

Exhibit No.:
Issue: *Off-System Sales and Fuel Expense*
Witness: *V. William Harris*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No: *ER-2009-0089*
Date Testimony Prepared: *April 7, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

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

CASE NO. ER-2009-0089

*Jefferson City, Missouri
April 2009*

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

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2 **OF**
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4 **KANSAS CITY POWER & LIGHT COMPANY**
5 **CASE NO. ER-2009-0089**

6 Q. Please state your name and business address.

7 A. V. William Harris, Fletcher Daniels State Office Building, Room G8,
8 615 East 13th Street, Kansas City, Missouri 64106.

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

10 A. I am a Utility Regulatory Auditor with the Missouri Public Service
11 Commission (Commission or PSC).

12 Q. Are you the same V. William Harris who previously filed rebuttal testimony in
13 this proceeding?

14 A. Yes I am. I provided input into the Staff's Cost of Service Report filed in this
15 case on February 11, 2009 and rebuttal testimony filed on March 11, 2009. In addition,
16 I provided input into Staff's Cost of Service Report filed in Case Nos. ER-2009-0090 and
17 HR-2009-0092, which are the KCPL Greater Missouri Operations (GMO) rate increase filings
18 made on September 5, 2008 for GMO MPS and L&P electric and steam rates.

19 Q. What is the purpose of your surrebuttal testimony?

20 A. The purpose of my surrebuttal testimony is to discuss the rebuttal testimony of
21 Kansas City Power & Light Company (KCPL or Company) witnesses Burton L. Crawford in
22 the area of off-system sales (OSS) and Wm. Edward Blunk in the area of fuel expense.

1 Q. Does Staff have any corrections or revisions to its direct-filed adjustments in
2 the areas of OSS and fuel expense?

3 A. Yes. Since filing its Cost of Service Report on February 11, 2009, Staff has
4 included OSS adjustments for Southwest Power Pool (SPP) line losses and purchases for
5 resale. Staff has also updated its adjustment for Q sales by replacing the 2007 test year
6 amount in its direct filing with the amount of Q sales through the update period ended
7 September 30, 2008.

8 In KCPL's direct filing, the Company made an adjustment for Firm Bulk
9 Sales (Energy) and an adjustment for related load regulation demand charges. The
10 adjustments were for firm sales and related demand charges to Missouri Joint Municipal
11 Electric Utility Commission (MJMEUC) and Kansas Municipal Electric Agency (KMEA)
12 under two separate contracts. Although these adjustments were related to out of period
13 transactions that Staff would normally consider beyond the scope of this case, the Staff
14 included the adjustments in its direct filing, but gave notice that the Staff would continue to
15 review the adjustments and subsequently determine if the adjustments were appropriate.
16 On April 6, 2009, the Staff discovered that KCPL had executed a new agreement with
17 MJMEUC that becomes effective on the day following the termination of the existing
18 contract. Furthermore KCPL is engaged in on-going negotiations with KMEA to renew the
19 contact with KMEA. Due to the late hour of the discovery of the new MLMEUC contract and
20 the unknown resolution of the KMEA contract, Staff will not attempt to amend the firm sales
21 and related demand charge adjustments in its direct case but will instead make all necessary
22 adjustments in Staff's true-up filing.

1 Also, Staff has revised the methodology it used in determining natural gas prices and
2 Wolf Creek fuel oil prices to include in calculating Staff's annualized fuel expense. I will
3 discuss the revisions at length in the fuel expense section beginning on page 6 of
4 this testimony.

5 **EXECUTIVE SUMMARY**

6 Q. Please summarize Staff's position on the issue of OSS margins.

7 A. It is Staff's position that the revenue requirement in this case should reflect a
8 level of OSS margins at the 25th percentile, consistent with the Commission's orders in the
9 past two KCPL rate cases, Case No. ER-2006-0314 and Case No. ER-2007-0291.
10 The calculation of the 25th percentile should be based on the normalized historical electricity
11 and natural gas prices recommended by Staff witness Michael S. Proctor rather than the
12 forecasted electricity prices used by KCPL that are based on projected future natural gas
13 prices. The use of normalized historical prices is consistent with the methodology proposed
14 by the Staff and KCPL in developing their respective annualized fuel expense to be included
15 in cost of service calculations.

