

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 ****

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

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

14 In Case No. ER-2007-0291, KCPL again proposed OSS margin treatment at the
15 25th percentile and the Staff accepted the KCPL position. The Commission again approved
16 the 25th percentile methodology for OSS margins in its Report and Order in Case No.
17 ER-2007-0271.

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

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

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

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

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

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

15 A. Staff accepts Mr. Schnitzer’s projection of OSS margins at the 25th percentile
16 (i.e., ** _____ **).

17 However, contrary to the aforementioned assertions of Messrs. Giles and Schnitzer,
18 KCPL witness Burton L. Crawford suggests that KCPL’s “true” position on the level of
19 OSS margins to include in the revenue requirement is ** _____ **.

20 Q. Please explain your statement.

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

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

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

9 Q. Why are these adjustments to OSS margins inappropriate?

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

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

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

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

1 **any portion of its off-system sales from its revenue**
2 **requirement determination in any rate case. KCPL agrees**
3 **that it will not argue that these revenues and associated**
4 **expenses should be excluded from the ratemaking process.**
5 During the hearing, KCPL also stipulated that it would agree to
6 this ratemaking treatment for off-system sales as long as the
7 Iatan 2 costs were included in KCPL's rate base. (Tr. 1037-
8 38).⁴ [Emphasis added].

9 ⁴ Also in their July 26 Response to Order Directing Filing, the
10 Signatory Parties memorialized KCPL's agreement that all of
11 its off-system sales would be used to establish Missouri
12 jurisdictional rates as long as the related investments and
13 expenses are considered in determining those rates, and
14 amended Section III.B.1.j. of the Stipulation and Agreement.

15 Q. What are "Q sales"?

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

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

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

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

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

11 Q. Do KCPL’s historical OSS margins appear “risky”?

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

| <u>Year</u> | <u>Actual Dollars</u> | <u>Margin %</u> |
|-------------|-----------------------|-----------------|
| 2001 | ** _____ ** | ** _____ ** |
| 2002 | ** _____ ** | ** _____ ** |
| 2003 | ** _____ ** | ** _____ ** |
| 2004 | ** _____ ** | ** _____ ** |
| 2005 | ** _____ ** | ** _____ ** |
| 2006 | ** _____ ** | ** _____ ** |
| 2007 | ** _____ ** | ** _____ ** |
| 2008 | ** _____ ** | ** _____ ** |

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

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

Rebuttal Testimony of
V. William Harris

1 Q. Does this conclude your rebuttal testimony?

2 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.)

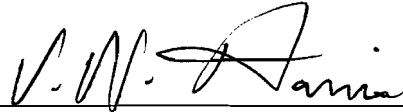
Case No. ER-2009-0089

AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
)
COUNTY OF COLE)


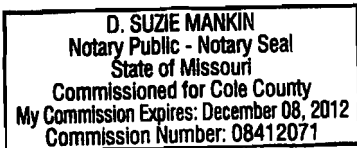
ss.

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. William Harris

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


Notary Public