KCP&L-221

Exhibit No.:
Issues: *Fuel Expense and Off-System Sales Margin*
Witness: *V. William Harris*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
File No: *ER-2010-0355*
Date Testimony Prepared: *January 5, 2011*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

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

FILE NO. ER-2010-0355

Jefferson City, Missouri
January 2011

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

Staff Exhibit No. KCP&L-221
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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 who contributed to the Staff's Cost of Service Report dated November 10, 2010, and who filed Rebuttal Testimony dated December 8, 2010?

A. Yes. I also filed testimony in the Staff's Cost of Service Report dated November 17, 2010, and Rebuttal Testimony dated December 15, 2010, in the KCP&L Greater Missouri Operations (GMO) Company rate case, designated as File No. ER-2010-0356. My testimonies in that rate case regard the same issues I will address in this Surrebuttal Testimony.

Q. What is the purpose of your Surrebuttal Testimony?

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

FUEL EXPENSE

Q. Please address Mr. Crawford's Rebuttal Testimony regarding fuel expense.

A. On page 6 (line 20) of his Rebuttal Testimony, Mr. Crawford states, "Staff has not included any cost for the fuel oil consumed at Wolf Creek."

The Staff (Staff) of the Missouri Public Service Commission (Commission) believed that fuel oil expense at the Wolf Creek Generating Station (Wolf Creek) was included in the Staff's RealTime® Production Cost Model (fuel model) in this case. However, Staff determined that the fuel model was programmed in a way that actually prevented the inclusion of fuel oil at a nuclear plant. Therefore, Staff has updated its case to include the Company's test year fuel oil expense at Wolf Creek to reflect the actual cost for the 12-months ended June 30, 2010. Income Statement Adjustment E-33.1 of the updated Staff Accounting Schedules filed along with Staff's surrebuttal testimony on January 5, 2011 reflects this change. Staff will update this adjustment for the true-up period to reflect the Wolf Creek fuel oil cost for the 12-months ended December 31, 2010.

OFF-SYSTEM SALES MARGIN

Q. What issues in Mr Crawford's Rebuttal Testimony regarding off-system sales (OSS) do you wish to address?

A. I will address an adjustment Mr. Crawford proposes to OSS margin and Staff's treatment of certain firm OSS.

Q. Please explain the adjustment to OSS margin proposed by Mr. Crawford.

A. Mr. Crawford proposes that KCPL witness Michael M. Schnitzer's 25th percentile level of OSS margins should be adjusted for Southwest Power Pool (SPP) line loss charges even though Mr. Schnitzer's database does not include the off-system sales transactions resulting in the line loss charges. Mr. Schnitzer's model only includes OSS made within the SPP "thumbprint." The line loss charges result from OSS sales outside the SPP thumbprint. Mr. Crawford does not recognize the distinction between the two.

Q. On page 3 (lines 9 through 11) of his Rebuttal Testimony Mr. Crawford states, "Staff argues that since the off-system sales model used by Mr. Schnitzer does not contain sales made outside the SPP system, then the SPP line loss charge adjustment should not be made." Does Staff agree with this statement?

A. Yes, although Staff would again point out that any adjustment would have to be to the Company's own model, which was not designed to include the adjustment that the Company now proposes. Staff feels it is inappropriate to adjust an analysis of OSS made within the SPP system by data related to OSS made outside the SPP system.

Q. On page 3 (lines 16 and 17) of his Rebuttal Testimony, Mr. Crawford states that customers should "incur the costs associated with making these sales, including the SPP line loss charges." Does Staff agree?

A. Yes; however, Staff feels the customers are already incurring the costs associated with the sales, including SPP line loss charges. Staff believes all costs incurred in these "outside the system" sales are being offset with a premium sale price so that KCPL can realize its expected OSS margin. To further adjust Mr. Schnitzer's OSS margin level would result in a double recovery of these costs.

Staff believes KCPL will not make these "outside the system" sales unless the price of the sales includes the costs for line losses. Therefore, KCPL is receiving its line loss costs from the customers purchasing the OSS. Staff believes the Company is recovering these line losses from those "outside the system" sales customers.