16 **OFF-SYSTEM SALES (OSS) MARGIN**

17 Q. On page 1, lines 11 through 13, of his rebuttal testimony, KCPL witness
18 Burton L. Crawford states that Staff did not include in its cost of service determination costs
19 associated with the Southwest Power Pool (SPP) line loss charges and purchases for resale
20 transactions. Why has Staff not included these costs in cost of service?

1 A. In its Cost of Service (COS) Report dated February 11, 2009, Staff addresses
2 the firm bulk sales adjustments (mentioned above), line loss charges and purchases for resale
3 transactions. On the bottom of page 69 and continuing through the middle of page 70 of the
4 COS Report, Staff states:

5 KCPL removed off-system sales for two agreements
6 expected to be terminated in May 2009 which is beyond the
7 true-up cut off in this case. Normally Staff would be opposed to
8 such adjustments as out of period and beyond the scope of this
9 case but KCPL has stated that the model used by KCPL to
10 annualize non-firm off-system considered the freed up energy
11 resulting in higher non-firm off-system sales margin. However,
12 Staff has recently learned that KCPL has changed its position
13 regarding off-system sales levels it originally supported in its
14 September 30, 2008 direct filing as result of lower natural gas
15 prices than what was originally used. Currently, Staff can not
16 make the determination if the increase in off-system sales which
17 was supposed to have occurred as result of the loss of KMEA
18 and MJMEUC has actually occurred. While KCPL's initial
19 filing had off-system sales levels that would support the
20 position that the lost firm customers were made up in non-firm
21 off-system sales, the Company's updated case has substantially
22 reduced the level of off-system sales it now claims should be in
23 the case. **Therefore, Staff will continue to review the**
24 **adjustments proposed by KCPL regarding off-system sales**
25 **for both firm and non-firm customers. After obtaining and**
26 **reviewing additional information, the Staff will make a**
27 **determination on the appropriateness of making any of the**
28 **adjustments proposed by KCPL.**

29 Subsequent to the direct in this case Staff has continued to review the adjustments
30 through the issuance of numerous data requests and KCPL has continued to change its
31 position on the level of off-system sales (OSS) margins at the 25th percentile.

32 Q. How has KCPL's position on the level of OSS margins at the 25th percentile
33 changed?

34 A. For its direct filing, KCPL's position was ** _____ ** on a total
35 Company basis. In its September 30th update, KCPL's position was ** _____ **

1 total Company. When Staff filed its COS Report, KCPL's position was ** _____ **
 2 total Company, and most recently, for its rebuttal filing, KCPL's position was
 3 ** _____ ** total Company. These changes combined with KCPL's proposed
 4 adjustments for firm and non-firm off-system sales have the following impact (all amounts are
 5 total Company):

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	** _____ **	** _____ **	** _____ **	** _____ **

7 After reviewing all data it has received subsequent to the filing of its COS Report,
 8 Staff agrees adjustments should be made for SPP line losses and for purchases for resale,
 9 although the adjustment amounts should be (\$1,766,655) and (\$5,344,442), respectively, to
 10 reflect the actual levels present at the time of the September 30th update period. However,
 11 Staff can no longer accept the notion that the OSS model's result (now at ** _____ **)
 12 includes the firm bulk sales adjustments of ** _____ **, firm bulk sales (MJMEUC and
 13 KMEA) and ** _____ ** related demand charges. Accordingly, Staff believes these
 14 firm bulk sales and related demand charges should be included as revenues in this case and
 15 therefore would leave the amounts as part of the revenue requirement calculation by reversing
 16 the adjustments made in the direct filing made February 11, 2009. Those revenues should be
 17 left in the case as they represent out-of-period transactions and are beyond the scope of this

1 case. However, as previously stated, Staff will not attempt to amend the firm sales and related
2 demand charge adjustments in its direct case but will instead make all necessary adjustments
3 in Staff's
4 true-up filing.

