

**GMO-220**

Exhibit No.:

Issue: *Off-System Sales*

Witness: *V. William Harris*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Rebuttal Testimony*

File No: *ER-2010-0356*

Date Testimony Prepared: *December 15, 2010*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**V. WILLIAM HARRIS, CPA, CIA**

**Great Plains Energy, Incorporated  
KCP&L GREATER MISSOURI OPERATIONS COMPANY  
(MPS AND L&P ELECTRIC OPERATIONS)  
FILE NO. ER-2010-0356**

*Jefferson City, Missouri  
December 2010*

**\*\* Denotes Highly Confidential Information \*\***

*Staff Exhibit No. GMO-220  
Date 1/18/11 Reporter LMB  
File No. ER-2010-0356*

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**REBUTTAL TESTIMONY**  
**OF**  
**V. WILLIAM HARRIS, CPA, CIA**  
**KCP&L GREATER MISSOURI OPERATIONS COMPANY**  
**(MPS AND L&P ELECTRIC OPERATIONS)**  
**FILE NO. ER-2010-0356**

Q. Please state your name and business address.

A. My name is V. William Harris. My business address is Fletcher Daniels State Office Building, Room G8, 615 East 13<sup>th</sup> Street, Kansas City, Missouri 64106.

Q. Are you the same V. William Harris that filed testimony in the Staff's Cost of Service Report dated November 17, 2010?

A. Yes. I also filed Direct Testimony on November 10, 2010, and Rebuttal Testimony on December 8, 2010, in the Kansas City Power & Light (KCPL) Company rate case, File No. ER-2010-0355. My testimonies in that rate case regard fuel, purchased power costs and the subject of this Rebuttal Testimony, off-system sales (OSS).

Q. What are OSS and OSS margins?

A. OSS are sales of electricity made at times when utilities have met all obligations to serve their native load customers and have excess energy to sell to other utilities at non-regulated prices higher than the cost to serve their native load customers. Margins (profits) are the gross revenues from each sale less the fuel and purchased power expenses incurred in that sale.

Q. What is the purpose of your Rebuttal Testimony?

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V. William Harris

1           A.     The purpose of my Rebuttal Testimony is to address the Direct Testimony  
2 of KCP&L Greater Missouri Operations Company (GMO or Company) witness  
3 Burton L. Crawford on the issue of OSS.

4           Q.     What method did GMO use to determine the level of OSS to include in its  
5 revenue requirement in this proceeding?

6           A.     On page 9, lines 4 and 5 of his Direct Testimony, GMO witness Crawford  
7 states that GMO used the same production cost model to normalize OSS that it uses to  
8 normalize test year fuel and purchased power.

9           Q.     Has GMO (formerly Aquila, Inc.) or KCPL ever used this method to determine  
10 the proper level of OSS to include in the revenue requirement in a rate proceeding before the  
11 Missouri Public Service Commission (Commission)?

12          A.     No, not to the best of my knowledge.

13          Q.     What level of OSS does the use of this method produce in this case?

14          A.     Mr. Crawford's Highly Confidential Schedule BLC2010-4, referenced on page  
15 9, line 11 of his Direct Testimony indicates the Company's normalized level of OSS included  
16 in GMO's revenue requirement in this case is \*\* \_\_\_\_\_ \*\*.

17          Q.     Is this OSS level consistent with GMO's (Aquila's) historical OSS and  
18 OSS margins?

19          A.     No. GMO's (Aquila's) actual, historical OSS and OSS margins from 2002  
20 through October 2010 are reflected below:

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	<u>12-mos. ended</u>	<u>OSS in \$</u>		<u>OSS Margin</u>	
1					
2	12/31/2002	**	**	**	**
3	12/31/2003	**	**	**	**
4	12/31/2004	**	**	**	**
5	12/31/2005	**	**	**	**
6	12/31/2006	**	**	**	**
7	12/31/2007	**	**	**	**
8	12/31/2008	**	**	**	**
9	12/31/2009	**	**	**	**
10	6/30/2010	**	**	**	**
11	10/31/2010	**	**	**	**
12	GMO as filed	**	**	**	**

[GMO – MPS and L&P General Ledgers]

14 For monthly detail of GMO's OSS and OSS margins for the period January 2008  
15 through October 2010, please refer to attached Staff Schedules VWH-Reb1, VWH-Reb2 and  
16 VWH-Reb3.

17 Q. What factors have led to the collapse of GMO's OSS and OSS margins  
18 since 2008?

19 A. On July 14, 2008, Great Plains Energy, Inc. (KCPL's parent company)  
20 acquired the former Aquila, Inc. (including its MPS and L&P operations). The resulting  
21 entity (GMO) immediately experienced second-half decreases in OSS and OSS margins.

22 In 2009, GMO received Commission approval for the implementation of a fuel  
23 adjustment clause (FAC). With the exception of January 2009 (\$4,274) and March 2009  
24 (\$36,980) GMO has recorded a negative OSS margin in every month of 2009 and 2010 to  
25 date. In the opinion of the Missouri Public Service Commission Staff (Staff), both the

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V. William Harris

1 acquisition and the subsequent implementation of an FAC have contributed to the significant  
2 erosion in GMO's OSS and OSS margins.

3 Q. Does GMO's fuel clause include OSS?

4 A. Yes. Both MPS and L&P have fuel clauses that reflect OSS.

5 Q. What effect may the inclusion of OSS margins in a utility's FAC have on way  
6 the utility treats OSS margin?

7 A. When OSS margin is included in a utility's FAC, the utility may have less  
8 incentive to make OSS that would result in an increase in rate case revenues. In addition to  
9 controlling rate case revenues, the utility would also be assured of the full cost recovery of  
10 OSS related expense.

11 Q. How did Staff develop the level of OSS it proposes to include in the revenue  
12 requirement calculation in this case?

13 A. Staff reviewed GMO's actual historical levels of OSS from 2002 to the present  
14 to determine an appropriate level to include in the revenue requirement calculation. Staff  
15 noted two significant anomalies in the data.

16 As discussed above, OSS margins became predominately negative in 2009 and 2010.  
17 In addition, GMO (then Aquila) experienced OSS and OSS margin levels significantly above  
18 the norm in 2006. In an attempt to use data as current as possible while remaining reasonably  
19 conservative, Staff chose to use data from 2007 and 2008 to normalize OSS levels in this  
20 case. This approach takes into account the final (and still robust levels) of Aquila and  
21 combines them with the newly-created GMO's initial levels before implementation of  
22 the FAC.

23 Q. Does this conclude your Rebuttal Testimony?

24 A. Yes it does.


**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Application of KCP&L )  
Greater Missouri Operations Company for )  
Approval to Make Certain Changes in its ) File No. ER-2010-0356  
Charges for Electric Service )

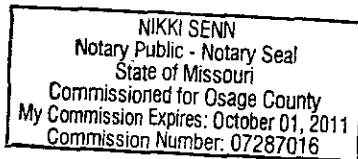
AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
V. William Harris

Subscribed and sworn to before me this 15<sup>th</sup> day of December, 2010.



  
Notary Public

**SCHEDULE VWH-Reb1**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**

**NP**

**SCHEDULE VWH-Reb2**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**

**NP**



**SCHEDULE VWH-Reb3**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**

**NP**