

Exhibit No.:
Issue: Revenue Requirement
Witness: Greg R. Meyer
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Parties: Industrials
Case No.: ER-2010-0355
Date Testimony Prepared: February 28, 2011

**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) **Case No. ER-2010-0355**
in its Charges for Electric Service to)
Continue the Implementation of Its)
Regulatory Plan)
_____)

True-Up Rebuttal Testimony and Schedules of

Greg R. Meyer

On behalf of

**Midwest Energy Users Association
Missouri Industrial Energy Consumers
Praxair, Inc.**

REDACTED VERSION

February 28, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 9215

**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 Charges for Electric Service to)
Continue the Implementation of Its)
Regulatory Plan)

Case No. ER-2010-0355

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) SS

Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017. We have been retained by Midwest Energy Users Association, Missouri Industrial Energy Consumers and Praxair, Inc. in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my true-up rebuttal testimony and schedules which were prepared in written form for introduction into evidence in the Missouri Public Service Commission's Case No. ER-2010-0355.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Greg R. Meyer

Subscribed and sworn to before me this 28th day of February, 2011.

Notary Public

1 **Q WHAT IS THE PURPOSE OF YOUR TRUE-UP REBUTTAL TESTIMONY?**

2 A The purpose of my true-up rebuttal testimony is to address the level of off-system
3 sales margins that KCPL proposes to include in the rate case as a result of the
4 true-up in this case.

5 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

6 A In my direct testimony, I recommended that the Commission establish off-system
7 sales margins at the 40th percentile (*****). Despite KCPL's claims in its
8 true-up testimony that off-system sales margins are projected to decrease from the
9 level in its direct testimony, I continue to recommend this same level of off-system
10 sales margins. I will show, through other analyses, that this recommended level of
11 off-system sales margins is conservative and should be easily achievable by KCPL.
12 My testimony shows that KCPL's claims in its true-up testimony are driven by faulty
13 assumptions. Specifically, by overstating both its planned outage schedule and its
14 firm load obligation, KCPL has driven its projected off-system sales lower. By
15 replacing these unsupportable assumptions with actual data from KCPL planning
16 documents and its fuel normalization model, I will show that off-system sales are not
17 decreasing. For all these reasons, the Commission should set off-system sales
18 margins at *****.

19 **Q WHAT LEVEL OF OFF-SYSTEM SALES DOES KCPL PROPOSE TO INCLUDE AS**
20 **A RESULT OF THE TRUE-UP AUDIT?**

21 A KCPL continues to support the level of off-system sales margins at the 25th percentile,
22 as calculated by Company witness Schnitzer. As a result of its true-up, KCPL now

1 claims that the level of off-system sales margins at the 25th percentile has decreased
2 from ***** to *****.

3 **Q DO YOU AGREE WITH THE LEVEL OF OFF-SYSTEM SALES MARGINS KCPL**
4 **HAS PROPOSED?**

5 A No. MEUA continues to assert that the Commission needs to establish higher
6 expectations for KCPL to participate in the wholesale market. Therefore, the 40th
7 percentile is the correct level of off-system sales margins to include in the rate case.
8 The level of off-system sales margins that KCPL has achieved in 2010 and the
9 expected additional sales from Iatan 2 will generate off-system sales margins at or
10 greater than the 40th percentile level contained in KCPL's direct case. Furthermore,
11 given the significant problems associated with the assumptions utilized by KCPL in its
12 true-up analysis, MEUA is recommending that the 40th percentile of off-system sales
13 margins be established based on KCPL's direct testimony. That level of off-system
14 sales margins equates to *****.

15 **Q WHAT ARE THE DIFFERENT LEVELS OF OFF-SYSTEM SALES MARGINS AT**
16 **THE 25TH AND 40TH PERCENTILES DERIVED FROM KCPL'S DIRECT AND**
17 **TRUE-UP TESTIMONY?**

18 A The table below will summarize the different levels of off-system sales margins for the
19 25th and 40th percentiles derived from KCPL's direct and true-up testimony.

<u>KCPL Off-System Sales at 25th and 40th Percentile</u>		
<u>KCPL Case</u>	<u>25th Percentile</u>	<u>40th Percentile</u>
Direct	*****	*****
True-Up	*****	*****

1 **Q WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO REMAIN AT THE 40TH**
2 **PERCENTILE LEVEL CONTAINED IN KCPL'S DIRECT TESTIMONY?**

3 A The level of off-system sales margins at the 40th percentile calculated from KCPL's
4 direct testimony is conservative after considering the level of off-system sales
5 margins KCPL achieved in 2010 without Iatan 2 and the increased level of off-system
6 sales margins that KCPL claims Iatan 2 will generate.

