

Exhibit No.:
Issue: Off-System Sales
Witness: V. William Harris
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-Up Rebuttal Testimony
File No: ER-2010-0355
Date Testimony Prepared: February 28, 2011

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

TRUE-UP REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

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

FILE NO. ER-2010-0355

Jefferson City, Missouri
February 2010

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

NP

1 **TRUE-UP REBUTTAL TESTIMONY**

2 **OF**

3 **V. WILLIAM HARRIS, CPA, CIA**

4 **KANSAS CITY POWER AND LIGHT COMPANY**

5 **CASE NO. ER-2010-0355**

6 Q. Please state your name and business address.

7 A. V. William Harris, Fletcher Daniels State Office Building, Room G8,
8 615 East 13th Street, Kansas City, Missouri 64106.

9 Q. Are you the same V. William Harris that filed testimony in the Staff's
10 Cost of Service Report dated November 10, 2010?

11 A. Yes. I also filed rebuttal testimony in this case on December 8, 2010 and
12 surrebuttal testimony on January 5, 2011.

13 Q. What is the purpose of your True-Up Rebuttal Testimony?

14 A. The purpose of my True-Up Rebuttal Testimony is to address the True-Up
15 Direct Testimony of Kansas City Power and Light Company ("KCPL") witness Michael M.
16 Schnitzer on the issue of off-system sales.

17 Q. How did Staff determine the amount of off-system sales margins it included in
18 its true-up case for KCPL?

19 A. As noted in its True-Up Direct testimony, Staff is using the level of off-system
20 sales margins at the 40th percentile developed by KCPL's witness Michael M. Schnitzer of
21 NorthBridge Group, Inc. ("NorthBridge"), a consulting firm hired by the Company. Rather
22 than relying on the 40th percentile, Mr. Schnitzer, based on the 25th percentile, determined a
23 level for off-system sales margins which the Company included in its true-up direct case.

True-Up Rebuttal Testimony of
V. William Harris

1 This level is ** _____ ** total KCPL, an update from its original recommended level of
2 ** _____ ** total KCPL.

3 As reflected in my rebuttal testimony and as I discussed during the hearings on this
4 issue, Staff recommends the use of the 40th percentile amount for off-system sales margins of
5 ** _____ ** total KCPL.

6 Q. Did Mr. Schnitzer file True-Up Direct testimony on behalf of KCPL?

7 A. Yes. Mr. Schnitzer filed True-Up Direct testimony on the subject of off-
8 system sales margins on February 22, 2011. Mr. Schnitzer provided the results of updated
9 runs with the model KCPL uses to propose a new level of off-system sales margins for
10 calculating KCPL's true-up revenue requirement.

11 Q. Did Mr. Schnitzer continue to determine the 25th percentile level of off-system
12 sales margins?

13 A. While KCPL provided many of the inputs into the model, Mr. Schnitzer ran the
14 model and determined a variety of levels for off-system sales margins at various percentiles
15 of probability. KCPL chose to use for its input into the revenue requirement calculation for
16 off-system sales margins, Mr. Schnitzer's off-system sales margins result at the
17 25th percentile. As noted earlier, there are substantial differences between the results at the
18 25th and 40th percentiles.

19 Q. How does KCPL's true-up level of off-system sales margins compare to the
20 level it included in its revenue requirement calculation in its direct case?

21 A. It is significantly lower. Mr. Schnitzer states at page 2 of his True-Up Direct
22 testimony that the levels of off-system sales margins have declined from the levels he found
23 in the direct filing KCPL made June 4, 2010. Mr. Schnitzer indicates that off-system sales

1 have declined at the median level from ** _____ ** to ** _____ **. He
2 states that the 25th Percentile level declined from ** _____ ** to ** _____ **. The
3 ** _____ ** level at the 25th percentile is the level KCPL included in its true-up case.

