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Witness: Jatinder Kumar
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Sponsoring Party: National Nuclear
Security
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Case No.: ER-2009-0089
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

REBUTTAL TESTIMONY
OF
JATINDER KUMAR

SUBMITTED ON BEHALF
THE NATIONAL NUCLEAR SECURITY ADMINISTRATION AND THE
FEDERAL EXECUTIVE AGENCIES

March 11, 2009

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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2009-0089

REBUTTAL TESTIMONY
OF
JATINDER KUMAR

13 Q. Are you the same Jatinder Kumar who submitted direct testimony
14 in this proceeding?

15 A. Yes, I am
16

17 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

18 A. I will discuss the following issues: (1) Off System Sales Margin; (2) Off-system
19 capacity and ancillary services revenue; (3) firm wholesale customer cost
20 allocation; (4) return on equity; and (5) latan 1 costs.
21

22 Q. HAVE YOU PREPARED AN EXHIBIT IN CONNECTION WITH THIS
23 TESTIMONY?

24 A. Yes, I have prepared an exhibit which consists of 5 Schedules. For identification
25 purpose, this exhibit is designated as NNSA Exhibit____(JK-1).
26

27 **OFF SYSTEM SALES (OSS) MARGIN**
28

29 Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S COMPUTATIONS
30 OF THE OSS MARGIN?

1 A. I understand that the Company's computed OSS Margin is primarily impacted by
2 gas prices.

3

4 Q. ARE THERE FACTORS OTHER THAN GAS PRICES WHICH SHOULD BE
5 TAKEN INTO ACCOUNT IN THOSE COMPUTATIONS?

6 A. Yes. Even when gas prices decrease, loads and congestion costs can
7 sometimes cause OSS power prices to increase. For this reason, loads and
8 congestion costs should be included the OSS computations. Inclusion of these
9 factors will increase the OSS Margin.

10

11 OFF-SYSTEM CAPACITY AND ANCILLARY SERVICES REVENUE

12

13 Q. DOES KCP&L ACTIVELY PARTICIAPTE IN THE OFF SYSTEM MARKETS?

14 A. Yes, the Company actively sells energy, capacity and ancillary services in at
15 least three wholesale power markets, SPP, MISO and PJM.

16

17 Q. HAVE THE STAFF AND THE COMPANY INCLUDED REVENUES FROM THE
18 SALE OF CAPACITY AND ANCILLARY SERVICES?

19 A. No.

20

21 Q. SHOULD SUCH REVENUES BE INCLUDED?

22 A. Yes. Because the Company uses the resources to sell capacity and ancillary
23 services, and the cost of those resources is allocated to Missouri jurisdictional

1 customers, those revenues should also be allocated to Missouri jurisdictional
2 customers.

3

4 FIRM WHOLESale CUSTOMER COST ALLOCATION

5

6 Q. IS THERE A FUNDAMENTAL DIFFERENCE BETWEEN THE BASIS FOR
7 KCPL'S FIRM WHOLESale RATES AND KCPL'S RETAIL RATES?

8 A. Yes. Retail rates are cost-based while firm wholesale rates are market-based.

9 Thus, retail rates are based on system average fuel and purchased power costs
10 (FPP), while market-based rates are based on incremental FPP costs.

11

12 Q. HOW DID STAFF ALLOCATE COSTS TO WHOLESale CUSTOMERS?

13 A. Like the Company, Staff allocated costs to the Missouri jurisdiction based on the
14 ratio of the Company's total Missouri jurisdictional load to the Company's total
15 load.

16

17 Q. WHAT IS THE PROBLEM WITH THAT ALLOCATION PROCEDURE?

18 Total load includes total retail customer load and total firm wholesale customer
19 load. Combining these two loads causes average FPP costs, rather than
20 incremental FPP costs, to be attributed to firm wholesale customers. Thus,
21 average FPP costs are attributed to wholesale customers, although those
22 wholesale customers' rates are really based on incremental FPP costs. This

1 causes the costs that are attributed to wholesale customers to be significantly
2 misstated.

3

4 Q. WHAT IS YOUR RECOMMENDATION?

5 A. I recommend that incremental FPP costs rather than average FPP costs be
6 allocated to wholesale customers.

7

8 RETURN ON EQUITY (ROE)

9

10 Q. DO YOU HAVE ANY RESPONSE TO THE STAFF POSITION ON ROE?

11 A. Yes. First, Staff supports the Risk Premium approach to calculating ROE. At
12 pages 41 and 42 of my direct testimony, I quoted the New Mexico Commission's
13 recent rejection of that approach. This Commission should reject that approach
14 here.

