm bulk sales adjustments of ** _____ **.

As the table above from pages 5 and 6 of my surrebuttal testimony in KCPL's last rate case shows, if KCPL's claim that Mr. Schnitzer's model included the KMEA and MJMEUC OSS was accurate, then the OSS margin in the 2009 case would have been a negative ** _____ **.

Adjustments to Off-System Sales

Q. On page 3 of his rebuttal testimony, Mr. Crawford takes issue with Staff's treatment of what he refers to as "non-asset based wholesale transactions". He contends (lines 15 and 16) that "such transactions should not be included." Do you agree?

A. No, I do not. These wholesale transactions should be included in KCPL's cost of service. To begin with, KCPL's term "non-asset based wholesale transaction" is not

1 accurate. Staff prefers to call them “asset based” or “non-generation/transmission based
2 asset” wholesale transactions. Mr. Crawford himself admits (page 3, lines 18 and 19)
3 that these transactions “are wholesale market purchases and sales that do not involve the
4 utility’s generation or transmission assets” [emphasis added]. On page 4, lines 3-5,
5 Mr. Crawford argues that because these purchases and sales do not involve KCPL’s
6 “regulated generation and transmission assets” and are not directly related to the provision of
7 retail electric service in Missouri, the risks and rewards of these transactions should not be
8 included in the regulated business.

9 Q. Do you agree?

10 A. Certainly not. As Staff stated in its COS, KCPL uses assets other than
11 generation and transmission assets to complete these transactions. KCPL personnel in
12 KCPL’s headquarters building use computers, software programs, communication media,
13 billing and collection systems, accounting and record-keeping processes, etc. to complete
14 these transactions. These are all assets paid for by ratepayers through rates—they just aren’t
15 “generation” or “transmission” assets—and therefore ratepayers should share in the benefits
16 of these transactions.

17 Q. Is there anything else in Mr. Crawford’s rebuttal testimony to which you wish
18 to respond?

19 A. Yes. In discussing the three adjustments to off-system sales that KCPL is
20 requesting in this case (i.e., purchases for resale, SPP line loss charges and SPP revenue
21 neutrality uplift (RNU) charges), Mr. Crawford suggests that KCPL and Staff agree on the
22 treatment of these adjustments. On page 7 (lines 4 and 5) and page 9 (lines 19 and 20) of his
23 rebuttal testimony, Mr. Crawford states, “The Staff Report at page 90 agrees with KCP&L’s

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1 proposal". That statement is not accurate, because KCPL requests the adjustments be made
2 to its calculation of the estimated non-firm OSS margin. As stated on page 90 (lines 14
3 through 16) of Staff's COS, "Staff has determined the appropriate amounts of adjustments to
4 include in KCPL's cost of service calculation in this direct filing and will update the
5 adjustment amounts in its true-up filing." Therefore, Staff does not agree with KCPL's
6 request to make these adjustments to its estimated non-firm OSS margin.

7 The statement that correctly reflects Staff's position on these adjustments is on
8 page 11 (lines 13 through 15) where Mr. Crawford states, "Staff agrees that these are
9 legitimate costs that should be included in the Company's cost of service, and has included
10 them in its cost of service in this case, as noted in the Staff Report at page 90."

11 However, Staff disagrees that these costs should be reflected in the calculation of OSS
12 margin. As I stated on page 10 (lines 15 through 20) of my rebuttal testimony: "While Staff
13 believes these revenues and costs need to be reflected in the determination of the revenue
14 requirement in this case, an adjustment to Mr. Schnitzer's model is not the most appropriate
15 method to reflect them. If the Commission believes the adjustments proposed by KCPL in
16 Mr. Crawford's direct testimony are proper, then Staff proposes that these revenues and costs
17 be included in KCPL's annualized fuel expense—separate and apart from Mr. Schnitzer's
18 projected levels of OSS margin."

19 Q. Does this conclude your Surrebuttal Testimony?

20 A. Yes it does.

