

**KCP&L-247**

Exhibit No.:  
Issues: Revenue Requirements  
Witness: Curt Wells  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Direct Testimony  
File No.: ER-2010-0355  
Date Testimony Prepared: November 10, 2010

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY OPERATIONS DIVISION**  
**DIRECT TESTIMONY**  
**OF**  
**CURT WELLS**  
**KANSAS CITY POWER & LIGHT COMPANY (KCP&L)**  
**FILE NO. ER-2010-0355**

*Jefferson City, Missouri*  
*November 2010*

Staff Exhibit No. KCP&L-247  
Date 1/18/11 Reporter LMB  
File No. ER-2010-0355

**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 CURT WELLS**

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF COLE        )

Curt Wells of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 8 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

  
\_\_\_\_\_  
Curt Wells

Subscribed and sworn to before me this 10<sup>th</sup> day of November, 2010.

SUSAN L. SUNDERMEYER  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Callaway County  
My Commission Expires: October 03, 2014  
Commission Number: 10942086

  
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Notary Public

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**OF**

**CURT WELLS**

**KANSAS CITY POWER & LIGHT COMPANY (KCP&L)**

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**DIRECT TESTIMONY**

**OF**

**CURT WELLS**

**KANSAS CITY POWER & LIGHT COMPANY (KCPL)**

**FILE NO. ER-2010-0355**

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Q. Please state your name and business address.

A. My name is Curt Wells and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102.

Q. What is your present position with the Missouri Public Service Commission (Commission)?

A. I am a Regulatory Economist in the Energy Department of the Utility Operations Division.

Q. Please review your educational background and work experience.

A. I have a Bachelor's degree in Economics from Duke University, a Master's degree in Economics from The Pennsylvania State University, and a Master's degree in Applied Economics from Southern Methodist University. I have been employed by the Missouri Public Service Commission since February 2006. Prior to joining the Commission, I completed a career in the U.S. Air Force, which included assignments as an aircraft navigator, and later in the Purchasing/Contracting area as Contract Negotiator and Administrator, Installation Purchasing Department Chief, Contracting Policy Manager, Director of the Air Force warranty center, and Program Manager responsible for developing and awarding technical support contracts.

Q. Have you filed testimony in prior cases before the Commission?

Direct Testimony of  
Curt Wells

1 A. Yes. My previous testimony is listed in Schedule CW-1.

2 Q. With reference to File No. ER-2010-0355, have you participated in the  
3 Commission Staff's (Staff) review of Kansas City Power and Light Company (KCP&L or  
4 Company) concerning its request for a rate increase in this proceeding?

5 A. Yes, I have, with the assistance of, and reliance on, other members of the Staff  
6 in the areas listed below.

7 **EXECUTIVE SUMMARY**

8 Q. What is the purpose of your direct testimony?

9 A. The purpose of my direct testimony is to sponsor the Staff recommendations  
10 originating from the Utility Operations Division of the Staff and to provide an overview of the  
11 Staff's positions in the areas of jurisdictional allocations, normalizations and annualizations of  
12 rate revenue, fuel and purchased power, and certain other expenses. The sections of Staff's  
13 Report relating to these issues were prepared by Staff members in the Utility Operations  
14 Division and are based on their work and analysis.

15 **JURISDICTIONAL ALLOCATIONS**

16 Q. What are jurisdictional allocations?

17 A. Jurisdictional allocations are the result of processes by which demand-related  
18 and energy-related costs are allocated to the applicable jurisdictions. For KCP&L those  
19 jurisdictions are Kansas and Missouri (geographic), FERC and state (regulatory authorities),  
20 and wholesale and retail (customer type). To rationally allocate certain costs that KCP&L  
21 incurs across these jurisdictions, it is necessary to allocate those costs appropriately to those  
22 jurisdictions. Development and application of these factors are more fully explained in the  
23 Jurisdictional Allocations Section of the Cost of Service Report.

1 **NORMALIZATION AND ANNUALIZATION ADJUSTMENTS TO REVENUE**

2 Q. Why is test year rate revenue adjusted?

3 A. The goal of a general rate case is to set rates based on the utility's ongoing cost  
4 of service. Since a historical test year is used as the starting point for estimating that ongoing  
5 cost of service, the Missouri test year rate revenues of the utility are adjusted to annualize and  
6 weather normalize them to better estimate the revenue that the Company would have collected  
7 during the test year on an annual, normal-weather basis, based on information "known and  
8 measurable" at the end of the update period. Missouri retail rate revenues and kilowatt-hour  
9 (kWh) sales are used to determine the amount of any revenue increase (or decrease) that  
10 results from this case, as well as the new rates. The two major categories of adjustments are  
11 normalizations and annualizations.