15

16 Second, Staff computed an ROE range of 9.25% to 10.25% with the midpoint
17 ROE of 9.75%. In Schedules 47 and 48 of Exhibit__(JK-1), and in Schedule 1 of
18 Exhibit__(JK-2), I have presented a summary of ROEs allowed to electric
19 utilities in the country in 2005, 2006, 2007and 2008. In 2008, the average ROE
20 declined to less than 10.50%.

21

22 Third, the Company's witness Dr. Hadaway summarized the ROEs allowed to
23 electric utilities at page 29 of his direct testimony. By using the data provided by

1 Dr. Hadaway, reproduced here as Schedule 2 of Exhibit ____(JK-2), my Schedule 3
2 of Exhibit__(JK-2), presents the relationship between allowed ROE and equity
3 as a percentage of capital structure. Schedule 5 shows that allowed ROE
4 generally decreases as equity decreases, up to the point at which equity reaches
5 a level below 48%. At that point, ROEs begin to increase. When equity
6 percentage decreases below 48% level, risks associated with increased amount
7 of debt cause ROE to increase.

8 I believe that KCPL's new refinancing with debt will put KCPL's equity ratio at
9 about 47%. Schedule 4 of Exhibit__(JK-2) sets forth ROEs that have been
10 allowed for other utilities which have similar equity ratios. It shows a range of
11 ROEs from 9.0% to10.0%, and an average of 9.63%. For this reason, I believe
12 that Staff's upper range of 10.25% is on the high side.

13
14 Q. WHAT IS YOUR RECOMMENDATION?

15 A. I recommend that ROE be in sync with the average ROE allowed to electric
16 utilities which have similar levels of equity. I also recommend that the ROE
17 calculation take into account the fact that the Regulatory Plan significantly
18 reduces KCPL's risks.

19
20 . IATAN 1 COSTS

21
22 Q. WHAT ARE THE ISSUES RELATED TO IATAN 1COSTS?

23 A. There are three main issues:

- 1 (1) when Iatan 1 should be considered in service and used and useful;
2 (2) whether and when Iatan 1 costs should be subjected to prudence review; and
3 (3) which Iatan 1 costs should be allowed.
4

5 Q. WHAT IS THE CURRENT STATUS OF IATAN 1?

6 A. On February 4, 2009, excessive rotator vibrations caused Iatan 1 to trip. The
7 turbine rotor shaft had to be removed and sent for repair. Due to this problem,
8 the Air Quality Control System (AQCS) which is being installed at the plant could
9 not be started and tested. In its March 2, 2009 Status Report,, the Company
10 advised the Commission that it would resume Iatan 1 start-up activities on or
11 about March 10, 2009. The Company also stated that the AQCS equipment will
12 likely not satisfy the applicable in-service criteria until the second or third week of
13 April, 2009.
14

15 Q. IN ITS STATUS REPORT, THE COMPANY ASSERTED THAT THE NEW AQCS
16 SHOULD BE DEEMED TO BE IN-SERVICE UPON ACHIEVING THE
17 PROVISIONAL ACCEPTANCE CRITERIA THAT ARE INCLUDED IN ITS
18 CONTRACT WITH THE CONTRACTOR FOR THE AQCS EQUIPMENT. DO
19 YOU AGREE WITH THE COMPANY'S ASSERTION?

20 A. No, I do not.
21

22 Q. WHAT ARE YOUR QUALIFICATIONS FOR MAKING A JUDGMENT ON THIS
23 SUBJECT?

1 A. As described in the qualifications appended to my direct testimony, I hold
2 advanced degrees in engineering and I am a registered Professional Engineer.
3 Before I began consulting, I worked as a design and project engineer with a
4 number of companies, including Pacific Gas & Electric Company, one of the
5 largest utilities in the country. During that time, I dealt with in-service criteria for
6 various utility projects. As a consultant, I have reviewed and testified in regard to
7 a number of construction contracts and in regard to in-service criteria for
8 generators and other projects. I have also been involved in planning, designing,
9 construction and supervision of two generators, and in contract negotiations and
10 acceptance of plant completion and in-service dates.

11
12 Q. PLEASE EXPLAIN THE REASONS FOR YOUR DISAGREEMENT REGARDING
13 THE IN-SERVICE CRITERIA.

