KCP&L-220

Exhibit No.:
Issue: *Off-System Sales Margin*
Witness: *V. William Harris*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
File No: *ER-2010-0355*
Date Testimony Prepared: *December 8, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

Great Plains Energy, Inc.
KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri
December 2010

Staff Exhibit No. KCP&L-220
Date 1/18/11 Reporter LMB
File No. ER-2010-0355

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

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REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Q. Please state your name and business address.

A. V. William Harris, Fletcher Daniels State Office Building, Room G8, 615 East 13th 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 10, 2010?

A. Yes.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to address the Direct Testimony of Kansas City Power and Light Company (KCPL) witness Burton L. Crawford on the issue of off-system sales margins.

Q. What are off-system sales margins?

A. Off-system sales (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 KCPL incurs in that sale.

Q. Please summarize the treatment of OSS margins in KCPL's first three rate cases initiated under its Case No. EO-2005-0329 Regulatory Plan.

A. In Case No. ER-2006-0314, the Commission approved a methodology proposed by KCPL that was based, in part, on a model developed and implemented by Michael M. Schnitzer of NorthBridge Group, Inc. (the NorthBridge Model). The NorthBridge Model calculates the distribution of OSS margins. Based on the results of the distribution of OSS margins generated by the NorthBridge Model, the Commission included OSS margin revenue in rates based upon an amount of margins that KCPL had a 75% probability of attaining or exceeding. If KCPL attained a higher level of OSS margins than the 25% level included in net fuel expense, the excess was to be accumulated as a regulatory liability that KCPL would pay back to rate payers at a future date.

In Case Nos. ER-2007-0291 and ER-2009-0089, KCPL proposed similar treatment, which was accepted by the Missouri Public Service Commission Staff (Staff) and approved by the Commission in the Report and Orders issued in those cases.

Q. What is KCPL's position on the level of OSS margins to include in the revenue requirement in this proceeding?

A. KCPL is again proposing to include in the revenue requirement in this case a level of OSS margins at the 25th percentile.

On page 10, lines 20 through 22 and line 1 of page 11, of his Direct Testimony, KCPL witness Curtis D. Blanc states that the Company's revenue requirement "reflects the ** __________ ** 25th percentile expectation for margins for the period April 1, 2010 through March 31, 2011 as determined by Michael Schnitzer of Northbridge Group, Inc. ("Northbridge"), with certain adjustments sponsored by Company witness Burton L. Crawford."

Mr. Schnitzer similarly states as follows on page 3, lines 14 through 20, of his Direct Testimony: "My Direct Testimony in this 2010 Rate Case supports the Company's proposed ratemaking treatment for off-system sales described in the Direct Testimony of Company witness Curtis D. Blanc. Consistent with the Commission's prior orders in the 2006 Rate Case and the 2007 Rate Case, KCPL proposes for the 2010 Rate Case to establish Off-System Contribution Margin at ** ________ **, the 25th Percentile of my probabilistic analysis for the period April 1, 2011 to March 31, 2012 ("2011-12 Period") and to account for this as a reduction to KCPL's test year revenue requirements."

Q. What is Staff's position on the level of OSS margins to include in the revenue requirement in this proceeding?

A. Staff does not oppose Mr. Schnitzer's projection of OSS margins at the 25th percentile (i.e., ** ________ **) but does not agree with all of the adjustments to OSS margins proposed by Mr. Crawford.

Q. Please explain.

A. As stated in Staff's Cost of Service Report dated November 10, 2010, Staff accepts Mr. Crawford's proposed adjustments for purchases for resale and Revenue Neutrality Uplift (RNU) charges. However, Staff does not completely agree with Mr. Crawford's adjustments for Southwest Power Pool's (SPP) line loss charges. These charges relate to an SPP member's sale of wholesale energy to an entity outside the SPP market. The seller pays the charge to compensate other SPP members for transmission system energy loss. Staff agrees with KCPL that an adjustment should be made to reflect the revenues associated with SPP compensating payments from other SPP members. However, Staff has received assurances from KCPL that none of the data given to Mr. Schnitzer contains off-system sales

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made outside the SPP system. Mr. Schnitzer's model should not be adjusted to reflect charges related to sales that are not in Mr. Schnitzer's database. Therefore, Staff opposes this portion of the SPP "line loss charges" adjustment.

Q. Has Staff developed an alternate position on accounting for line loss revenues?

A. Yes. While Staff feels these revenues need to be reflected in the determination of the revenue requirement in this case, Staff does not feel that an adjustment to Mr. Schnitzer's model is the most appropriate method to reflect them.

Q. Please explain.

A. On page 7, lines 12 through 17, of his Direct Testimony, Midwest Energy Users Association (MEUA) witness Greg Meyer proposes including the line loss revenues in KCPL's revenue requirement (separate and apart from Mr. Schnitzer's projected levels of OSS margin). Staff would not oppose treating line loss revenues in the manner Mr. Meyer suggests.

Q. Is there anything else in the direct testimonies of Mr. Crawford and Mr. Meyer that you wish to address at this time?

A. Yes. On pages 4 and 5 of his Direct Testimony, Mr. Meyer proposes that the level of OSS margins as calculated by Mr. Schnitzer be increased from the 25th percentile to the 40th percentile (page 4, lines 13 and 14). Mr. Meyer goes on to state (page 4, lines 20 and 21) that one of the two primary reasons the Commission gave for setting OSS margins based upon the 25th percentile in the 2006 case is that KCPL was undertaking several large capital projects as part of the Regulatory Plan in Case No. EO-2005-0329.

Q. Does Staff feel the Commission should consider Mr. Meyer's proposal to increase the level of OSS margins in this case from the 25th percentile to the 40th percentile?

A. Yes. There are several valid reasons Mr. Meyer cites on page 5 of his Direct Testimony as to why the level of OSS margins should perhaps be increased. Among them are:

- KCPL has completed the construction of Iatan 2.
- The inclusion of Iatan 2 generation may result in higher levels of OSS.
- The 40th percentile may provide a greater incentive for KCPL to make OSS.
- KCPL would still have a 60% chance of exceeding the level built into cost of service.

Q. What is the 40th percentile relating to OSS margin?

A. The 40th percentile relating to OSS margin is the level where KCPL has a 60% probability of exceeding the level of off-system sales built into the cost of service. Mr. Meyer has estimated that moving from the 25th percentile to the 40th percentile would increase Mr. Schnitzer's ** ________ ** level by ** ________ ** (page 5, line 20 of his Direct Testimony) resulting in an OSS margin level of ** ________ **.

Q. What level of OSS margin has KCPL had in the past?

A. KCPL has experienced a fluctuating level of off-system sales, costs and resulting margins as illustrated by the table below.

	Year	***Off-system sales***	***Fuel costs***	***Purchased Power costs***	***OSS margin***	***Margin*** *%*	
**							**
**							**
**							**
**							**
**							**
**							**
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Q. Does this conclude your Rebuttal Testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

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 6 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

V. William Harris

Subscribed and sworn to before me this 8th day of December, 2010.

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Nikki Senn

Notary Public