7 **Q WHAT LEVEL OF OFF-SYSTEM SALES MARGINS DID KCPL ACHIEVE IN 2010?**

8 A KCPL recorded ***** of off-system sales margins during calendar year
9 2010 (Schedule GRM-TU-1). This level of off-system sales margins does not reflect
10 any sales from Iatan 2. Therefore, KCPL was able to achieve this level of off-system
11 sales margins without selling one MWh of energy from Iatan 2.

12 **Q WHAT LEVEL OF OFF-SYSTEM SALES MARGINS DOES KCPL ESTIMATE**
13 **IATAN 2 WILL GENERATE?**

14 A On page 3 of his true-up testimony, Mr. Schnitzer estimates that Iatan 2 will account
15 for ***** of off-system sales margins at the 25th percentile. When you add
16 the level of off-system sales margins KCPL achieved in 2010 (*****) to the
17 level of off-system sales margins Mr. Schnitzer estimates Iatan 2 will generate (****

1 *****), you derive a total of approximately ***** . This figure is in
2 excess of the ***** that I am recommending.

3
4 **Q DO YOU HAVE CONCERNS WITH THE LEVEL OF OFF-SYSTEM SALES**
5 **MARGINS KCPL CALCULATES FOR PURPOSES OF ITS TRUE-UP TESTIMONY?**

6 A Yes. I have concerns with two of the inputs provided to Mr. Schnitzer by KCPL.
7 Specifically, I have concerns with the level of baseload planned outages for KCPL's
8 units and the level of firm load capacity.

9 **Q PLEASE DESCRIBE YOUR CONCERN WITH THE LEVEL OF PLANNED**
10 **BASELOAD OUTAGES.**

11 A KCPL has included ***** megawatt days for the planned outages of its baseload
12 units from May 1, 2011 through April 30, 2012. I compared this level to KCPL's
13 schedule of planned outages that was provided to the MEUA in Data Request
14 No. 18.9 (Schedule GRM-TU-2). Using that schedule, I calculated that between
15 May 4, 2011 (operation of law date) and May 3, 2012, KCPL will have *****
16 megawatt days for planned outages associated with its baseload units. The
17 difference between these two totals is ***** megawatt days.

18 **Q WHAT IS THE SIGNIFICANCE OF THE LOWER MEGAWATT DAYS THAT YOU**
19 **HAVE CALCULATED?**

20 A By having fewer megawatt days assigned to planned outages, KCPL's generators will
21 be available to sell a greater amount of energy into the wholesale market, and
22 thereby realize greater levels of off-system sales margins.

1 Q DID YOU QUANTIFY THE INCREASED LEVEL OF OFF-SYSTEM SALES
2 MARGINS WHICH CAN BE REALIZED IF THE CORRECT LEVEL OF
3 UNPLANNED OUTAGES IS USED IN THE OFF-SYSTEM SALES MARGIN
4 MODEL?

5 A Yes. Converting the ***** megawatt days into MWhs, I multiplied the megawatt
6 days by 24. I then multiplied the MWhs (*****) by the around-the-clock (“ATC”)
7 price used by KCPL in its true-up testimony (*****). This produced a
8 level of off-system sales revenues of *****. I then applied the margin
9 percentage for 2009 listed in Staff witness William Harris’ testimony of 35.29%.
10 Applying this margin percentage to the total off-system sales revenues described
11 above produces an increase in the level of off-system sales margins of
12 ***** . I would suggest that KCPL’s estimate at the 40th percentile in its
13 true-up testimony needs to be increased to account for the faulty planned outage
14 assumption.

15 Q YOU ALSO MENTIONED THAT YOU HAVE CONCERNS WITH THE LEVEL OF
16 FIRM LOAD OBLIGATION. COULD YOU PLEASE DESCRIBE YOUR CONCERN?

17 A Yes. KCPL provides Mr. Schnitzer a Firm Load Obligation input for running his model
18 which estimates the level of MWhs needed to serve native load, contract
19 commitments and spinning reserves. For purposes of its true-up case, KCPL
20 assumed a level of ***** for the Firm Load Obligation. I compared this
21 level to the level of GWhs included in KCPL’s fuel run. KCPL’s fuel run lists its firm
22 load obligation at ***** . This level of firm load obligation is very
23 consistent with that contained in Staff’s fuel run (*****). As one can see,

1 the firm load obligation contained in the off-system sales model is significantly in
2 excess of that actually expected.

3 **Q WHAT IS THE SIGNIFICANCE OF A LOWER LEVEL OF FIRM LOAD**
4 **OBLIGATION AS USED BY KCPL IN ITS PRODUCTION COST MODEL?**

5 A By having a higher Firm Load Obligation in its off-system sales model than it includes
6 in its fuel production cost model, KCPL is inappropriately limiting the ability of its
7 generators to sell into the wholesale market. Effectively, by causing the off-system
8 sales model to believe that these units are needed to provide energy for native load
9 that does not truly exist, KCPL has artificially lowered the projected off-system sales
10 margins. If this phantom native load energy requirement is excluded from the
11 off-system sales model, KCPL would be able to sell greater levels of off-system sales
12 and realize increased levels of off-system sales margins.

