Exhibit No.:	
Issue:	*Off-System Sales Margin*
Witness:	*V. William Harris*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No:	*ER-2009-0089*
Date Testimony Prepared:	*March 11, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

Great Plains Energy, Inc.
KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2009-0089

Jefferson City, Missouri
March 2009

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

NP

REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

KANSAS CITY POWER AND LIGHT COMPANY

CASE NO. ER-2009-0089

Q. Please state your name and business address.

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

Q. Are you the same V. William Harris that filed testimony in the Staff's Cost of Service Report dated February 11, 2009?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the direct testimony of Kansas City Power and Light (KCPL) witness Burton L. Crawford on the issue of off-system sales margins. I will also update the Staff's position on off-system sales margins based on information provided by the Company in response to Data Request Nos. 501 through 506, subsequent to the filing of Staff's Cost of Service Report in this case.

Q. What are off-system sales margins?

A. Off-system sales (OSS) are sales of electricity made at times when utilities have met all obligations to serve their native load customers and have excess energy to sell to other utilities at non-regulated prices higher than the cost to serve their native load customers. Margins (profits) are the gross revenues from each sale less the fuel and purchased power expenses KCPL incurs in that sale.

Q. Please summarize the treatment of OSS margins in KCPL's first two rate cases under its Case No. EO-2005-0329 Regulatory Plan.

A. In Case No. ER-2006-0314, the Commission approved a methodology proposed by KCPL that was based, in part, on a model developed and implemented by Michael M. Schnitzer of NorthBridge Group, Inc. The NorthBridge Model calculates the distribution of OSS margins. Based on the results of the distribution of OSS margins generated by the NorthBridge Model, the Commission determined the margins used to offset fuel expense from meeting native load to be at a level at which the probability of OSS margins being lower than that level was twenty-five percent (25%). Expressed alternatively, KCPL had a 75% probability of attaining that level of OSS margins or higher. If KCPL attained a higher level of margins than the 25% level included in net fuel expense, the excess was to be accumulated as a regulatory liability that KCPL must pay back to rate payers at a future date.

In Case No. ER-2007-0291, KCPL again proposed OSS margin treatment at the 25th percentile and the Staff accepted the KCPL position. The Commission again approved the 25th percentile methodology for OSS margins in its Report and Order in Case No. ER-2007-0271.

Q. What is KCPL's position on the level of OSS margins to include in the revenue requirement in this proceeding?

A. On page 9, lines 8 through 10, of his direct testimony, KCPL witness Chris B. Giles states, "Consistent with the Commission's orders in the past two KCP&L rate cases, the Company has included in the revenue requirement in this case a level of Off-system Sales Margins at the 25th percentile".

Q. What has KCPL determined is the level of OSS margins at the 25th percentile?

A. On page 13, lines 3 through 5, of his direct testimony, Mr. Giles states, "Based on the analysis of Michael Schnitzer of Northbridge, the 25^{th} percentile expectation for 2008 Off-system Sales Margins is ** __________ ** total Company. This is the amount KCP&L included in the revenue requirement in this case." [Emphasis added]

Mr. Schnitzer similarly states on page 3, lines 6 through 11, of his direct testimony "My Direct Testimony in this 2009 Rate Case supports the Company's proposed ratemaking treatment for off-system sales described in the Direct Testimony of Mr. Chris B. Giles (sic) Consistent with the Commission's 2007 Report and Order, KCP&L proposes for the 2009 Rate Case to establish Off-System Contribution Margin at the 25^{th} Percentile of my probabilistic analysis for the 2009-10 Period (i.e., ** __________ **) and to account for this as a reduction to KCP&L's test year revenue requirements."

Q. What is the Staff's position on the level of OSS margins to include in the revenue requirement in this proceeding?

A. Staff accepts Mr. Schnitzer's projection of OSS margins at the 25th percentile (i.e., ** __________ **).

However, contrary to the aforementioned assertions of Messrs. Giles and Schnitzer, KCPL witness Burton L. Crawford suggests that KCPL's "true" position on the level of OSS margins to include in the revenue requirement is ** __________ **.

Q. Please explain your statement.

A. Mr. Crawford has attached a highly confidential Schedule BLC-7 to his direct testimony. The schedule, titled *Adjustment to Off-System Sales Margin,* lists two adjustments to Mr. Schnitzer's projected OSS margins at the 25th percentile.

