

Exhibit No.:  
Issues: Revenue Requirement  
Witness: Greg R. Meyer  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Missouri Industrial Energy Consumers  
and Midwest Energy Consumers Group  
Case No.: ER-2012-0174  
Date Testimony Prepared: October 8, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

\_\_\_\_\_)  
**In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service** )  
\_\_\_\_\_) **Case No. ER-2012-0174**  
Tracking No. YE-2012-0404

Surrebuttal Testimony of

**Greg R. Meyer**

On behalf of

**Missouri Industrial Energy Consumers  
and  
Midwest Energy Consumers Group**

October 8, 2012



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**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, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers and Midwest Energy Consumers Group in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission Case No. ER-2012-0174.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

\_\_\_\_\_  
Greg R. Meyer

Subscribed and sworn to before me this 5<sup>th</sup> day of October, 2012.

\_\_\_\_\_  
Notary Public

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**Table of Contents to the  
Surrebuttal Testimony of Greg R. Meyer**

Renewable Energy Standard Cost ..... 3  
Organizational Realignment and Voluntary Separation Program (“ORVS”) ..... 6  
Bad Debts Expense ..... 8  
Property Tax Tracker .....12  
Overtime .....14  
SPP Line Loss Charges .....15  
Adjustment for Purchase for Resale.....17  
SPP Revenue Neutrality Uplift Charges .....19  
Flood Cost Amortization.....20  
Interim Energy Charge (“IEC”) .....23  
Mutual Assistance.....27  
Off-System Sales .....28

**Greg R. Meyer  
Table of Contents**

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**Surrebuttal Testimony of Greg R. Meyer**

1    **Q     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2    A     Greg R. Meyer. My business address is 16690 Swingley Ridge Road, Suite 140,  
3            Chesterfield, MO 63017.

4    **Q     ARE YOU THE SAME GREG R. MEYER WHO HAS PREVIOUSLY FILED**  
5            **TESTIMONY IN THIS PROCEEDING?**

6    A     Yes. I have previously filed direct testimony on August 2, 2012 in this proceeding  
7            regarding revenue requirement issues.

8    **Q     ARE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE OUTLINED IN**  
9            **THAT TESTIMONY?**

10   A     Yes. This information is included in Appendix A to my direct testimony on revenue  
11            requirement issues.

12   **Q     ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

13   A     This testimony is presented on behalf of Missouri Industrial Energy Consumers  
14            ("MIEC") and Midwest Energy Consumers Group ("MECG"). These companies

**Greg R. Meyer  
Page 1**

1 purchase substantial amounts of electricity from Kansas City Power & Light Company  
2 (“KCPL” or “Company”) and the outcome of this proceeding will have an impact on  
3 their cost of electricity.

4 **Q WHAT IS THE SUBJECT OF YOUR SURREBUTTAL TESTIMONY?**

5 A I am providing surrebuttal testimony addressing various KCPL witnesses’ rebuttal  
6 testimony. Specifically, I am addressing the following issues:

- 7 • Renewable Energy Standard Cost recovery procedures;
- 8 • Organizational Realignment and Voluntary Separation Program (“ORVS”) cost  
9 recovery;
- 10 • Annualized level of Bad Debts expense;
- 11 • Implementation of a Property Tax Tracker;
- 12 • Annualized level of Overtime expense;
- 13 • Recognition of SPP Line Loss Charges;
- 14 • Adjustment for Purchase for Resale expenses;
- 15 • Reduction to Off-System Sales (“OSS”) margins for SPP Revenue Neutrality Uplift  
16 Charges;
- 17 • Lost revenue recognition for 2011 Missouri River flood;
- 18 • Implementation of an Interim Energy Charge mechanism; and
- 19 • Proper level of OSS margins.

20 The fact that I do not address an issue should not be interpreted as approval  
21 or acceptance by MIEC or MECG of any position taken by KCPL, unless I state  
22 otherwise in my testimony

1 **Renewable Energy Standard Cost**

2 **Q PLEASE BRIEFLY EXPLAIN THIS ISSUE.**

3 A This issue concerns the recovery of Renewable Energy Standard (“RES”) costs.  
4 MIEC/MECG has recommended deferral and accumulation of all RES costs incurred  
5 between rate cases, accrual of carrying cost on the deferred balance at the  
6 Company’s short-term debt rate, amortization of the deferred RES cost over a  
7 six-year period, rate base inclusion of the unamortized deferred balance, no ongoing  
8 expense level in the cost of service, other than amortization expense for prior  
9 deferrals and no tracker. Staff is proposing an ongoing expense level in the cost of  
10 service, a three-year amortization of the amount deferred through true-up, no  
11 inclusion in rate base of the unamortized deferred balance and no tracker. The  
12 Company recommends an ongoing expense level in the cost of service, inclusion in  
13 rate base of the unamortized deferred balance, a five-year amortization of deferrals,  
14 carrying cost on the deferred balance, and a tracker that defers the amount actually  
15 incurred compared to the ongoing expense level.

16 **Q WHAT WAS THE COMPANY’S RESPONSE TO YOUR PROPOSAL?**

17 A Company witness Rush has agreed with me that the appropriate carrying cost is the  
18 Company’s short-term debt rate, as specified by the Commission’s RES Rule and the  
19 Stipulation and Agreement in Case No. EU-2012-0131. However, he believes the  
20 language in the Commission’s RES Rule allows for an ongoing expense level to be  
21 included in the cost of service, and that none of the parties presented specific  
22 reasons for their recommendations regarding the length of the amortization period.  
23 Mr. Rush states that his five-year amortization period is an appropriate middle ground  
24 between Staff’s three-year recommendation and my six-year recommendation. In

1 addition, Company witness Ives recommends tracking of the RES costs KCPL  
2 proposes to include in ongoing expense.

3 **Q IS MR. RUSH CORRECTLY INTERPRETING THE RULE REGARDING THE**  
4 **INCLUSION OF AN ONGOING EXPENSE LEVEL IN KCPL'S COST OF SERVICE**  
5 **OTHER THAN THE AMORTIZATION EXPENSE OF PREVIOUS RES**  
6 **EXPENDITURES?**

7 A No. The language from the RES Rule is very clear. RES costs incurred between rate  
8 cases may be deferred and all questions regarding the recovery of these costs, which  
9 are being deferred, will be decided in the next case. RES costs not already being  
10 amortized are being deferred for recovery in the future. Clearly, it is the recovery of  
11 previously deferred RES costs that will be determined in the next case and not  
12 whether or how much estimated future cost will be included in ongoing expenses.  
13 This language cannot be teased to Mr. Rush's interpretation.