Q. Is Mr. Crawford being consistent in his approach to the treatment of these OSS?

A. No. Mr. Crawford wants to adjust Mr. Schnitzer's OSS margin by including line loss charges but does not similarly propose that Mr. Schnitzer's OSS margin be adjusted to include the revenues collected from the sales outside the SPP system.

Q. Please explain Staff's treatment of firm OSS.

A. Staff has included ** ________ ** of firm OSS to the Missouri Joint Municipal Electric Utility Commission (MJMEUC) in its Cost of Service Model. KCPL claims the MJMEUC contract expired subsequent to Staff's direct filing on November 17, 2010 and as a result the Company takes issue with Staff's treatment of the MJMEUC firm OSS.

Q. Why does Mr. Crawford take issue with Staff's treatment?

A. On page 7 (lines 7 and 8) of his Rebuttal Testimony, Mr. Crawford states that the OSS margin associated with the MJMEUC sales is included in the OSS margin Staff includes in its Cost of Service Model. In other words, Mr. Crawford claims that the OSS margin associated with the MJMEUC sales is included in Mr. Schnitzer's model.

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

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

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

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

> KCPL removed off-system sales for two agreements expected to be terminated in May 2009 which is beyond the true-up cut off in this case. Normally Staff would be opposed to such adjustments as out of period and beyond the scope of this case but KCPL has stated that the model used by KCPL to annualize non-firm off-system considered the freed up energy resulting in higher non-firm off-system sales margin. However, Staff has recently learned that KCPL has changed its position regarding off-system sales levels it originally supported in its September 30, 2008 direct filing as result of lower natural gas prices than what was originally used. Currently, Staff cannot make the determination if the increase in off-system sales which was supposed to have occurred as result of the loss of KMEA and MJMEUC has actually occurred. While KCPL's initial filing had off-system sales levels that would support the position that the lost firm customers were made up in non-firm off-system sales, the Company's updated case has substantially reduced the level of off-system sales it now claims should be in the case. **Therefore, Staff will continue to review the adjustments proposed by KCPL regarding off-system sales for both firm and non-firm customers. After obtaining and reviewing additional information, the Staff will make a determination on the appropriateness of making any of the adjustments proposed by KCPL. [emphasis added]**

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

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

A. For its direct filing made on September 8, 2008, KCPL's position regarding the 25th percentile of OSS margins was ** __________ ** on a total Company basis. When KCPL updated its case for the update period ending September 30, 2008, KCPL's position

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regarding the appropriate OSS level was ** __ ______ ** total Company. When Staff filed its COS Report KCPL's position had changed to ** __ ______ ** total Company, and the Company further changed its position for its rebuttal filing in the 2009 rate case, to ** __ ______ ** total Company. These changes combined with KCPL's proposed adjustments for firm and non-firm off-system sales had the following impact (all amounts are total Company):

KCPL Case No. ER-2009-0089—

25th 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 ** ________ **.

Now in this case KCPL's position has already dropped from ** ________ ** to ** ________ ** and the downward spiral appears to be repeating itself.

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Q. Is there anything else that may lead Staff to question Mr. Crawford's claim that the dwindling OSS margin level produced by Mr. Schnitzer's model includes margins associated with the now expired MJMEUC firm OSS contract?

A. Yes. Unlike natural gas prices in KCPL's previous rate case, natural gas prices have remained fairly constant and consistently low since the beginning of this case. Also, KCPL is now enjoying an additional 465 megawatts of generation from its new Iatan 2 plant. This additional Iatan 2 coal-fired capacity displaces higher cost generation which is "freed" up to make off-system sales higher-cost. Even with this addition, KCPL off-system sales recommendation continues to decline.

Q. Does this conclude your Surrebuttal 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 Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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. W. Harris

V. William Harris

Subscribed and sworn to before me this 5 day of January, 2011.

Nikki Senn

Notary Public

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