

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Off-System Sales
Meisenheimer/Rebuttal
Public Counsel
ER-2009-0089

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

Kansas City Power & Light Company

CASE NO. ER-2009-0089

March 11, 2009

NP

**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.)

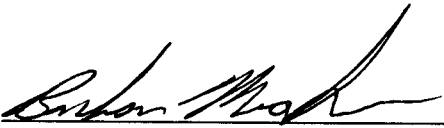
ER-2009-0089

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
 COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

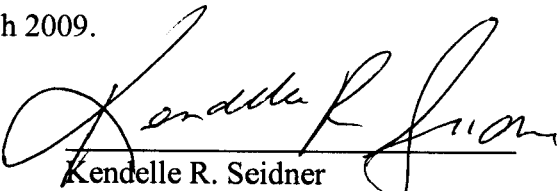
1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


 Barbara A. Meisenheimer

Subscribed and sworn to me this 11th day of March 2009.



KENDELLE R. SEIDNER
 My Commission Expires
 February 4, 2011
 Cole County
 Commission #07004782


 Kendelle R. Seidner
 Notary Public

My Commission expires February 4, 2011.

**KCPL
Revenue Requirement**

ER-2009-0089

**Rebuttal Testimony
of
Barbara Meisenheimer**

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
3 P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for
4 William Woods University.

5 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?**

6 A. Yes, I filed direct testimony on class cost of service and rate design issues on
7 February 25, 2009.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. The purpose of my rebuttal testimony is to present Public Counsel's response to
10 the Staff and Company positions on the level of non-firm off-system sales margin
11 revenue. My testimony will compare the level of non-firm off-system sales
12 margin revenue produced by the RealTimeTM production cost model to the levels
13 proposed by the Missouri Public Commission Staff (Staff) and Kansas City Power
14 and & Light Company (KCPL or Company). I will also discuss my concerns with
15 the Company and Staff methods for determining an appropriate non-firm off-
16 system sales margin.

1

2 **Q. HAS THE STAFF RELIED ON THE REALTIME™ MODEL IN THIS CASE?**

3 A. Yes. The Staff used the RealTime™ model in this case to determine variable fuel
4 cost.

5 **Q. HAS THE STAFF RELIED ON THE REALTIME™ MODEL TO DETERMINE NON-FIRM
6 OFF-SYSTEM SALES IN PREVIOUS CASES?**

7 A. Yes. The Staff used the RealTime™ model in previous rate cases to determine
8 non-Firm off-system. Most recently, the Staff contracted with Michael Rahrer of
9 The Emelar Group, the developer of the RealTime™ model, to determine pre-
10 adjustment non-firm off-system sales margin revenue in Case No. ER-2008-0318.

11 **Q. WHAT IS YOUR EXPERIENCE WITH THE REALTIME™ MODEL?**

12 A. I have worked with Michael Rahrer of The Emelar Group and the RealTime™
13 model in a number of electric rate cases since June 2006. In 2006, Public Counsel
14 originally contracted with The Emelar Group to lease the RealTime™ model, to
15 receive training on the use of the model and for enhancements to be made to the
16 model that would generate reports and files that would allow Public Counsel to
17 develop a production capacity cost allocator for use in class cost of service
18 studies. For this case, Public Counsel contracted with Michael Rahrer of The
19 Emelar Group to visit our offices and to assist in running the RealTime™ model
20 using primarily the input files prepared by the Staff for the Staff's fuel cost run.

21

22

1 **Q. WHAT TYPES OF INFORMATION ARE USED AS INPUTS INTO THE REALTIME™**
2 **MODEL?**

3 A. The inputs into the RealTime™ model include characteristics of system load and
4 generation facilities, parameters related to operations and maintenance, fuel
5 sources, historic fuel expenses and historic market prices.

6 **Q. WHAT MODIFICATIONS DID PUBLIC COUNSEL MAKE TO THE STAFF'S INPUTS AND**
7 **MODEL RUN?**

8 A. The Staff's inputs included aggregate load data which I disaggregated into
9 customer classes. This modification had no substantive impact on the model
10 results. Public Counsel's second modification was to conduct runs of the model
11 using a model function that conducts off-system sales when production is not
12 constrained and the revenue generated from a non-firm off-system sale exceeds
13 the cost of the sale. The non-firm off-system sales margin was derived by
14 summing the expected revenue of these off-system sales for each hour of the year
15 in one model run and then subtracting the sum of the expected cost of these off-
16 system sales for each hour of the year generated in a second model run.

17 **Q. WHAT LEVEL OF MARGIN ON NON-FIRM OFF-SYSTEM SALES WAS PRODUCED BY**
18 **THE MODEL RUNS?**

19 A. The RealTime™ model generated \$127,322,440 as the total company margin on
20 non-firm off-system sales which is significantly greater than the margin on non-
21 firm off-system sales proposed by the Company and by the Staff in this case.