14 **Q CONTRARY TO MR. RUSH'S STATEMENTS ON PAGE 32 OF HIS REBUTTAL**  
15 **TESTIMONY, HAVE YOU PROVIDED SPECIFIC REASONS FOR A SIX-YEAR**  
16 **AMORTIZATION?**

17 A Yes. As I stated on pages 7 and 8 of my direct testimony, the language in the Rule  
18 regarding solar-related RES costs actually justifies a ten-year amortization period.  
19 However, I am recommending a six-year amortization period, which the Commission  
20 has recognized as a timely recovery period with regard to demand-side management  
21 ("DSM") energy efficiency costs. Mr. Rush cites the regulatory treatment of DSM  
22 costs in his rebuttal testimony regarding rate base treatment, but contrary to that  
23 order, requests a shorter amortization.

**Greg R. Meyer**  
**Page 4**

1 **Q WHAT IS YOUR RESPONSE TO STAFF'S THREE-YEAR AMORTIZATION AND**  
2 **NO RATE BASE RECOGNITION FOR RES COSTS?**

3 A Staff's shorter amortization period is balanced in conjunction with its recommendation  
4 for no inclusion in rate base of the unamortized deferrals.

5 **Q WILL YOUR RECOMMENDATION PREVENT FULL RECOVERY OF ALL RES**  
6 **COSTS?**

7 A No. Deferral plus carrying cost between rate cases, amortization of deferrals in the  
8 cost of service, and rate base recognition of the unamortized balance provides full  
9 recovery of all RES costs in compliance with the Commission's RES Rule. This  
10 approach has also been accepted by the Commission for recovery of DSM costs.

11 **Q DOES THE RES RULE LANGUAGE PROVIDE FOR TRACKING AGAINST SOME**  
12 **LEVEL OF ONGOING RES EXPENSE IN THE COST OF SERVICE, OTHER THAN**  
13 **AMORTIZATION, AS PROPOSED BY COMPANY WITNESS IVES?**

14 A No. Such language does not appear in the RES Rule for a company like KCPL that  
15 does not have an approved RESRAM. Including a level of ongoing expense in the  
16 cost of service and tracking this level will place KCPL out of compliance with the  
17 Commission's RES Rule. According to the Commission's RES Rule, a company may  
18 recover its compliance costs through a RESRAM or through deferral and  
19 amortization. Without written Company notification and approval of a waiver by the  
20 Commission, there is no "alternative three" that allows for the recovery of RES costs  
21 on an ongoing level, recovery of previously deferred costs, and a RES tracker as  
22 preferred by KCPL.



1 Q DOES THE RECOGNITION OF A CARRYING COST BRIDGE THE REGULATORY  
2 LAG BETWEEN THE TIME RES EXPENDITURES OCCUR AND WHEN THESE  
3 COSTS ARE INCLUDED IN RATES?

4 A Yes. Deferral of a carrying cost at KCPL's short-term debt rate, as specified by the  
5 RES Rule, appropriately reflects the short-term funding cost of these assets until the  
6 RES costs are included in rates.

7 Q PLEASE SUMMARIZE YOUR TESTIMONY ON RES COST.

8 A My recommendation of deferral plus carrying cost between rate cases, inclusion in  
9 rate base of the unamortized deferred balance and a six-year amortization period is  
10 completely consistent with the RES Rule for companies that do not have an approved  
11 RESRAM. My recommendation is also consistent with the timely recovery accepted  
12 by the Commission for DSM costs. The Company, on the other hand, is relying on an  
13 incorrect interpretation of the RES Rule in seeking an ongoing expense level and  
14 tracker for RES cost and an abbreviated, unjustified amortization period of deferred  
15 RES cost.

16 **Organizational Realignment and**  
17 **Voluntary Separation Program ("ORVS")**

18 Q PLEASE EXPLAIN THIS ISSUE.

19 A According to the table on page 43 of Company witness Ives' rebuttal testimony, KCPL  
20 will realize \$35.4 million in savings from the implementation date of ORVS until rates  
21 from this case become effective. To achieve these savings, the Company incurred  
22 \$12.7 million of cost, not including pensions and other post-retirement benefits. While  
23 the Company wants to include a five-year amortization of the cost in the rates from

1 this case, Staff and MIEC/MECG recommend no recognition of amortization expense  
2 for the implementation costs of ORVS in KCPL's cost of service.

3 **Q PLEASE EXPLAIN HOW KCPL REALIZED THESE SAVINGS.**

4 A In the last case, the Commission ordered and the parties used a true-up date of  
5 December 31, 2010. While the case was still being considered, but after the true-up  
6 date, KCPL announced the implementation of the ORVS program. Recognizing the  
7 true-up date as well as the need to maintain a proper relationship between revenues,  
8 expenses and rate base, no party believed that it was appropriate to seek to account  
9 for the expected payroll reduction in the rates resulting from the last case. Instead,  
10 payroll expense was included at the inflated pre-ORVS levels. Therefore, KCPL  
11 realized an immediate windfall associated with its delay of the ORVS program until  
12 after the true-up date in that case. This is a classic example of a utility reaping the  
13 benefits of regulatory lag. Specifically, until rates are set in this case, the KCPL  
14 shareholders will keep the entirety of the benefits associated with the decision to  
15 implement ORVS and time its implementation until after the true-up in the last case.

16 **Q IN LIGHT OF THE SIGNIFICANT SAVINGS RETAINED BY KCPL, WHAT IS MR.**  
17 **IVES' RATIONALE FOR INCLUDING AN AMORTIZATION EXPENSE FOR ORVS**  
18 **IN THE COST OF SERVICE?**

19 A Mr. Ives believes that KCPL's shareholders should enjoy all the benefits of what he  
20 refers to as the positive regulatory lag associated with the implementation of ORVS  
21 prior to the effective date of rates in this case. Mr. Ives proposes to amortize the cost  
22 of ORVS over five years because the ORVS will provide substantial benefits through  
23 reduced payroll expense over that time frame.

1 **Q WHAT IS YOUR RESPONSE?**

2 A MIEC/MECG is quite simply matching the costs with the benefits generated by ORVS.  
3 Matching costs and benefits is an accepted regulatory practice. According to  
4 Mr. Ives' rebuttal testimony, the short-term benefits from ORVS prior to the  
5 implementation of rates are almost three times the non-pension non-OPEB cost. Mr.  
6 Ives is proposing to allow shareholders to retain all the benefits of ORVS prior to the  
7 effective date of rates while charging ratepayers for all the costs of implementing  
8 ORVS.

9 **Q IS MIEC/MECG PROPOSING TO ALLOW KCPL TO RETAIN A SIGNIFICANT**  
10 **PORTION OF THE BENEFITS GENERATED BY ORVS THAT OCCUR PRIOR TO**  
11 **THE EFFECTIVE DATE OF RATES?**

12 A Yes. KCPL will retain \$22.7 million of benefits from the implementation of ORVS not  
13 including the related non-pension and OPEB cost. The Company began enjoying the  
14 benefits of ORVS approximately 20 months before any benefits of the program will be  
15 realized by ratepayers.

