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Witness: Keith Majors
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-up Direct Testimony
Case Nos.: ER-2012-0174 & ER-2012-0175
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MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

TRUE-UP DIRECT TESTIMONY

OF

KEITH MAJORS

Staff Exhibit No. 388
Date 11-18-12 Reporter KF
File No. ER-2012-0174
ER-2012-0175

**Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY and
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

CASE NOS. ER-2012-0174 and ER-2012-0175

*Jefferson City, Missouri
November 8, 2012*

NP

Staff Exhibit No. 388

1 **TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **KEITH MAJORS**

4 **Great Plains Energy, Incorporated**
5 **KANSAS CITY POWER & LIGHT COMPANY**

6 **AND**

7 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

8 **CASE NOS. ER-2012-0174 and ER-2012-0175**

9 Q. Please state your name and business address.

10 A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street,
11 Room G8, Kansas City, Missouri, 64106.

12 Q. By whom are you employed and in what capacity?

13 A. I am employed by the Missouri Public Service Commission (Commission) as a
14 Utility Regulatory Auditor IV.

15 Q. Are you the same Keith Majors who contributed to Staff's Cost of Service
16 Reports filed on August 2, 2012 and August 9, 2012 in Case Nos. ER-2012-0174 and
17 ER-2012-0175, respectively?

18 A. Yes. I also filed rebuttal and surrebuttal testimony in these proceedings.

19 Q. What is the purpose of your true-up direct testimony?

20 A. The purpose of my testimony is to support Staff's revenue requirement
21 calculations and methodology concerning payroll, fuel expense, and fuel inventories through
22 the August 31, 2012, true-up cutoff in the current Kansas City Power & Light ("KCPL") and
23 KCP&L Greater Missouri Operations ("GMO") rate cases.

1 **PAYROLL EXPENSE**

2 Q. How did Staff true-up payroll expense?

3 A. Staff applied the current employee levels and wage rates as of August 31,
4 2012, to calculate an annualized level of total KCPL payroll expense. Because KCPL
5 employees constitute GMO's workforce, Staff then allocated that annual level of payroll
6 expense between KCPL and GMO. It further allocated the GMO payroll expense to the
7 MPS and L&P rate districts. Staff further allocated the payroll expense allocated to KCPL,
8 and the MPS and L&P rate districts between Operations & Maintenance ("O&M") and
9 capitalized amounts.

10 Staff added to the payroll expense that Staff allocated to KCPL a trued-up annual
11 amount for Wolf Creek payroll, based on the 12 months ending August 31, 2012. As a 47%
12 owner of Wolf Creek, KCPL is billed by the Wolf Creek Nuclear Operating Corporation
13 ("WCNOC") for its 47% share of payroll, benefits, and other expenses related to the operation
14 of Wolf Creek.

15 Staff trued-up payroll taxes for KCPL and the MPS and L&P rate districts consistent
16 with how it trued-up payroll expense.

17 **FUEL EXPENSE**

18 Q. How did Staff true-up fuel and purchased power expense for KCPL and GMO?

19 A. There are a number of inputs that Staff uses to determine fuel and purchased
20 power expense. Staff used the most current information available to it as of the August 31,
21 2012, true-up cutoff date to determine those inputs. The fuel and purchased power expense
22 input changes Staff used for its true-up can be broadly categorized as 1) updates in delivered

True-Up Direct Testimony of
Keith Majors

1 | prices for coal, natural gas, and oil, or variable fuel costs, and 2) updates to semi-fixed and
2 | fixed fuel-related expenses.

3 | Staff used updated information for delivered coal, natural gas, and oil prices in its
4 | RealTime™ production cost model runs, or fuel model, to calculate the annual variable fuel
5 | and purchased power expenses for KCPL, and the GMO MPS and L&P rate districts.

6 | The updated semi-fixed fuel-related expenses include various fuel additives
7 | (ammonia, lime, limestone) and fuel adders (unit train leases and maintenance and natural gas
8 | reservation charges). The fixed fuel-related expenses also include demand charges related to
9 | purchased power agreements.

10 | **FUEL INVENTORIES**

11 | Q. Did Staff make changes to fuel inventories as part of its true-ups of the revenue
12 | requirements of KCPL, and the GMO MPS and L&P rate districts to the August 31, 2012
13 | true-up cut-off date?

14 | A. Yes.

15 | Q. What changes did it make?

16 | A. There are three categories of fuel inventories that Staff changed: 1) coal, 2) oil,
17 | and 3) fuel additives.

18 | Q. Do you know why they changed?

19 | A. Yes. The three drivers of the changes in overall rate base values of the coal,
20 | oil and additive inventories are 1) changes in annual coal burn, 2) changes in physical
21 | inventory amounts, and 3) changes in the delivered prices of fuel and additives.

22 | Q. How did Staff determine the amounts of total coal inventory in the rate bases
23 | of KCPL, and the GMO MPS and L&P rate districts?

True-Up Direct Testimony of
Keith Majors

1 A. Coal inventory is kept for three distinct purposes: 1) to support annual
2 coal burns for native load, or, the energy needed to provide service to the Company's
3 retail customers and firm bulk power sales, 2) to support annual coal burns for interchange, or
4 off-system, sales, and 3) basemat, the bottom most layer of coal, which is considered difficult
5 to burn and generally not included in burnable inventory.