4 Q. Did Mr. Schnitzer indicate KCPL's generating capacity has increased?

5 A. Yes. At page 2 of Mr. Schnitzer's True-Up Direct he indicates that, with the
6 completion of Iatan 2, KCPL's generating capacity increased by 472 megawatts.

7 Q. Do you know if KCPL has any other increases in its generating capacity?

8 A. Yes. KCPL also completed Spearville 2, which added 48 megawatts of wind
9 generation in December 2010, the costs of which both the Company and Staff included in
10 their revenue requirements for KCPL. KCPL is also making a significant upgrade to its Wolf
11 Creek nuclear generating unit during the spring 2011 re-fueling outage of Wolf Creek, which
12 will increase the generating capacity of that unit. The plant additions of Iatan 2 and
13 Spearville 2, along with the increase in Wolf Creek's output, will provide much greater
14 opportunities for KCPL to make off-system sales.

15 Q. What work is being performed on Wolf Creek that will increase its
16 generating capacity?

17 A. There will be substantial work performed on the steam turbine generator at
18 Wolf Creek, which will increase its capacity. Since Wolf Creek is the lowest fuel cost
19 generation in KCPL's fleet, except for the zero cost wind, any increase in its generating
20 output will allow more off-system sales, because the additional megawatts of this unit will
21 displace higher cost generation for the native load (firm) retail customers. This displaced
22 power will then be available for increased opportunities for off-system sales.

1 Q. Did Mr. Schnitzer address the greater opportunities to make off-system sales
2 with the addition of Iatan 2?

3 A. Yes. At page 2 of his True-Up Direct testimony he states "...it is more likely
4 that KCPL will make a higher volume of off-system sales than it would without the addition
5 of Iatan 2 because there are additional MWs [megawatts] to sell." While Mr. Schnitzer did
6 not specifically mention Spearville 2 or the increase in Wolf Creek's capacity in his
7 testimony, both of these increases in generating capacity will have the same effect as the
8 increase in capacity from the Iatan 2 addition to increase the level of off-system sales.

9 Q. Has KCPL fully reflected the increase in off-system sales resulting from the
10 addition of Iatan 2?

11 A. Based on the True-Up Direct testimony of Mr. Schnitzer, it is difficult for Staff
12 to believe the Company has included the full benefits of the addition of Iatan 2, much less the
13 increase in generating capacity of the Wolf Creek upgrade and the addition of 48 megawatts
14 of wind generation. Mr. Schnitzer states at page 3 of his True-Up Direct that "...the addition
15 of Iatan 2 alone accounted for approximately ** _____ ** of the increased value of the
16 25th percentile from the 2009 Rate Case." The total 25th percentile level of off-system
17 sales margins in KCPL's 2009 rate case based on the true-up amounts determined by
18 KCPL was ** _____ ** total company. However, in this case KCPL's true-up level of
19 off-system sales margins is ** _____ ** total KCPL.

20 Without knowing exactly what Mr. Schnitzer means when he refers in his True-Up
21 Direct testimony on page three at line two to the ** _____ ** that is associated with his
22 reference to the addition of Iatan 2, it appears that Iatan 2 accounts for all the off-system sales
23 margins KCPL is proposing—an unrealistic position. KCPL's off-system sales opportunities

1 will increase with the in-service of Iatan 2 and Spearville 2 and the increase in Wolf Creek's
2 generating capacity. To suggest that all off-system sales for 2011 result from the inclusion of
3 Iatan 2 ignores the reality that KCPL sold substantial amounts of off-system sales prior to the
4 completion of Iatan 2, or the completion of Spearville 2. The new increase in Wolf Creek
5 generating capacity is also not reflected in 2010 results or the results of any prior year.

6 Q. What are KCPL's most recent historical levels of off-system sales margins?

7 A. The calendar year 2010 actual off-system sales levels were ** _____ **
8 based on ** ____ ** of total KCPL's off-system sales and ** _____ ** megawatt
9 hours. The historical levels, on a total KCPL basis, of off-system sales, off-system sales
10 margins and megawatt hours are identified in Highly Confidential Schedule 1 attached to this
11 testimony. As can be seen from review of this schedule, KCPL experienced an increase in
12 off-system sales from 2009 to 2010. This increase occurred without the benefit of the low-
13 cost of the Iatan 2 and Spearville 2 generating facilities, and without the increase in
14 generating capacity expected from Wolf Creek.