16 **Bad Debts Expense**

17 **Q PLEASE EXPLAIN THIS ISSUE?**

18 A KCPL has proposed to include a level of bad debts expense of \$7.6 million in its cost  
19 of service. The \$7.6 million is comprised of: (1) the test year level of bad debts  
20 expense as recorded on the books of KCPL of \$6.3 million; (2) an increase in the test  
21 year level of bad debts expense of \$0.3 million as a result of applying a bad debt  
22 factor for the 12 months ended March 31, 2012 to the annualized revenues; and

1 (3) an increase in bad debts expenses of \$1 million that will allegedly arise as a result  
2 of the increased revenue requirement for this case.

3 I have recommended that the level of bad debts expense be \$4.8 million  
4 based on an application of the average bad debt factor for the four years ended June  
5 30, 2011 to the annualized revenues. I am also opposing the application of a bad  
6 debt factor to the increased revenue requirement. As a result, I am recommending  
7 that KCPL's proposed level of bad debts expense be reduced by \$2.8 million.

8 **Q WHAT ARE KCPL'S CRITICISMS OF YOUR ADJUSTMENTS?**

9 A KCPL believes that the data shows an upward trend in bad debts, which justifies the  
10 use of the most recent data in determining the bad debt factor.

11 Regarding the factoring up of the rate increase for additional bad debts, the  
12 Company believes it is logical to assume that increased revenues will result in  
13 increased write-offs, if all other factors remain constant. In addition, Mr. Weisensee  
14 cites a favorable Commission Order from 2006.

15 **Q DO YOU AGREE WITH MR. WEISENSEE THAT THERE IS AN UPWARD TREND**  
16 **IN THE BAD DEBT FACTOR?**

17 A No. Apparently Mr. Weisensee's assessment is based on the fact that, as shown in  
18 the table on page 13 of my direct testimony, the bad debt factor increased in 2010  
19 through September 2011. However, these less than two full years of increase do not  
20 indicate a trend of higher bad debts anymore than the immediate preceding two years  
21 of decline indicates a trend of lower bad debts. Two or less years is simply too short  
22 of a period to indicate a trend that supports reliance on the most recent experience.

1 Q HAS KCPL EXPLAINED OR JUSTIFIED THE RECENT INCREASE IN BAD DEBT  
2 WRITE-OFFS?

3 A No. KCPL has not addressed the large increase in the bad debt factor since 2009.  
4 The Company has simply used a method relied on in the past without any explanation  
5 of the significant increase in the bad debt factor. The factor increased by over 50%  
6 from 2009 to 2010, and increased an additional 16.5% from 2010 through 2011.

7 Q WHAT FACTOR DO YOU PROPOSE FOR ANNUALIZING BAD DEBTS EXPENSE  
8 FOR THIS RATE CASE?

9 A I propose a weighted four-year average, based on calendar revenues for 2007  
10 through 2010 and actual write-offs for the 12 months ended June 2008 through  
11 June 2011. Until KCPL is able to justify the significant recent increase in the bad debt  
12 factor and provide support that it reflects the ongoing level, it should not be relied  
13 upon as an appropriate basis for setting ongoing rates.

14 Q ARE MR. WEISENSEE'S STATEMENTS PERSUASIVE REGARDING WHAT HE  
15 ASSUMES TO BE THE "LOGIC" SUPPORTING KCPL'S FACTORING-UP OF THE  
16 REVENUE REQUIREMENT FOR BAD DEBTS?

17 A No. On page 6 of his rebuttal testimony he states, "It is logical and intuitive that  
18 increased revenue will result in increased bad debt write-offs, assuming all other  
19 factors remain constant." The problem with such rationale is that all other factors do  
20 not remain constant and bad debt write-offs are obviously influenced by other factors  
21 besides increased revenues. As shown in the table on page 14 of my direct  
22 testimony, revenues increased over the previous year in 2008, 2009 and 2010. Yet  
23 bad debt write-offs only increased in 2010. In 2008 and 2009, while revenues were

1 increasing, bad debt write-offs were declining. Mr. Weisensee has not provided any  
2 analysis that shows even a consistent positive correlation between increased  
3 revenues and increased bad debt write-offs during the last five years.

4 **Q WHAT IS YOUR RESPONSE TO THE 2006 COMMISSION ORDER CITED BY**  
5 **MR. WEISENSEE?**

6 A The Commission's decision was based on the evidence in that case. Far from a  
7 perfect correlation, the data in this case shows that revenues and bad debt write-offs  
8 have moved in opposite directions in recent history. I believe that the facts in this  
9 case simply do not support factoring-up the revenue requirement for additional bad  
10 debt write-offs.

11 **Q IS THERE AN ADDITIONAL PROBLEM WITH THIS ADJUSTMENT?**

12 A Yes. As I said in my direct testimony, considering the effective date of rates and the  
13 six-month lag between revenues and write-offs, the adjustment proposed by KCPL  
14 will not be fully recognized on its the books until June 2014. This is far beyond the  
15 true-up date of August 31, 2012 and the January 26, 2013 operation of law date in  
16 this case. KCPL is attempting to collect rates for a cost that won't fully be realized for  
17 another 18 months. This adjustment clearly violates the test year concept of  
18 considering all relevant factors at a consistent point in time. Therefore, I oppose  
19 KCPL's adjustment to factor up the revenue requirement for additional bad debts  
20 expense.

21

22

23

1 **Property Tax Tracker**

2 **Q DID KCPL FILE REBUTTAL TESTIMONY ADDRESSING THE ISSUE OF A**  
3 **PROPERTY TAX TRACKER?**

4 A Yes. KCPL witness Darrin Ives addressed the issue in his rebuttal testimony.

5 **Q DOES MR. IVES CONTINUE TO ADVOCATE FOR A PROPERTY TAX TRACKER?**

6 A Yes. Mr. Ives argues that property taxes are a significant component of the  
7 Company's cost of service, and, due to the change in the level of historic property  
8 taxes, a property tax tracker is justified.

9 **Q DO YOU AGREE WITH MR. IVES?**

10 A No. First, KCPL's property taxes for the Missouri jurisdiction represent approximately  
11 6.8% of KCPL's total operating expense. I do not believe 6.8% represents a  
12 significant component of the Company's cost of service that justifies a new tracker.  
13 Furthermore, the purpose of the tracker would be to track the incremental change in  
14 property taxes. The incremental change in property taxes will represent a much  
15 smaller percent of KCPL's cost of service.

16 Second, Mr. Ives cites the large changes in property tax expense over the  
17 five-year historic levels as depicted in Mr. Smith's direct testimony. However, neither  
18 Mr. Smith nor Mr. Ives conveys that the main reason for these increases is mainly  
19 due to the large capital projects which were agreed to as a result of KCPL's  
20 Experimental Regulatory Plan. As a result of a Stipulation and Agreement resulting in  
21 KCPL's Experimental Regulatory Plan, KCPL committed to investing over \$1.3 billion  
22 during the course of the Plan. Certainly, a commitment to invest that much will have  
23 an impact on KCPL's property taxes.