12 Because new rates will be in effect until changed at some future date and a test year  
13 may have events during it that affect test year revenues differently from the events of a  
14 "normal" year, normalization adjustments are made to test year revenues to make the test year  
15 revenues better represent revenues of a "normal" year. For example, each year has different  
16 weather, but when the weather of multiple years is averaged over time there is a "normal"  
17 weather year. Weather normalization adjustments to test year revenues are made to adjust the  
18 weather impacts during the test year to better match the weather impacts on revenues during a  
19 "normal" weather year. Annualizations are adjustments that re-state test year results as if  
20 conditions known at the end of the update period had existed throughout the entire test year.  
21 An example of a revenue annualization is adjusting revenue for a rate change during the test  
22 year. These adjustments are covered in the Rate Revenue section of the Income Statement  
23 division of Staff's Cost of Service Report.

1 **FUEL AND PURCHASED POWER**

2 Q. How did the Staff determine KCP&L's fuel and purchased power costs for cost  
3 of service purposes?

4 A. Staff used the RealTime<sup>®</sup> production cost model to perform an hour-by-hour  
5 chronological simulation of KCP&L's generation and power purchases. The inputs to this  
6 model included spot market prices, capacity contract prices, net system input (NSI) and  
7 losses, and planned and forced outages. Staff used the model to determine KCP&L's annual  
8 variable cost of fuel and net purchased power energy costs and fuel consumption necessary to  
9 economically match KCP&L's load within the operating constraints of KCP&L's resources  
10 available to match that load.

11 Staff has performed three model scenarios to reflect the impact of Iatan unit 2 on  
12 KCP&L's variable fuel costs on a going forward basis. The first scenario uses test year inputs  
13 ending December 2009, as updated through June 30, 2010. Using the June 30<sup>th</sup> date means  
14 that Iatan unit 2 and the Spearville 2 wind farm project are excluded as generation sources in  
15 this scenario since they were not declared fully operational and useful for service as of June  
16 30, 2010. The second scenario uses the test year as updated through June 30 and trued-up  
17 through December 31, 2010. This scenario includes Iatan unit 2 and the Spearville 2 wind  
18 farm as generation sources, and applies updated fuel prices. The third scenario uses Scenario  
19 1 test year inputs, as updated through June 30, 2010. The difference between Scenario 1 and  
20 Scenario 3 is that Iatan unit 2 and the Spearville 2 wind farm are included as generation  
21 resources in Scenario 3. The result of comparing Scenario 3 with Scenario 1 is that KCP&L's  
22 total fuel expense is lowered when Iatan unit 2 and Spearville 2 are included as generation  
23 resources and no other changes are made.

1           These adjustments are covered in the Fuel and Purchased Power section of the Income  
2 Statement division of Staff's Cost of Service Report.

3 **OTHER EXPENSES**

4           Q.     What other expenses did Operations Staff examine?

5           A.     Staff examined demand-side cost recovery and prudence, the Company's low-  
6 income programs, its proposed transmission expenses tracker, and addressed KCP&L's Smart  
7 Grid Demonstration Project (Project). Staff's findings and recommendations for these  
8 programs are provided in greater detail in the Other Non-Labor Adjustments section of the  
9 Income Statement division of Staff's Cost of Service Report.

10          Q.     What are Staff's conclusions regarding KCP&L's recovery of the costs of its  
11 demand-side management programs?

12          A.     The Company's overall spending levels for demand-side programs have met  
13 and exceeded the expectations established in the KCP&L Regulatory Plan. Staff and other  
14 parties continue to be engaged with the Company as part of the Customer Programs Advisory  
15 Group (CPAG) process to provide advice on the Company's demand-side programs and as a  
16 stakeholder to monitor the progress of the Company's Chapter 22 Electric Utility Resource  
17 Planning process. While Staff does not view the Company's existing demand-side programs  
18 presently to be demand-side programs proposed pursuant to section 393.1075.4 RSMo. Supp.  
19 2009, the current regulatory asset treatment of the Company's demand-side costs should be  
20 continued until the Commission has rules in effect to implement Missouri Energy Efficiency  
21 Investment Act (MEEIA).

22          Q.     In reviewing KCPL's demand-side management account did Staff find any  
23 evidence of imprudence by KCP&L?



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Curt Wells

1 A. Staff discovered no evidence of imprudence regarding the level of costs  
2 charged to the Demand Side Management (DSM) programs.

3 Q. What KCP&L low-income programs has Staff reviewed?

4 A. Staff reviewed the Economic Relief Pilot Program (ERPP) KCP&L initiated in  
5 September 2009 which provides a fixed credit to make the electric bill more affordable to  
6 low-income customers, and it reviewed the Company's low-income weatherization program  
7 that was part of the Regulatory Plan the Commission approved in Case No. EO-2005-0329.  
8 Staff recommends continuation of these programs with changes specified in the Other Non-  
9 Labor Adjustments section of the Income Statement division of Staff's Cost of Service  
10 Report.