6 Q. How did Staff determine the levels of coal inventory required for native load
7 for the true-ups?

8 A. For determining the native load portion of coal inventory, Staff utilized the
9 annual burns in MMBTU (million British Thermal Units) for native load from its RealTime™
10 fuel model runs and converted them to delivered tons of coal. Staff then converted this annual
11 amount of burned coal to a daily burn amount of burned coal using 365 days. Staff obtained
12 the total available days' inventory from KCPL's Utility Fuel Inventory Model ("UFIM"),
13 which calculates an appropriate days' inventory from a variety of inputs to determine an
14 appropriate inventory based on balancing the cost of the investment in inventory with the cost
15 of replacement energy should coal inventory be depleted. Staff multiplied the total days'
16 inventory from KCPL's UFIM by the daily burn to arrive at an appropriate level of native
17 load coal inventory. Staff then applied the most recent delivered coal prices, which include
18 variable freight and fuel surcharges, to arrive at a total company value for its rate base
19 calculation. The change in native load coal inventory from Staff's March 31, 2012 direct filed
20 case to Staff's August 31, 2012 true-up filed case is detailed in the tables below:

21
22
23 *continued on next page*

True-Up Direct Testimony of
Keith Majors

1 A. Yes. The net change in inventory is primarily driven by the changes in
2 delivered coal prices, which include commodity, freight, and fuel surcharge charges, and,
3 more importantly, by reduced generation from coal burning baseload units.

4 Q. How did Staff determine the levels of coal inventory for interchange, or off-
5 system sales, for the true-ups?

6 A. Staff included coal inventory for off-system sales in KCPL's rate base, but not
7 in inventory for MPS or L&P. GMO has nominal interchange sales; therefore, no significant
8 coal inventory is required for those sales. Instead of changing its basis for determining coal
9 inventory for interchange sales to the twelve months ended August 31, 2012, for the true-ups
10 Staff continued to use the megawatt hour ("MWh") sales volumes that it calculated for its
11 Staff's March 31, 2012, direct filed cases.

12 Staff converted those sales volumes to an appropriate tonnage burned, by baseload
13 coal unit, to determine the appropriate amounts of inventory to include in the rate bases.
14 Similar to how it determined native load coal inventory, Staff used the results from KCPL's
15 UFIM to determine the appropriate days' inventories. Staff used current delivered coal prices
16 based on commodity, freight, and fuel surcharges as of August 31, 2012, to value the
17 appropriate amounts of inventory.

18 The change in KCPL interchange sales coal inventories from Staff's March 31, 2012
19 direct case for KCPL to Staff's August 31, 2012 true-up case for KCPL is shown in the
20 table below:

21
22
23 *continued on next page*

True-Up Direct Testimony of
Keith Majors

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2 **

3 The total megawatt hours generated for off-system sales in the 12 months
4 ending March 31, 2012 was ** _____ ** or ** _____ ** of total MWhs,
5 compared to retail load megawatt hours of 16.6 million MWh, or ** _____ ** of the total of
6 ** _____ ** MWhs of generation needed to meet both interchange (“off-system”) sales
7 and retail loads.

8 Q. How do the coal inventory volumes for interchange sales that Staff used in its
9 analysis for KCPL compare to native, or retail load coal inventory volumes?

10 A. Staff compared the native load coal inventory to the interchange sales coal
11 inventory. The results of that comparison are shown in the table below:

12 **

13 **

14 The change in basemat coal inventory is due to a correction of the inventory of jointly
15 owned units.



True-Up Direct Testimony of
Keith Majors

1 At the August 31, 2012 true-up, the total level of KCPL coal inventory for off-system
2 sales is ** _____ ** of the total coal inventory, compared to retail
3 load coal requirements of ** _____ ** of the total coal inventory of
4 ** _____ ** When comparing the percentage of off-system sales coal inventory
5 to off-system MWh sales, Staff has included a significantly higher percentage of coal
6 inventory for off-system sales in KCPL's rate base than the level of off-system sales
7 compared to retail load.

8 Q. How did Staff determine the basemat coal inventory levels for the true-ups?

9 A. Staff used the basemat amounts it identified in its March 31, 2012, direct cases,
10 then applied the August 31, 2012, delivered prices to obtain their rate base values. The total
11 tons of basemat coal were determined by a third party contracted by KCPL, MIKON, who
12 utilized various testing methods to determine the amount of basemat coal.

13 Q. Would you summarize the differences in coal inventories between Staff's
14 direct filed March 31, 2012 cases and Staff's August 31, 2012 true-up cases for KCPL, and
15 the GMO MPS and L&P rate districts?

16 A. The March 31, 2012 direct filed coal inventory for KCPL, MPS and L&P are
17 in the tables below. Basemat volumes are included in total inventory value:

18 **

True-Up Direct Testimony of
Keith Majors

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The Staff's March 31, 2012 direct filed L&P coal inventory, corrected for jointly

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owned inventory allocations, appears below:

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The Staff's August 31, 2012 true-up coal inventory for KCPL, MPS and L&P are in

8

the tables below:

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True-Up Direct Testimony of
Keith Majors

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Q. Does this conclude your true-up direct testimony?

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A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

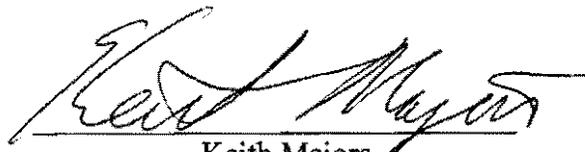
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to) Case No. ER-2012-0174
Implement A General Rate Increase for)
Electric Service)
)
)
In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority) Case No. ER-2012-0175
to Implement General Rate Increase for)
Electric Service)

AFFIDAVIT OF KEITH MAJORS

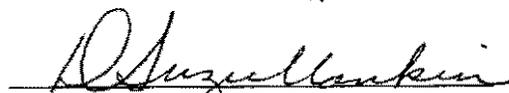
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Keith Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing True-Up Direct 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.


Keith Majors

Subscribed and sworn to before me this 8th day of November, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071


Notary Public