1           However, the Experimental Regulatory Plan has been completed and KCPL  
2 has provided no analysis for the projected increases in property taxes that it has  
3 experienced over the last five years. In fact, KCPL's response to MEGG Data  
4 Request 23.3 indicates that KCPL's budgeted level of capital expenditures is  
5 decreasing. As such, the incremental amount of property taxes should also be  
6 decreasing.

7 **Q   MR. IVES ALSO TESTIFIED THAT KCPL HAS LITTLE CONTROL OVER**  
8 **PROPERTY TAXES. DO YOU ACCEPT THIS CHARACTERIZATION?**

9 A   No. As Mr. Ives admits on page 21 of his rebuttal testimony, the Company has  
10 control over the timing of projects. He states that this control is only for the  
11 short-term, but that is all the control necessary to manage this cost in conjunction with  
12 the rate case process. Since property taxes are only paid every 12 months, and rate  
13 cases are an 11-month process, the ability to delay projects in the short-term can  
14 provide the control necessary to capture property tax increases in the regulatory  
15 process. In addition, the Company has the ability to protest property tax  
16 assessments.

17 **Q   WHEN YOU SUGGESTED AN ACCOUNTING AUTHORITY ORDER (“AAO”) AS**  
18 **AN ALTERNATIVE FOR THE TRACKER, WERE YOU REFERRING TO ROUTINE**  
19 **FLUCTUATIONS IN THE COST OF PROPERTY TAXES?**

20 A   No. As I stated in my testimony, the Company could pursue an AAO to address  
21 significant changes in property tax expense between rate cases. An AAO should only  
22 be employed for changes such as the addition of a new power plant that would



1 significantly affect the level of property taxes. Absent such circumstances, the  
2 Company should manage its rate case filings to capture property tax increases.

3 **Q DO YOU HAVE A GENERAL OPPOSITION TO AND CONCERN REGARDING**  
4 **TRACKERS?**

5 A Yes. I am generally opposed to the use of trackers for expense items. Trackers  
6 selectively capture changes in individual items of the cost of service rather than  
7 considering all relevant facts when setting rates. In addition, there appears to be a  
8 proliferation of trackers being requested and implemented, for even routine ongoing  
9 costs such as property taxes. In this case, the Company is requesting new trackers  
10 for property taxes, RES costs and transmission costs. It is also requesting an Interim  
11 Energy Charge ("IEC"), which is also a tracking mechanism. This is in addition to  
12 trackers KCPL already has for OPEBs, pensions and latan 2 costs. In my mind, the  
13 proliferation of trackers are designed to eliminate the Company's risk that rates will be  
14 insufficient. On the other hand, it will increase the possibility that rates will be  
15 excessive.

16 **Overtime**

17 **Q PLEASE EXPLAIN THIS ISSUE.**

18 A KCPL has included an amount of non-Wolf Creek overtime based on an average of  
19 the actual experience during the 2.75 years ended September 30, 2011. As part of  
20 the average calculation, KCPL also adjusted the 2011 overtime to eliminate the  
21 amount related to the flooding at latan and has increased the actual prior year's  
22 overtime amounts for union wage increases (indexing).

1           In his rebuttal testimony, Company witness Weisensee continues to support a  
2 multi-year average, because he says there is no discernible trend, and indexing to  
3 achieve what he refers to as an apples-to-apples comparison. Mr. Weisensee also  
4 states that he will update his average to a full three years as part of true-up.

5   **Q     DO YOU AGREE WITH THIS LEVEL OF OVERTIME?**

6   A     No. I recommend using the actual non-Wolf Creek overtime experienced through  
7 May 31, 2012. As stated in my direct testimony, I will continue to monitor this level of  
8 overtime through the true-up period to determine if further adjustment is necessary.

9   **Q     HAS MR. WEISENSEE EXPLAINED THE REDUCTION IN THE LEVEL OF**  
10 **OVERTIME AS SHOWN IN MIEC'S ANALYSIS?**

11 A     No. As my analysis shows, overtime has declined since the end of the test year,  
12 through May 2012.

13   **SPP Line Loss Charges**

14   **Q     DID KCPL FILE REBUTTAL TESTIMONY THAT ADDRESSES THE SPP LINE**  
15 **LOSS CHARGE ISSUE?**

16 A     Yes. KCPL witness Burton Crawford filed rebuttal testimony concerning this issue.

17   **Q     PLEASE EXPLAIN THE MAIN DIFFERENCE BETWEEN KCPL AND YOURSELF**  
18 **AS IT RELATES TO THIS ISSUE.**

19 A     The main issue is whether KCPL should be allowed to reduce the normalized level of  
20 OSS margins to account for costs that KCPL says that it incurs in order to sell energy  
21 outside of the SPP footprint. I maintain that KCPL recognizes a greater sales price

1 per MWh when selling energy outside the SPP footprint. This increased sales price  
2 fully compensates KCPL for any additional costs that are incurred to sell outside of  
3 SPP. KCPL claims that the price of sales outside the SPP footprint are more than  
4 \$5.00 per MWh below the price of sales made within the SPP footprint.

5 **Q DO YOU AGREE WITH KCPL'S ARGUMENTS?**

6 A No. Based on the data I have been provided, I cannot accept KCPL's reasoning. In  
7 response to MEGC Data Request 8.4, KCPL provided sales dollars and volumes from  
8 January 2011 to December 2011. I was informed during a meeting on August 30,  
9 2012 that the data contained in response to MEGC Data Request 8.4 was the  
10 accounting data that KCPL generates to track its OSS activity. Based on that data, I  
11 found that the sales prices outside the SPP footprint are greater than the sales prices  
12 within the SPP North region, and also greater than sales prices within the entire SPP  
13 footprint.

14 I would also note that KCPL's testimony makes the claim that the sales prices  
15 outside the SPP footprint are less than sales prices in the SPP footprint on a per  
16 MWh basis. I want to point this out because the data from MEGC Data Request 8.4  
17 would also show that sales prices per MWh basis are greater in the SPP footprint as  
18 a whole when compared to the SPP North region. Therefore, KCPL makes a greater  
19 margin on sales within the entire SPP footprint than sales within the SPP North  
20 region.

21 **Q WHAT IS YOUR PROPOSAL CONCERNING THIS ISSUE?**

22 A I continue to support my original position that this adjustment as proposed by KCPL  
23 should be disallowed by the Commission because sales outside the SPP footprint are

1 made at a higher price per MWh than sales made within the SPP North region.  
2 However, I will meet with KCPL (Mr. Crawford) to discuss this issue further to  
3 determine why the data that each party is relying on produces different results. It is  
4 not the intent of MIEC/MECG to argue valuation mistakes in hearings before the  
5 Commission.