15 The actual off-system sales for the last several years are:

| <u>Year</u> | <u>megawatt hours</u> | <u>Off-system sales</u> | <u>Margins</u> |
|-------------|-----------------------|-------------------------|----------------|
| 2010 | ** _____ | _____ | _____ ** |
| 2009 | ** _____ | _____ | _____ ** |
| 2008 | ** _____ | _____ | _____ ** |
| 2007 | ** n/a | _____ | _____ ** |
| 2006 | ** _____ | _____ | _____ ** |
| 2005 | ** _____ | _____ | _____ ** |

1 Q. Mr. Schnitzer indicates there has been “an increase in energy price volatility”
2 in the energy markets since 2008 (page 4). Do you agree?

3 A. While there has been substantial price volatility in all segments of the energy
4 power markets for much of the last decade, there appears to be opportunities for off-system
5 sales during these times of price uncertainties. Mr. Schnitzer states it is his view that the
6 increase in energy-price volatility and the decline in energy prices beginning in fall of 2008
7 (Schnitzer True-Up Direct—page 4) through 2009 accounted for the decline in his projection
8 for off-system sales in the last rate case. However, during time periods of price volatility in
9 the past, KCPL was able to perform well in the off-system sales market. As an example, in
10 2005 and 2006 during the effects of devastating hurricanes there were substantial increases in
11 the energy markets for natural gas and purchased power. Energy prices subsided in the years
12 following the hurricanes. However, as illustrated by the attached Highly Confidential
13 Schedule 1, KCPL had significant increases in off-system sales during the entire five-year
14 period from 2003-2007.

15 Q. Is there any trend in energy prices since the beginning of 2011?

16 A. Yes. The last several weeks there have been increases in energy prices, in
17 particular for natural gas. As natural gas prices continue to go up, opportunities for increases
18 in the off-system sales market will go up as well.

19 Q. Are you aware of any other recent changes that would affect KCPL’s
20 off-system sales in the future?

21 A. Yes. One of KCPL’s capacity sale agreements expired on December 31, 2010.
22 Under this firm sale agreement KCPL was selling power to Missouri Joint Municipal Electric
23 Utility Commission (MJMEUC). The end of KCPL’s commitment to provide power to

1 MJMEUC means that those megawatt hours are now available for KCPL to sell in the off-
2 system sales market. To the extent that capacity sale agreements expire, the power sold under
3 those contracts is now available to be sold in the off-system market.

4 Q. Is the level of off-system sales that KCPL proposes in the true-up case the
5 proper amount?

6 A. No. Staff believes KCPL has understated the off-system sales levels in its
7 true-up case. Consequently, Staff continues to support the use of the 40th percentile level—
8 which is ** _____ **.

9 Q. Does this conclude your True-Up Rebuttal Testimony?

10 A. Yes it does.

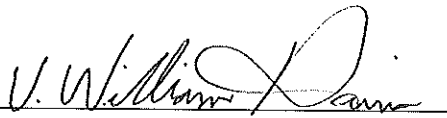
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power & Light Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0355
Charges for Electric Service to Continue the)
Implementation of Its Regulatory Plan)

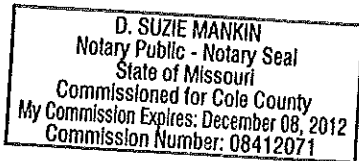
AFFIDAVIT OF V. WILLIAM HARRIS

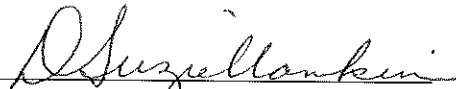
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing True-Up 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 28th day of February, 2011.




Notary Public

SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY