

Exhibit No.:
Issue: Off-System Sales
Witness: V. William Harris
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No: ER-2012-0175
Date Testimony Prepared: October 10, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

SURREBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

**KCP&L GREATER MISSOURI OPERATIONS
GREAT PLAINS ENERGY, INC.**

CASE NO. ER-2012-0175

*Jefferson City, Missouri
October 2012*

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

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V. WILLIAM HARRIS, CPA, CIA
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1 **SURREBUTTAL TESTIMONY**

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4 **KCP&L GREATER MISSOURI OPERATIONS**
5 **GREAT PLAINS ENERGY, INC.**

6 **CASE NO. ER-2012-0175**

7 Q. Please state your name and business address.

8 A. V. William Harris, Fletcher Daniels State Office Building, Room G8,
9 615 East 13th Street, Kansas City, Missouri 64106.

10 Q. Are you the same V. William Harris that filed direct and rebuttal testimony in
11 this case?

12 A. Yes. I filed testimony in Staff's Cost of Service Report (COS) dated
13 August 9, 2012 and rebuttal testimony dated September 12, 2012. I also filed testimony in
14 Staff's COS dated August 2, 2012, rebuttal testimony dated September 5, 2012 and
15 surrebuttal testimony dated October 8, 2012 in Kansas City Power & Light Company (KCPL)
16 Case No. ER-2012-0174.

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 KCP&L Greater Missouri Operations Company ("GMO" or "Company") witness Burton
20 L. Crawford on the issue of negative off-system sales margin (OSS or margin).

21 **Executive Summary**

22 Q. Please summarize your Surrebuttal Testimony.

23 A. Unlike any other Missouri jurisdictional electric utility, GMO is consistently
24 recording negative OSS margins. GMO witness Crawford's explanation on page 8 of his

1 rebuttal testimony that the negative margins are being driven by purchased power is simply
2 not supported by fact. Before the 2008 acquisition by Great Plains Energy, Inc. (GPE),
3 GMO's predecessor company, Aquila, Inc. (Aquila) consistently recorded positive OSS
4 margins even though its percentage of purchased power sold compared to generation sold
5 exceeded the same percentages GMO has experienced since the acquisition. Since the
6 acquisition, as GMO's percentages of purchased power sold compared to generation sold have
7 *decreased*, GMO's negative OSS margin levels have *increased*. In fact, in the months since
8 Iatan 2 was placed in service (August 2010) in which GMO sold more generation than
9 purchased power, it has still recorded negative OSS margins.

10 The Empire District Electric Company (Empire) is similarly situated to GMO in terms
11 of size (number of customers, rate base, revenues, etc.) and also sells a significant amount of
12 purchased power on the OSS market. Staff will continue to look for an explanation of why
13 GMO is the only Missouri jurisdictional electric utility to consistently record negative OSS
14 margins.

15 **Discussion of Mr. Crawford's Rebuttal Testimony**

16 Q. On page 8, line 13, of his direct testimony, Mr. Crawford states "The negative
17 margins are being driven by Purchases for Resale transactions." Mr. Crawford goes on to say
18 on lines 15 and 16, "these transactions represent GMO wholesale sales that are supplied by
19 purchased power as compared to wholesale sales supplied by GMO owned generation." Do
20 you agree?

21 A. No. GMO owns 18 percent of the Iatan 2 generation plant. Since Iatan 2 was
22 placed in service in August 2010, GMO has recorded 4 months of OSS in which the related
23 costs from generation exceeded the costs from purchased power. GMO recorded negative

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1 margins in 3 of the 4 months resulting in a cumulative negative margin of nearly
2 ** _____ ** as seen in the following HC table:

3

Month	Sales	Generation Cost	Purchased Power Cost	Net Margin
July 2011	** _____ **	** _____ **	** _____ **	** _____ **
August 2011	** _____ **	** _____ **	** _____ **	** _____ **
January 2012	** _____ **	** _____ **	** _____ **	** _____ **
May 2012	** _____ **	** _____ **	** _____ **	** _____ **
4-month total	** _____ **	** _____ **	** _____ **	** _____ **

4
5 The numbers show that GMO is recording negative sales regardless of the source of
6 the related costs.

7 Mr. Crawford also fails to explain why these purchased power costs never had a
8 similar, negative impact on Aquila's net margins prior to the GPE acquisition in July 2008,
9 even though Aquila experienced significantly higher percentages of OSS costs related to
10 purchased power than GMO has experienced since the acquisition. I have attached as HC
11 Schedule VWH-SUR-1 an analysis of OSS and OSS margins comparing Aquila's experience
12 before the GPE acquisition to GMO's experience since the acquisition. Please note the
13 following:

- 14
- 15 • The 3 years prior to the acquisition (2005-2007) Aquila's purchased power
16 costs of OSS averaged 92.11% of its total costs. Over that same period,
17 Aquila had positive net margins each year with a cumulative net margin of
18 22.02%.
 - 19 • The year of the acquisition (2008) Aquila/GMO's combined purchased
20 power costs to total OSS costs dropped to 82.08% and Aquila/GMO
combined for another positive net margin of 24.03%.

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V. William Harris

- 1 • The 3-year period after the acquisition (2009-2011) GMO's purchased
2 power costs to total OSS costs continued to drop (64.84%) with the 2011
3 year being only slightly higher than half (56.67%). Yet GMO recorded a
4 negative net margin each of the three years with the cumulative total being
5 *negative* 35.87%.

6 Comparing Aquila's final 3 years before the year of the acquisition to GMO's 3 years
7 after the acquisition contradicts Mr. Crawford's explanation that negative margins are "being
8 driven" by purchased power costs in that:

- 9 • Purchased power costs *decreased* 74.87% while net margins went from
10 positive 22% to negative 36%.

11 Q. Is there anything else in Mr. Crawford's rebuttal testimony to which you wish
12 to respond?

13 A. Yes. On page 9, lines 5 through 9, Mr. Crawford states that KCPL also
14 sometimes sells purchased power at a loss, but the losses aren't as apparent because of its
15 ability to sell significantly more power than GMO.

16 Unlike KCPL, Empire is a Missouri jurisdictional electric utility similarly sized to
17 GMO (in terms of customers, rate base and revenues) that also sells a significant amount of
18 purchased power in the OSS market. Like KCPL, but unlike GMO (post acquisition), Empire
19 has historically and consistently experienced profitable OSS.

20 Q. Does this conclude your Surrebuttal Testimony?

21 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

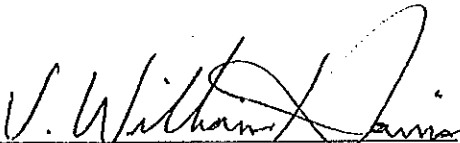
In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority)
to Implement General Rate Increase for)
Electric Service)

Case No. ER-2012-0175

AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

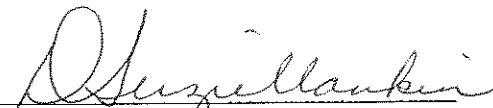
V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that 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 9th day of October, 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

SCHEDULE VWH-SUR-1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN IT'S ENTIRETY