6 **Adjustment for Purchase for Resale**

7 **Q WHICH KCPL WITNESS FILED REBUTTAL TESTIMONY ADDRESSING THIS**  
8 **ISSUE?**

9 A KCPL witness Burton Crawford filed rebuttal testimony addressing this issue.

10 **Q DID KCPL OFFER ANY NEW INFORMATION REGARDING THIS ISSUE?**

11 A Yes. Mr. Crawford, for the first time, has informed the parties that the Company, as  
12 part of its Post Analysis Program, is able to develop a Block Price Adjustment. The  
13 Block Price Adjustment calculates the benefits from purchasing blocks of power  
14 during peak periods. KCPL contends that this adjustment will address the concerns I  
15 have presented in my direct testimony.

16 **Q HAVE YOU REVIEWED THE BLOCK PRICE ADJUSTMENT?**

17 A No, I have not. While KCPL maintains that it has developed this methodology, it  
18 failed to provide it in its rebuttal filing. Instead, for some unknown reason, Mr.  
19 Crawford testified that KCPL will present this adjustment as part of its true-up filing.

1 Q DOES WAITING UNTIL THE TRUE-UP TO REVIEW THIS ADJUSTMENT  
2 CONCERN YOU?

3 A Yes. I have raised this issue in two rate cases in direct testimony. KCPL has  
4 recognized that its direct case in this area is deficient, yet parties must wait until  
5 true-up to validate the calculation. The true-up process is very compressed and  
6 waiting until the true-up may adversely impact my ability to review the adjustment.  
7 Furthermore, in his rebuttal testimony, Mr. Crawford acknowledged this deficiency in  
8 his direct case, yet he proposes to correct that deficiency in true-up. KCPL should  
9 have provided the adjustment and support for the adjustment as part of its rebuttal  
10 testimony.

11 Q MR. CRAWFORD ALSO DISAGREES WITH YOUR POSITION CONCERNING  
12 DERATES AND FORCED OUTAGES BEING INCLUDED IN KCPL'S  
13 PRODUCTION COST MODELING. PLEASE EXPLAIN.

14 A Mr. Crawford states that when derates and forced outages are included in KCPL's  
15 production cost model, the energy related to those derates or forced outages is not  
16 available and no sale is made. Mr. Crawford further states that, in actual practice,  
17 KCPL may have already entered into an OSS when a unit is derated or forced  
18 off-line. At this point, KCPL must purchase energy to fulfill its sales obligation. The  
19 purchase price KCPL must pay for energy to fulfill the sale is greater than the sale  
20 price.

1 Q DO YOU AGREE WITH MR. CRAWFORD'S ARGUMENT?

2 A No. KCPL has not performed a reconciliation between its production cost model and  
3 these events which would prove conclusively that the proposed adjustment is correct.  
4 KCPL has merely made the statement in testimony.

5 In summary, KCPL has not provided the Block Price Adjustment to be  
6 reviewed by the parties. In addition, KCPL has failed to provide a reconciliation  
7 between its production cost model and the actual performance of its generating units  
8 to substantiate this adjustment. KCPL should not be allowed to provide the support  
9 for its direct case in true-up.

10 **SPP Revenue Neutrality Uplift Charges**

11 Q DID KCPL FILE REBUTTAL TESTIMONY REGARDING SPP REVENUE  
12 NEUTRALITY UPLIFT ("RNU") CHARGES?

13 A Yes. KCPL witness Crawford addressed this issue in his rebuttal testimony.

14 Q WHAT IS KCPL'S PROPOSAL REGARDING RNU CHARGES?

15 A KCPL continues to propose that RNU charges be used to reduce OSS margins.

16 Q DO YOU BELIEVE THESE CHARGES SHOULD BE OFFSET AGAINST OSS  
17 MARGINS?

18 A No. Mr. Crawford and I have addressed this issue both in this case and in KCPL's  
19 previous rate case (Case No. ER-2010-0355). In both instances, Mr. Crawford has  
20 failed to address my main argument against including these costs as an adjustment  
21 to the OSS revenues. In my direct testimony I stated that KCPL has not shown that  
22 these charges are a result of OSS. KCPL witness Crawford does not address this

1 argument in his rebuttal testimony, but instead argues that the charges are a result of  
2 the Energy Imbalance Service market and these charges are recorded as wholesale  
3 purchases and sales.

4 Mr. Crawford's arguments are incomplete. Mr. Crawford continues to fail to  
5 show how these charges are related to OSS, which is my central argument.

6 KCPL has failed to demonstrate how RNU charges are more related to OSS  
7 than serving retail load. I contend that the settlement of the Energy Imbalance  
8 Service market is more related to native load circumstances and not driven by OSS.  
9 Energy to serve native load is clearly greater than energy needed to make OSS, and  
10 it is that energy that creates the Energy Imbalance Service market. Until Mr.  
11 Crawford addresses this concern, including RNU charges as a adjustment to OSS  
12 should be denied by the Commission.

13 **Q WHAT IS THE EFFECT OF ADOPTING KCPL'S POSITION?**

14 A By reducing OSS margins for RNU charges, KCPL is seeking to have a component of  
15 fuel expense tracked and its fluctuations captured in between rate cases. This is not  
16 a proper expense item to offset OSS margins. I continue to support placing this level  
17 of expense in base rates rather than reflecting these costs as reductions to OSS  
18 margins.

19 **Flood Cost Amortization**

20 **Q DID KCPL WITNESSES DISCUSS THE AMORTIZATION OF COSTS AS A**  
21 **RESULT OF THE 2011 FLOODING OF THE MISSOURI RIVER?**

22 A Yes. KCPL witnesses Ed Blunk and Ryan Bresette discuss the 2011 Missouri River  
23 flooding.

1

2 **Q DOES KCPL CONTINUE TO SEEK RECOVERY IN CUSTOMER RATES OF**  
3 **REVENUES FROM OSS THAT IT WAS UNABLE TO EXPERIENCE AS A RESULT**  
4 **OF THE FLOOD (“LOST REVENUES”)?**

5 A Yes. KCPL continues to assert that recovery of these lost revenues is appropriate for  
6 determining KCPL’s cost of service.

7 Mr. Blunk testifies that the lost revenues from OSS sales are different than the  
8 lost revenues experienced by Empire due to the tornado. Mr. Blunk attempts to  
9 characterize the loss of revenues between these two events as representing different  
10 recoveries of expense.

11 Mr. Bresette testifies that KCPL is being treated differently than Empire and  
12 Ameren in this situation because the lost OSS revenues for those companies would  
13 have flowed through the FAC.