11 Q. What is Staff's position on a transmission expenses tracker?

12 A. Staff recommends the Commission authorize the Company to use a  
13 transmission expense and revenue tracker. Staff recommends the Company be authorized to  
14 use a transmission expense and revenue tracker due to the historical growth in and current  
15 high level of the Company's transmission expenses, the uncertainty in the levels of its future  
16 transmission expenses, and because the Company has less control over the level of  
17 transmission expenses the SPP assigns to it than the Company has over most of its other  
18 expenses.

19 Q. What has Staff determined with regard to the Company's participation in its  
20 Smart Grid Demonstration Project?

21 A. The KCP&L Project is included in the Department of Energy (DOE) and  
22 Electric Power Research Institute (EPRI) demonstration programs. The primary, overall focus  
23 for the Project is to implement next-generation, end-to-end Smart Grid components. Staff

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Curt Wells

1 believes that this is an important project for Missouri, since it is the only large scale Smart  
2 Grid demonstration project currently planned for the state, and will provide Missouri with  
3 increased exposure, since it is an EPRI and DOE demonstration project, as well as allow  
4 Missourians to benefit from the project data, lessons learned and evaluation of project  
5 performance after its completion.

6 **AREAS OF RESPONSIBILITY**

7 Q. Would you identify the work performed and Operations Division member who  
8 contributed to the Staff's Cost of Service Report?

9 A. The issue and member of Staff who contributed to the Staff's Cost of Service  
10 Report follows:

11	<u>Issue</u>	<u>Staff Witness</u>
12	Jurisdictional Allocations	Alan J. Bax
13	Normal Weather	Seoungjoun Won
14	Weather Normalization	
15	Sales	Walter Cecil
16	Revenue	Manisha Lakhanpal
17	Annualization for Rate Change	Manisha Lakhanpal
18		Seoungjoun Won
19	Days Adjustment	
20	Sales	Walter Cecil
21	Revenue	Manisha Lakhanpal
22		Seoungjoun Won
23	Large Customer Annualization/ Rate Switching	Seoungjoun Won
24	Special Contracts and Other Customer Discounts	Manisha Lakhanpal

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1		Seoungjoun Won
2	Fuel and Purchased Power Expense	Shawn E. Lange
3	Spot market Prices	Erin L. Maloney
4	Capacity Contract Prices	Shawn E. Lange
5	NSI	Walter Cecil
6	Losses	Alan J. Bax
7	Planned and Forced Outages	Shawn E. Lange
8	Demand Side Management	John A. Rogers
9		Hojong Kang
10	Transmission Tracker	Daniel I. Beck
11	Smart Grid Demonstration Project	Randy Gross
12	Low-income Programs	Carol Gay Fred
13		Henry Warren
14	Q. Does this conclude your direct testimony?	
15	A. Yes it does.	

**CURT WELLS**  
**TESTIMONY/REPORTS FILED**  
**BEFORE**  
**THE MISSOURI PUBLIC SERVICE COMMISSION**

<u>Case/File Number</u>	<u>Company</u>	<u>Issue</u>
ER-2006-0314 Direct/ True-up Direct	Kansas City Power & Light Company	Calculation of Normal Weather, Revenue
ER-2006-0315 Direct/Rebuttal	Empire District Electric	Revenue
GR-2006-0387 Direct	ATMOS Energy Corporation	Calculation of Normal Weather
GR-2006-0422 Direct/Rebuttal/ Surrebuttal	Missouri Gas Energy	Calculation of Normal Weather
ER-2007-0002 Direct/Rebuttal	Union Electric d/b/a AmerenUE	Calculation of Normal Weather, Large Customer Annualization
GR-2007-0003 Direct	Union Electric d/b/a AmerenUE	Calculation of Normal Weather
ER-2007-0004 Direct/ Supplemental Direct	Aquila, Inc	Calculation of Normal Weather, Revenue
GR-2007-0208 Direct	Laclede Gas Company	Calculation of Normal Weather
ER-2007-0291 Direct/Rebuttal	Kansas City Power & Light Co.	Calculation of Normal Weather, Large Power Revenue
ER-2008-0093 Direct(Report)/ Surrebuttal True-up Direct	Empire District Electric	Revenue, Rate Design

HR-2008-0300 Direct(Report)	Trigen-Kansas City Energy Corp.	Rate Design
ER-2008-0318 Direct(Report)	Union Electric d/b/a AmerenUE	Revenue
ER-2009-0089 Direct	Kansas City Power & Light Co.	[Coordinator]
ER-2009-0090 Direct(Report)	KCP&L Greater Missouri Operations	Revenue, [Coordinator]
HR-2009-0092 Direct	KCP&L Steam Greater Missouri Operations	[Coordinator]
ER-2010-0036 Direct(Report)	Union Electric d/b/a AmerenUE	Revenue
ER-2010-0130 Direct(Report)	Empire District Electric	Revenue