13 **Q HAVE YOU QUANTIFIED THE IMPACT ON KCPL'S OFF-SYSTEM SALES**
14 **MARGINS FROM THE INCLUSION OF THE LOWER LEVEL OF FIRM**
15 **OBLIGATION LOAD?**

16 A Yes. I took the difference in GWhs identified above (*****
17 that figure to MWhs by multiplying by 1,000. I then took those MWhs and multiplied
18 those hours by the ATC price used by Mr. Schnitzer in his model (*****
19 *****). This level of off-system sales revenues was then multiplied by the margin
20 percentage provided by Staff witness Harris (35.29%). This calculation derived an
21 increase in off-system sales margins of *****. Since KCPL has overstated
22 the level of native load energy in its model, I contend that this increased level of

1 off-system sales margins should be added to the results of KCPL's off-system sales
2 analysis in its true-up testimony.

3 **Q WHEN YOU COMBINE THE RESULTS OF THE TWO CHANGES TO THE INPUTS**
4 **YOU PREVIOUSLY DESCRIBED, WHAT LEVEL OF OFF-SYSTEM SALES**
5 **MARGINS DO YOU DERIVE AT THE 40TH PERCENTILE FROM KCPL'S TRUE-UP**
6 **TESTIMONY?**

7 A By including the increased off-system sales margins from both the decreased level of
8 planned outages for KCPL's baseload generators and the decreased level of Firm
9 Obligation Load, KCPL could realize ***** in off-system sales margins
10 at the 40th percentile based on their true-up case filing. I have included a table below
11 which details the increased level of off-system sales margins that KCPL could realize
12 from changing those two inputs.

<u>KCPL's Adjusted Level of Off-System Sales at 40th Percentile</u>	
<u>Description</u>	<u>Amount (\$/Millions)</u>
KCPL True-up Filing at the 40 th Percentile	*****
Decreased level of Planned Outages	*****
Decreased level of Firm Obligation Load	*****
Total Adjusted Off-System Sales Margins	*****

13 **Q ARE THERE OTHER ASPECTS OF KCPL'S TRUE-UP ANALYSIS THAT CAUSES**
14 **YOU TO QUESTION THE LEGITIMACY OF KCPL'S ASSUMPTIONS?**

15 A Yes. At the 25th percentile of its true-up analysis, KCPL assumes that it will sell
16 ***** in the wholesale market (Data Request 20.8). Noticeably, this is
17 less than the ***** of off-system sales that it actually made in 2010

1 without latan 2. In effect, KCPL would have this Commission believe that despite all
2 the energy now available from latan 2, it would actually make less off-system sales
3 than it did in 2010. In contrast, the 40th percentile from KCPL's direct testimony
4 analysis assumes off-system sales of *****. This represents a very
5 conservative increase of 5.6% in off-system sales.

6 **Q YOU STATED EARLIER THAT YOUR RECOMMENDATION IS CONSERVATIVE.**
7 **PLEASE DISCUSS HOW YOUR RECOMMENDATION IS CONSERVATIVE.**

8 A First, MEUA's recommendation is based upon the 40th percentile. As I mentioned
9 during the evidentiary hearing, traditional ratemaking would dictate that off-system
10 sales be set at the 50th percentile. By using the 40th percentile, I am providing KCPL
11 an enhanced opportunity to meet and exceed this level of off-system sales.
12 Effectively, KCPL has a 60% chance of exceeding this level of off-system sales.
13 Second, as mentioned, achieving the 40th percentile from KCPL's direct testimony
14 only assumes an increase in off-system sales (in MWhs) of 5.6%. Given that KCPL
15 will have the energy associated with its 465 MWs of latan 2 available for these
16 off-system sales, this 5.6% increase in off-system sales is very conservative.

17 **Q PLEASE SUMMARIZE YOUR TESTIMONY.**

18 A I continue to recommend that the Commission establish off-system sales margins at
19 the 40th percentile as calculated in its direct testimony. I have demonstrated that this
20 level is conservative given KCPL's 2010 performance in the off-system sales market
21 and the value assigned by Company witness Schnitzer for the addition of latan 2. I
22 have also provided adjustments to KCPL's true-up estimate to the 40th percentile
23 which would closely approximate the level of off-system sales margins I proposed in

1 my direct testimony. My recommended level of off-system sales margins is clearly
2 achievable and should be adopted by the Commission for purposes of KCPL's
3 current rate case.

4 **Q DOES THIS CONCLUDE YOUR TRUE-UP DIRECT TESTIMONY?**

5 **A** Yes, it does.

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**Schedules GRM-TU-1 and GRM-TU-2
are Highly Confidential in their entirety.**