14 **Q DO YOU AGREE WITH EITHER MR. BLUNK’S OR MR. BRESETTE’S**  
15 **ARGUMENT?**

16 A No. Mr. Blunk argues that these lost OSS revenues are somehow different than the  
17 lost revenues Empire experienced from the tornado. I have reviewed the  
18 Commission’s Report and Order in Case No. GU-2011-0392 regarding Empire and  
19 have included below that part of the Order that discusses ungenerated revenue.

20 Ugenerated revenue never has existed, never does exist, and never  
21 will exist. Revenue not generated, from service not provided,  
22 represents no exchange of value. (page 25)

23 As can be seen from the above quote, the Commission did not make a distinction  
24 about the types of revenues or the intended purpose of the sales.



1           Mr. Bresette attempts to justify the recognition of the lost OSS revenues  
2 based on a comparison to Empire and Ameren Missouri who have FACs. This  
3 argument is completely unfounded. As a result of KCPL's agreement to enter into a  
4 Stipulation and Agreement for the Experimental Regulatory Plan, KCPL agreed not to  
5 seek an FAC until June 2015. This is the agreement and KCPL must be held to that  
6 agreement. In several instances, in both its direct testimony and rebuttal testimony,  
7 KCPL continues to describe how its circumstances would be different under an FAC.  
8 Quite simply, KCPL agreed not to seek an FAC until June 2015. The Company  
9 should be held to that agreement and all comparisons or discussions about an FAC  
10 for KCPL at this time are inappropriate and should be dismissed.

11   **Q     IS IT POSSIBLE THAT THE IMPACT OF WEATHER CAN BE BOTH BENEFICIAL**  
12           **AND DETRIMENTAL TO A UTILITY?**

13   **A**Yes. In its request for a flood AAO, KCPL simply wants to be protected against the  
14 possible detrimental effects of weather. It is possible, however, that weather can  
15 provide beneficial effects for the utility as well. For example, in its 10Q filing with the  
16 SEC for the second quarter of 2012, KCPL admits that second quarter profits  
17 increased by \$14.7 million over the same period in 2011. These increased profits  
18 were driven in part by "favorable weather with a 30% increase in cooling degree  
19 days." While KCPL has not yet filed its 10Q for the third quarter of 2012, given the  
20 extreme heat from this summer, I would expect that KCPL again realized increased  
21 profits associated with the hot summer.

1 Q HOW DOES KCPL ACCOUNT FOR THE HOT SUMMER WEATHER AND  
2 INCREASED PROFITS IT REALIZED THIS YEAR?

3 A While the hot 2012 summer was within the test year in this case, the increased profits  
4 will not be accounted for in this case. Given the nature of Missouri ratemaking, sales  
5 and revenues have been normalized in this case. To the extent therefore that test  
6 year sales and revenues were greater than these normalized levels, KCPL keeps the  
7 entirety of these weather related benefits.

8 Q PLEASE SUMMARIZE YOUR POSITION.

9 A The Commission has previously ruled that ungenerated revenues have never existed,  
10 will never exist and thus should not be recognized for rate recovery. I support this  
11 conclusion and therefore I oppose the recognition of lost OSS revenues as a result of  
12 the 2011 flood of the Missouri River.

13 **Interim Energy Charge**

14 Q DID KCPL FILE REBUTTAL TESTIMONY REGARDING THE IEC?

15 A Yes. KCPL witness Tim Rush and Ed Blunk filed rebuttal testimony concerning the  
16 IEC.

17 Q PLEASE SUMMARIZE THE POSITIONS OF KCPL?

18 A KCPL rebuts several issues which I discussed in my direct testimony. Specifically,  
19 KCPL addresses the following issues.

- 20 1. Fuel cost volatility;  
21 2. IEC vs. FAC;  
22 3. OSS margins protection;

1 4. Clarity of proposal; and

2 5. Sharing mechanism.

3 **Q PLEASE ADDRESS THE ISSUE OF FUEL COST VOLATILITY.**

4 A KCPL claims that its fuel costs face similar volatility as the other utilities (Empire and  
5 Aquila) which received IECs in the past. KCPL attempts to justify their position of fuel  
6 price volatility by saying “KCPL faces ever rising fuel and purchased power costs.”<sup>1</sup>  
7 KCPL fails to recognize, however, that an increase in an expense does not qualify as  
8 an expense that exhibits volatility.

9 Price volatility is reflected by an expense which exhibits both increases and  
10 decreases in an unpredictable manner. An example of a volatile expense which  
11 many of us encounter on a day-to-day basis is the price of gasoline. Gasoline prices  
12 fluctuate unpredictably on a weekly (if not daily) basis, both increasing and  
13 decreasing. Similar to gasoline prices, when Empire and Aquila operated under an  
14 IEC, natural gas prices were volatile. Just as important, however, was the  
15 dependence of Empire and Aquila’s generation fleet’s dependence on natural gas  
16 price. Therefore, natural gas prices were volatile and the impact of such volatility was  
17 significant.

18 KCPL’s argument that its fuel and purchased power costs are ever increasing  
19 does not meet the volatility test. MIEC/MECG witness James R. Dauphinais also  
20 discussed price volatility in his testimony on transmission expense in this case. In  
21 summary, KCPL has failed to provide any evidence that its fuel and purchased power  
22 costs are volatile.

23

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<sup>1</sup>Rush Rebuttal, page 27, lines 21-22.

1 **Q. PLEASE ADDRESS THE ISSUE OF THE SIMILARITY BETWEEN KCPL'S**  
2 **PROPOSED IEC AND A FUEL ADJUSTMENT CLAUSE (FAC).**

3 A. As reflected in several pieces of testimony, KCPL has committed, as part of its  
4 Regulatory Plan, not to request the implementation of a fuel adjustment clause until  
5 2015. That said, many parties believe that KCPL has attempted to undermine its  
6 commitment by requesting an FAC and labeling it an IEC. Specifically, as compared  
7 to previous IEC's, KCPL proposal bears no resemblance. In its rebuttal, KCPL  
8 attempts to distinguish its proposed IEC as being different from an FAC. KCPL can  
9 only cite one difference between the two mechanisms, and that is that an FAC allows  
10 for recovery of costs between rate cases whereas the IEC proposed by KCPL does  
11 not. On the other hand, KCPL's proposal fails to provide for a ceiling that is designed  
12 to provide an incentive for cost minimization, fails to provide for an interim amount  
13 that is subject to refund, and also carries the possibility of asking ratepayers for  
14 additional amounts in the future to account for inadequate rates today. As can be  
15 seen, given the lack of similarities to previous IECs, KCPL has proposed an FAC with  
16 an IEC title. The Commission should not be misled by this disguised FAC proposal.

