

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 ****

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V. WILLIAM HARRIS
KANSAS CITY POWER & LIGHT COMPANY
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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **V. WILLIAM HARRIS, CPA, CIA**

4 **KANSAS CITY POWER AND LIGHT COMPANY**

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

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. Are you the same V. William Harris who contributed to the
10 Staff's Cost of Service Report dated November 10, 2010, and who filed Rebuttal Testimony
11 dated December 8, 2010?

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

17 Q. What is the purpose of your Surrebuttal Testimony?

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

21 **FUEL EXPENSE**

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

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

3 The Staff (Staff) of the Missouri Public Service Commission (Commission) believed
4 that fuel oil expense at the Wolf Creek Generating Station (Wolf Creek) was included in the
5 Staff’s RealTime® Production Cost Model (fuel model) in this case. However, Staff
6 determined that the fuel model was programmed in a way that actually prevented the
7 inclusion of fuel oil at a nuclear plant. Therefore, Staff has updated its case to include the
8 Company’s test year fuel oil expense at Wolf Creek to reflect the actual cost for the
9 12-months ended June 30, 2010. Income Statement Adjustment E-33.1 of the updated
10 Staff Accounting Schedules filed along with Staff’s surrebuttal testimony on January 5, 2011
11 reflects this change. Staff will update this adjustment for the true-up period to reflect the
12 Wolf Creek fuel oil cost for the 12-months ended December 31, 2010.

13 **OFF-SYSTEM SALES MARGIN**

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

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

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

19 A. Mr. Crawford proposes that KCPL witness Michael M. Schnitzer’s
20 25th percentile level of OSS margins should be adjusted for Southwest Power Pool (SPP) line
21 loss charges even though Mr. Schnitzer’s database does not include the off-system sales
22 transactions resulting in the line loss charges. Mr. Schnitzer’s model only includes OSS made

1 within the SPP “thumbprint.” The line loss charges result from OSS sales outside the SPP
2 thumbprint. Mr. Crawford does not recognize the distinction between the two.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32 A. For its direct filing made on September 8, 2008, KCPL's position regarding the
33 25th percentile of OSS margins was ** _____ ** on a total Company basis. When
34 KCPL updated its case for the update period ending September 30, 2008, KCPL's position

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

7 KCPL Case No. ER-2009-0089—

25 th 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	** _____ **	** _____ **	** _____ **	** _____ **

8 After reviewing all data it had received subsequent to the filing of its COS Report,
9 Staff determined it could no longer accept the notion that the OSS model's result
10 (** _____ ** when rebuttal was filed) included the firm bulk sales adjustments of
11 ** _____ **.

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

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

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

10 Q. Does this conclude your Surrebuttal Testimony?

11 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

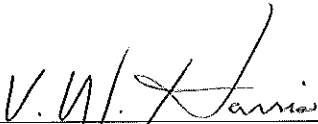
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF V. WILLIAM HARRIS

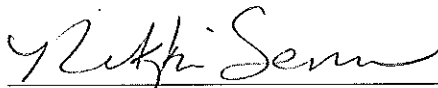
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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. William Harris

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



Notary Public