1 **Q. HOW DID THE STAFF DEVELOP ITS LEVEL OF NON-FIRM OFF-SYSTEM SALES**
2 **MARGIN IN THIS CASE?**

3 A. The Staff developed a historic measure of the margin on non-firm off-system
4 sales and then made two adjustments. The first appears to simply adjust the
5 historic measure of the margin on non-firm off-system sales to equal the
6 Company's proposed margin on non-firm off-system sales which is set at the
7 lower quartile of a probability distribution for non-firm off-system developed in
8 Company witness Schnitzer's direct testimony. The Staff's second adjustment
9 corrects the margin to account for off-system sales made "below the line."

10 **Q. DOES PUBLIC COUNSEL SUPPORT EITHER THE COMPANY OR STAFF METHOD FOR**
11 **DETERMINING THE MARGIN ON NON-FIRM OFF-SYSTEM SALES?**

12 A. No. As in previous cases, Public Counsel continues to have significant concerns
13 with the Company's method. With the exception of the Staff's second adjustment
14 which corrects the margin to account for off-system sales made "below the line"
15 Public Counsel does not support the method used by Staff. Ryan Kind addresses
16 Public Counsel's support for the "below the line" adjustment in his rebuttal
17 testimony in this case.

18 **Q. PLEASE DISCUSS YOUR PRIMARY CONCERNS WITH THE COMPANY'S METHOD FOR**
19 **ESTIMATING NON-FIRM OFF-SYSTEM SALES MARGINS.**

20 A. The Company's proposal is to establish the level of off-system sales margin at the
21 25th percentile of a derived distribution of off-system sales margins. This
22 distribution is developed using many of the same general factors that are used in
23 the REALTIMETM model to predict the margin level of off-system sales. Examples

1 of these general factors include estimated resource and product market prices,
2 characteristics of load and generation, and parameters related to operations and
3 maintenance. However, the Company relies heavily on forward looking measures
4 of these factors that seem to be more volatile and result in predictions that vary
5 substantially from historic measures. A good example of this is that the
6 Company's method in this case produces a mean, or average expected margin of
7 approximately **\$_____** and a median value of approximately **\$_____**.
8 Both of these values are substantially above the Company's historic performance;

9 Non-Firm Off-System Sales Margin

10	2004	**\$_____**
11	2005	**\$_____**
12	2006	**\$_____**
13	2007	**\$_____**
14	2008	**\$_____**

15 The Company's projections of mean and median appear to be more
16 affected by volatility in the modeled resource and energy markets than historic
17 off-system sales are affected by actual resource and the wholesale energy prices.
18 Therefore, I believe the RealTime™ model run with Staff's inputs will produce a
19 better predictor of non-firm off-system sales margins.

20 An additional concern is that setting the non-firm off-system sales margin
21 at the lower quartile of the distribution is too low a benchmark. The Company
22 faces little if any financial penalty for performing at a level well below the
23 average or expected level of non-firm off-system sales margins which diminishes
24 the Company's incentive to achieve maximum non-firm off system sales. In 2007



1 and 2008, following implementation of the Company's method, non-firm off-
 2 system sales declined, closing out each year just above the 25th percentile.

3 **Q. YOU STATED THAT THE ACTUAL 2007 AND 2008 NON-FIRM OFF-SYSTEM SALES**
 4 **MARGINS WERE JUST ABOVE THE 25TH PERCENTILE ESTABLISHED IN THE**
 5 **PREVIOUS RATE CASE BY THE COMPANY'S MODEL. DOES THIS IMPLY THAT THE**
 6 **MODEL IS A GOOD PREDICTOR OF OFF-SYSTEM SALES MARGINS?**

7 A. No. The model predicts that the actual margin on off-system sales is likely to be
 8 significantly higher than the 25th percentile.

9 **Q. PLEASE COMPARE THE STAFF AND COMPANY MARGINS ON NON-FIRM OFF-**
 10 **SYSTEM SALES TO THE LEVEL YOU PROPOSE BASED ON MODIFICATION OF THE**
 11 **STAFF REALTIMETM RUN.**

12 A. The following table summarizes the parties' non-firm off-system sales margin
 13 recommendations based on the Staff's 56.64% allocation to the MO Jurisdiction;

	OPC	Staff	Company
Total Company	\$127,322,440	**\$_____**	**\$_____**
MO Jurisdictional (x 56.64%)	\$72,115,430	**\$_____**	**\$_____**
Adj To Match KCPL (+)		**\$_____**	
Adj For Below Line OSS (+)	**\$_____**	**\$_____**	
Non-Firm OSS Recommendation	**\$_____**	**\$_____**	**\$_____**

14

1 **Q. WILL YOU BE PROVIDING AN UPDATED ESTIMATE OF THE NON-FIRM OFF-SYSTEM**
2 **SALES MARGIN AS PART OF THE UPDATE PROCESS IN THIS CASE?**

3 A. I will review additional information as it becomes available and may file and
4 update.

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 A. Yes.