17  
18 **Q. PLEASE ADDRESS THE ISSUE OF OFF-SYSTEM SALES MARGIN**  
19 **PROTECTION.**

20 A. In previous testimony, I alleged that KCPL's IEC proposal is not actually designed to  
21 address fuel price volatility. Rather, since KCPL has expanded its IEC proposal to  
22 include off-system sales margins, I maintain that the IEC proposal is truly about  
23 providing protections against changes in off-system sales margins. KCPL claims that  
24 the IEC is not to protect itself 100% against any loss in OSS margins. Although  
25 KCPL's proposal may not provide 100% protection against OSS margins, I still

1 contend that the main reason for KCPL's IEC proposal is to protect itself against not  
2 being able to achieve the 40<sup>th</sup> percentile of OSS sales that the Commission ordered in  
3 KCPL's last rate case. KCPL witness Rush states in his rebuttal testimony at page  
4 28, "The proposed IEC mechanism affords some protection against the volatility of  
5 the market that we've seen over the past several years by allowing the Company a  
6 symmetrical offset of OSS margins against fuel and purchased power costs." I  
7 believe this statement shows the true intent of KCPL's IEC proposal.

8 KCPL witness Blunk filed rebuttal testimony which addressed the risk of the  
9 40<sup>th</sup> percentile of OSS margins as it relates to the return on equity ("ROE") that KCPL  
10 has been authorized. Mr. Blunk summarizes that an IEC would alleviate the need to  
11 increase the ROE for KCPL. Clearly from a comparison of the two witnesses'  
12 testimony, although not explicitly stated for obvious reasons, KCPL's proposed IEC is  
13 largely developed to protect KCPL from not achieving the 40<sup>th</sup> percentile of OSS  
14 margins.

15  
16 **Q. PLEASE ADDRESS THE ISSUE OF THE LACK OF CLARITY ASSOCIATED WITH**  
17 **KCPL'S IEC PROPOSAL.**

18 A. In Direct and Rebuttal Testimony, Staff as well as myself have commented on the  
19 lack of clarity associated with KCPL's IEC proposal. Specifically, there is confusion  
20 regarding KCPL's testimony. In his rebuttal testimony, Mr. Rush attempted to  
21 address this lack of clarity. Despite KCPL witness Rush's attempt, his explanation  
22 still does not clearly describe how the proposed IEC would function. It was apparent  
23 during the technical conference when KCPL discussed the mechanics of the IEC that  
24 all parties were not clear on how the mechanism would operate. Furthermore, I do  
25 not believe KCPL fully discussed during the technical conference how the IEC would

1 operate under various scenarios. Mr. Rush's rebuttal has not provided the needed  
2 clarity for the Commission on how the IEC would function.

3  
4 **Q. PLEASE ADDRESS THE ISSUE OF THE SHARING MECHANISM IN THE**  
5 **PROPOSED IEC.**

6 A. The IEC proposed by KCPL contains sharing percentages. This issue has been  
7 brought to the Commission's attention through numerous filings by the parties and I  
8 will not repeat the content of those filings in this testimony. However, the  
9 MIEC/MECG still believes any sharing mechanism is a violation of the conditions  
10 entered into as a result of KCPL's Experimental Regulatory Plan.

11 **Q PLEASE SUMMARIZE YOUR POSITION.**

12 A I recommend that KCPL's proposed IEC be rejected by this Commission. KCPL has  
13 not shown that either its fuel expense or purchased power expense is volatile, or that  
14 the amount of change is significant to KCPL's total fuel expense. KCPL has  
15 proposed its IEC to shield itself from the possibility of not achieving OSS margins at  
16 the 40<sup>th</sup> percentile. KCPL's proposed IEC is not transparent in how it will function.  
17 Finally, KCPL's proposed IEC is actually an FAC in disguise and an attempt to  
18 bypass prior agreements under the Experimental Regulatory Plan. For all of these  
19 reasons, KCPL's IEC should not be granted.

20 **Mutual Assistance**

21 **Q HAS THE COMPANY FILED ANY REBUTTAL IN OPPOSITION TO YOUR DIRECT**  
22 **TESTIMONY REGARDING THIS ITEM?**

1 A No. It is my understanding that KCPL accepts the adjustment to decrease operation  
2 and maintenance (“O&M”) expenses by \$486,000 and will continue to examine this  
3 item as part of true-up.

4 **Off-System Sales**

5 **Q DID KCPL WITNESS SCHNITZER ADDRESS THE LEVEL OF OSS MARGINS**  
6 **INCLUDED IN COST OF SERVICE IN HIS REBUTTAL TESTIMONY?**

7 A Yes, he did.

8 **Q DO YOU HAVE ANY COMMENTS REGARDING MR. SCHNITZER’S TESTIMONY?**

9 A Yes. For purposes of my surrebuttal testimony, I will address three main issues as  
10 they relate to the level of OSS margins. First, I will discuss how the results of the  
11 NorthBridge model violate the concepts of a test year and the proper matching of  
12 revenues, expenses and rate base. Second, I will discuss how the use of consistent  
13 fuel inputs is the correct methodology for determining fuel expense and OSS margins.  
14 Finally, I will comment on the alleged historic acceptance of the NorthBridge models.

15 **Q PLEASE DISCUSS YOUR CONCERN THAT THE RESULTS OF THE**  
16 **NORTHBRIDGE MODEL VIOLATE THE CONCEPTS OF A TEST YEAR.**

17 A Revenue requirements are determined based on a test year adjusted for known and  
18 measurable changes through a certain period of time (known and measurable period  
19 or true-up). That revenue requirement is predominantly based on historic data.

20 The NorthBridge model estimates the level of OSS margins that KCPL can  
21 expect to receive in 2013 (the year rates will be in effect). By adopting the  
22 NorthBridge model using projected data, KCPL has violated the conditions of the test

1 year and true-up as established in this case. KCPL has incorporated projected  
2 estimates which have not occurred and will not occur prior to the expiration of the  
3 true-up period in this case. These projections of OSS margins violate the test year  
4 concept and do not incorporate the all relevant factor test.

5  
6 **Q. WHY IS THE TEST YEAR IMPORTANT?**

7 A. Only by using a consistent period of time may the doctrine of matching revenues,  
8 expenses and rate base be adhered to. In MEEG / MIEC's analysis, normalized test  
9 year assumptions have been used for its OSS analysis. In contrast, by reaching  
10 outside of the test year and true-up period, KCPL has violated the fundamental tenet  
11 of matching. Specifically, while the majority of KCPL's expenses, revenues and rate  
12 base are based on normalized test year levels, KCPL has selected a single item to be  
13 treated on a forecasted basis. This violates the relationship between revenues,  
14 expenses and rate bases and results in rates that are not properly set.

15  
16 **Q HAS THE COMMISSION ADDRESSED PROJECTIONS OR BUDGETED DATA IN**  
17 **ANY OF ITS REPORT AND ORDERS?**

18 A Yes. In AmerenUE's 2007 rate case, Case No. ER-2007-0002, the Commission  
19 made the following statement in its Report and Order.