5 **FUEL EXPENSE**

6 Q. On page 1, lines 12 through 15, of his rebuttal testimony, KCPL witness
7 Wm. Edward Blunk states "Staff recommended using an 18-month weighted average of
8 KCPL's actual commodity cost of natural gas as the natural gas price in the cost of fuel."
9 Mr. Blunk goes on to state that Staff's testimony reflects an 18-month weighted average while
10 Staff's work papers reflect a 24-month average. Please comment.

11 A. The reference in Staff's testimony to an 18-month average is incorrect. It was
12 Staff's intention to recommend a 24-month weighted average price as reflected in
13 Staff's work papers. A 24-month weighted average price reflects a 2-year period to better
14 smooth the volatility of natural gas prices.

15 Q. Does KCPL object to Staff's use of a single weighted average price of
16 KCPL's actual commodity cost of natural gas?

17 A. Yes. Despite KCPL's acceptance of the use of a single weighted average price
18 in each of its last two rate cases (ER-2007-0291 and ER-2006-0314), Mr. Blunk objects to the
19 use of a single weighted average price in his rebuttal in this case.

20 Q. What price or prices does KCPL recommend using in this case?

1 A. KCPL has recommended the use of 12 monthly projected natural gas prices for
2 the period April 2008 through March 2009. KCPL then plans to switch to the most recent
3 12 monthly actual prices for its true-up filing.

4 Q. Does Staff agree with KCPL's recommendations for the price of natural gas to
5 use in this case?

6 A. Staff does not agree that determining natural gas prices for this case based on
7 projected or forecasted prices is appropriate. Staff does agree that the use of 12 monthly
8 actual historical prices is appropriate. However, it is Staff's position, that in order to lessen
9 the impact of volatility inherent in natural gas prices, the 12 monthly prices should be
10 normalized and averaged over a 24-month period. For example, in September 2008 (the most
11 recent month in the update period ended September 30, 2008) KCPL's actual price of natural
12 gas was \$4.47 – the lowest price of any month since before January 2005. By averaging the
13 \$4.47 price with the \$5.32 price KCPL experienced in September 2007, Staff arrived at a
14 monthly price of \$4.71. Staff expects that KCPL will more likely experience the \$4.71 in
15 September 2009 (presently the first month that rates become effective in this case) than it will
16 the \$4.47 (lowest price in over 45 months). Accordingly, Staff has revised its methodology to
17 reflect 12 separate 24-month weighted average prices (January through December).

18 Q. Mr. Blunk states on page 5, lines 3 and 4, of his rebuttal testimony that Iatan 1
19 will require new additives after it returns to service. He goes on to state on lines 5 through 7
20 that Staff has not included the additives because "Staff's filing is based on information that
21 was known and part of operations as of September 30, 2008." Does Staff agree with
22 these statements?

23 A. Yes. Staff will reflect the appropriate costs of all additives in its true-up filing.

1 Q. Beginning on line 9 of page 5 and continuing on through line 7 of page 6 of his
2 rebuttal testimony, Mr. Blunk states that Staff used September 2008 fuel oil expense in its
3 determination of total annualized fuel expense for the Wolf Creek generating station.
4 Mr. Blunk goes on to suggest the more appropriate method for computing annualized fuel oil
5 cost at Wolf Creek would be a three-year average cost to reflect refueling (and other) outages.
6 Does Staff agree with this methodology?

7 A. Yes. Staff has revised its Wolf Creek fuel oil expense to reflect a three-year
8 average of fuel oil costs.

9 Q. Does this conclude your surrebuttal testimony?

10 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


In the Matter of the Application of Kansas City)
Power and Light Company for Approval to)
Make Certain Changes in its Charges for)
Electric Service To Continue the)
Implementation of Its Regulatory Plan.)

Case No. ER-2009-0089

AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

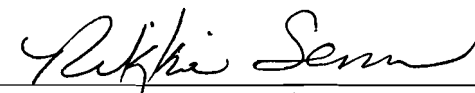
V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that 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. William Harris

Subscribed and sworn to before me this 7th day of April, 2009.

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



Notary Public