The first adjustment, for line losses, reduces the OSS margins by ** __________ **. The second adjustment, for purchases for resale, reduces the OSS margins by ** __________ **. Together the two adjustments reduce OSS margins from the ** __________ ** in the testimonies of Messrs. Giles and Schnitzer down to ** __________ **.

KCPL's response to Data Request No. 190 breaks the second adjustment to OSS margins down into separate sales and cost components by month and lists another type of off-system sales (and costs) called "Q sales".

Q. Why are these adjustments to OSS margins inappropriate?

A. The Commission's July 28, 2005, Report and Order and the agreed to language in KCPL's Experimental Regulatory Plan Stipulation And Agreement, Case No. EO-2005-0329, Section III.B.1.j., as amended by the July 26, 2005, Signatory Parties' Response To Order Directing Filing and August 23, 2005 Order Approving Amendments To Experimental Regulatory Plan, specifically precludes KCPL from proposing any adjustment in a rate case that would remove any portion of its off-system sales. Reducing the profit from off-system sales in this fashion violates the Stipulation And Agreement in Case No. EO-2005-0329.

Q. What specific treatment for OSS margins was provided for in the Commission's Report and Order in Case No. EO-2005-0329?

A. The agreement of the signatory parties on OSS margins is stated on page 18 of the Commission's Report And Order:

> Under the terms of the Stipulation, KCPL agrees that off-system energy and capacity sales revenues and related costs will continue to be treated "above the line" for ratemaking purposes. **KCPL will not propose any adjustment that would remove**

> **any portion of its off-system sales from its revenue requirement determination in any rate case. KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process**. During the hearing, KCPL also stipulated that it would agree to this ratemaking treatment for off-system sales as long as the Iatan 2 costs were <u>included</u> in KCPL's rate base. (Tr. 1037-38).[4] [Emphasis added].
>
> [4] Also in their July 26 Response to Order Directing Filing, the Signatory Parties memorialized KCPL's agreement that all of its off-system sales would be used to establish Missouri jurisdictional rates as long as the related investments and expenses are considered in determining those rates, and amended Section III.B.1.j. of the Stipulation and Agreement.

Q. What are "Q sales"?

A. In its response to Staff Data Request (DR) No. 503 KCPL states "These are wholesale sales revenues from transactions that did not impact the KCPL system". In the responses to Staff DRs 502 and 504, KCPL refers to Q sales as "risk based trades". In its response to Staff DR 502, KCPL goes on to state that it "intends to continue executing risk based trades. However, the financial gains, or losses, resulting from risk based trades will not be included in the calculation of regulated wholesale margins. All financial gains, or losses, derived from speculative risk-based trading will accrue to the GPE shareholder. Accordingly, all costs associated with executing risk based trades, including salaries and infrastructure costs, are tracked (as they occur) and recorded in account 817115."

During a meeting with Staff held on January 15, 2009, KCPL representatives confirmed that Q sales were being treated "below the line".

Q. How does this accounting treatment violate the language in the Commission's Report and Order in Case No. EO-2005-0329?

A. As previously noted, the language in the Case No. EO-2005-0329 Stipulation and Agreement states, in part as follows:

> Under the terms of the Stipulation, **KCPL agrees that off-system energy and capacity sales revenues and related costs will continue to be treated "above the line" for ratemaking purposes.** KCPL will not propose any adjustment that would remove any portion of its off-system sales from its revenue requirement determination in any rate case. **KCPL agrees that it will not argue that these revenues and associated expenses should be excluded from the ratemaking process.** (Tr. 1037-38). [Footnote omitted; Emphasis added].

Q. Do KCPL's historical OSS margins appear "risky"?

A. No. KCPL's actual OSS margins from 2001 through 2008 are reflected below:

Year	**Actual Dollars**	**Margin %**
2001	** __________ **	** _______ **
2002	** __________ **	** _______ **
2003	** __________ **	** _______ **
2004	** _________ _ **	** _______ **
2005	** __________ **	** _______ **
2006	** __________ **	** _______ **
2007	** __________ **	** _______ **
2008	** __________ **	** _______ **

[KCPL Responses to Staff Data Request Nos. 190, 190S and 313]

KCPL has generally experienced a significant increase in annual OSS margins. While the levels experienced in 2006 through 2008 decreased somewhat, they have remained robust. Profit percentages have remained above 50% every year since 2001. This historical data cannot be characterized as risky.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

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.	)))))	Case No. ER-2009-0089

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 Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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. W. Harris
V. William Harris

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

D. Suzie Mankin
Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071