14 A. I have reviewed KCPL's contract (Contract) with Alstom Power, Inc. for the
15 AQCS. It is my view that Iatan1 should be considered in-service and used and
16 useful only at the date when the Company issues a final acceptance to Alstom,
17 as provided in the Contract. As per the Contract, the correct term reflecting this
18 date is "Final Completion Date."

19
20 Q. IS IT POSSIBLE THAT IATAN 1 WILL BE COMMERCIALY IN-SERVICE BY
21 MARCH 31, 2009, THE END OF TRUE-UP PERIOD?

22 A. No. Iatan 1 will definitely not be provisionally or fully completed by March 31,
23 2009. The Company acknowledges that it does not expect even Provisional

1 Acceptance before the second or third week of April, 2009. As the date of start-
2 up activities has been slipping, it is possible that Provisional Acceptance may
3 even be considerably later than the end of April, 2009.

4
5 Q. WAS THE DELAY IN THE COMMERCIAL OPERATION OF IATAN 1 CAUSED
6 BY ANY IMPROPER ACTION ON THE PART OF THE COMPANY?

7 A. Yes, it was

8
9 Q. SHOULD THE TRUE-UP PERIOD BE EXTENDED THROUGH APRIL 30, 2009,
10 AS PER THE COMPANY'S REQUEST?

11 A. No. It is not appropriate to have a test period with a moving target. March 31,
12 2009 is fully fifteen months after the end of the test period. Moreover, a number
13 of revenue requirement elements other than Iatan 1 costs, including rate base,
14 revenues and expenses, could have changed substantially in that 15 month
15 period. Reflecting just the one change for Iatan 1 would create a serious
16 mismatch in the test period.

17
18 Q. DO YOU HAVE OTHER CONCERNS ABOUT EXTENDING THE TRUE-UP
19 PERIOD UNTIL APRIL 30, 2009?

20 A. Yes. First, because Final Completion may not happen before the end of the year
21 2009, final cost data may not be available much before the end of 2009.

22 To my knowledge, no party, except Staff, has received any detailed information
23 about the extent of and reasons for the cost over runs. Staff's witness, Cary

1 Featherstone, acknowledged at pages 45 – 46 of his direct testimony that the
2 final costs of Iatan 1 will not be known for some time, and that Staff will not be
3 able to complete, and present the results of, construction cost reviews either
4 within the regular schedule or in the true-up procedures following the March 31,
5 2009 true-up cutoff.

6
7 Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING RECOVERY OF
8 IATAN 1 COSTS?

9 A. First, the rates that are set in this proceeding should not include any recovery of
10 Iatan 1 costs. The Company has acknowledged that Iatan 1 will not meet even
11 its own in-service criteria by March 31, 2009, the date of the end of the True-up
12 Period. Therefore, the costs related to Iatan 1 will be quite far out of the Test
13 Period. Also, it would be premature to include Iatan 1 costs in this proceeding
14 because there is no assurance as to:

- 15
16 (1) when the plant will be finally completed and performing satisfactorily;
17 (2) what the actual final costs will be; and
18 (3) whether all of those costs were prudently incurred.

19
20 Alternatively, if the Commission does approve rates that include recovery of some
21 or all of Iatan 1 costs, it should do so with the proviso that whatever part of the
22 rates is based on recovery of Iatan 1 costs shall be subject to refund.

23

1 Finally, the Commission should order a prudency investigation of Iatan 1 costs,
2 either as part of this case, the subsequent rate case, or as a new docket.

3

4 Q. WOULD THERE BE ADVERSE CONSEQUENCES IF RATES ARE NOT MADE
5 SUBJECT TO REFUND?

6 A. Yes. If any part of the costs of Iatan 1 is included in rates, and Iatan 1 does not
7 perform fully and satisfactorily, or if any part of those costs is later determined to
8 be imprudent, there would be no way to retroactively reduce rates accordingly.
9 This would permanently and irrevocably harm ratepayers.

10

11 Q. DO NNSA OR FEA OPPOSE THE INSTALLATION OF AIR QUALITY
12 CONTROL EQUIPMENT AT IATAN 1, OR OPPOSE THE CONCEPT OF
13 INCLUDING THE COST OF INSTALLATION OF SUCH EQUIPMENT AT IATAN
14 1 IN THE COMPANY'S RATES?

15 A. No. All that NNSA and FEA are asserting is that the costs of this equipment
16 should not be included in rates *at this time, and that there should be a prudency*
17 *review of those costs.*

18

19 Q MR. KUMAR, DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

20 A. Yes, it does.

21

22