20 In Missouri, rates are set using a historical test year. The Commission  
21 examines the utility's revenues and expenses for that test year and  
22 uses that information to set rates to be charged in the future. The  
23 Commission does not use a forward-looking test year based on  
24 budgets and projections to set those rates. If it did, AmerenUE would  
25 no doubt appreciate an opportunity to base its rates on what it believes  
26 will be higher fuel costs in the coming years. Since the Commission  
27 uses historical expenses and revenues to set rates, it would be  
28 fundamentally unfair to reach forward to grab a single budget item to  
29 reduce AmerenUE's cost of service, while ignoring other anticipated  
30 costs that might increase that cost of service. (page 32)



1 Q PLEASE DISCUSS YOUR BELIEF THAT THE USE OF CONSISTENT FUEL  
2 INPUTS IS THE CORRECT METHODOLOGY FOR DETERMINING FUEL  
3 EXPENSE AND OSS MARGINS?

4 A The calculation of fuel expense has been and should continue to be calculated based  
5 on normalized inputs. The largest component of fuel expense which demands  
6 normalization is weather and its affects on the customer sales volumes to determine  
7 generation load. I am not aware of any party that disputes that fuel expense should  
8 not be determined using generation load normalized for weather.

9 Similarly, generating plants are modeled assuming a normal level of  
10 availability. Overstating or understating a plant's availability would affect the  
11 annualized level of fuel expense. Generally, all inputs for the calculation of fuel  
12 expense are normalized.

13 OSS are recognized after a utility has served its native load requirements.  
14 The ability for a utility to make an OSS is premised on the fact that the utility has  
15 excess generation available to make OSS after serving its native load. To determine  
16 the level of OSS that a utility should expect to make, the calculation must first  
17 recognize the normalized level of fuel expense. If one bifurcates these calculations  
18 as KCPL has done, synchronizing the level of fuel expense and the level of OSS is in  
19 jeopardy.

20 Both the level of fuel expense and the level of OSS margins should be  
21 calculated using the same fuel model inputs. To do otherwise could result in  
22 unreasonable levels for either fuel expense or OSS margins. As the Commission  
23 noted in the above Report and Order, it is fundamentally unfair to reach forward to  
24 grab a single budget item. In this case, that single item is the level of OSS margins.

**Greg R. Meyer**  
**Page 30**

1 **Q PLEASE SUMMARIZE MR. SCHNITZER'S OPINION REGARDING THE**  
2 **COMMISSION'S PAST TREATMENT OF KCPL MARGIN.**

3 A Mr. Schnitzer contends the Commission is being asked to revisit issues that it has  
4 resolved in the four prior rate cases.<sup>2</sup> The basis of his argument is that, since the  
5 Commission permitted the use of his analysis in some previous cases, then by default  
6 the Commission has ruled and resolved the issue surrounding OSS margin  
7 calculation.

8 **Q DO YOU AGREE WITH KCPL'S ASSERTIONS REGARDING THE COMMISSION'S**  
9 **TREATMENT OF OSS MARGINS IN PREVIOUS CASES?**

10 A No. In the 2006 and 2007 cases, the Commission was presented the Schnitzer  
11 methodology for the first time. While KCPL was asking to treat OSS margins on a  
12 forecasted basis, some parties simply sought to include an amount of historical OSS  
13 margins. For instance, Staff recommended that the Commission set off-system sales  
14 at the test year level. In those cases, no party considered the reasonableness of the  
15 Schnitzer model or the assumptions provided by KCPL for use in that model.  
16 Ultimately, the Commission did adopt the KCPL forecasted level of OSS margins. In  
17 doing this, however, the Commission never was truly asked to consider the  
18 reasonableness of the model or its assumptions. Rather, given that no party  
19 presented an OSS margin analysis based upon test year normalized assumptions,  
20 and given that KCPL derived almost 50% of its earnings from off-system sales, the  
21 Commission adopted the Schnitzer analysis.

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<sup>2</sup>Schnitzer Rebuttal at page 8.

1 **Q DO THE SAME CONDITIONS EXIST IN THIS CASE?**

2 A No. Unlike the 2006 and 2007 cases, the Commission has been presented in this  
3 case an OSS margin analysis that is based upon test year normalized assumptions.  
4 Unlike KCPL's methodology, this test year normalized methodology is consistent with  
5 historical Missouri ratemaking methodology, the test year concept and the matching  
6 doctrine. Furthermore, the risk analysis that the Commission considered in the 2006  
7 case is no longer applicable. KCPL no longer derives 50% of its earnings from off-  
8 system sales. As the Commission related in its Report and Order in the last case,  
9 currently off-system sales margins "barely make up 20% of KCPL's earnings."<sup>3</sup>

10 **Q HOW WERE OSS MARGINS HANDLED IN THE 2009 CASE?**

11 A In ER-2009-0089, while it did not run a model to determine OSS margins based upon  
12 normalized test year assumptions, Staff did take issue with the assumptions that  
13 KCPL provided for use in the Schnitzer model. Specifically, Dr. Proctor criticized  
14 KCPL's forecasted assumptions as violating the test year concept. Dr. Proctor stated  
15 that the use of "historical prices instead of forecasted prices" should be "seriously  
16 considered" for KCPL. Dr. Proctor further noted that, contrary to the forecasted prices  
17 used by KCPL, historical test year prices are used in AmerenUE rate cases.<sup>4</sup> Further,  
18 Dr. Proctor recommended that electricity prices included in the model "should be  
19 based on test year SPP North prices that have been normalized and adjusted for  
20 known and measureable changes."<sup>5</sup> Similarly, Dr. Proctor stated that the gas prices

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<sup>3</sup>Report and Order, Case No. ER-2010-0355 at Paragraph 394.

<sup>4</sup>See, Rebuttal Testimony of Michael S. Proctor, Case No. ER-2009-0089 at page 6 and pages 9-10.

<sup>5</sup>*Id.* at page 7.

1 included in the model “should be the same gas prices used in the model used to  
2 determine KCPL’s production (generation) costs.”<sup>6</sup>

3 **Q HOW WAS THE 2009 CASE RESOLVED?**

4 A The 2009 case was settled among the parties. Therefore, contrary to KCPL’s current  
5 assertions, the Commission was never provided the opportunity to consider Dr.  
6 Proctor’s recommendations that the OSS model include normalized test year  
7 assumptions instead of KCPL’s forecasted assumptions.

8 **Q HOW WERE OSS MARGINS TREATED IN THE 2010 KCPL CASE?**

9 A In that case, KCPL again relied upon the Schnitzer analysis with forecasted  
10 assumptions. Since the Commission was not presented with another OSS margin  
11 analysis, it accepted the Schnitzer modeling. That said, however, the Commission  
12 took issue with at least some of the KCPL’s forecasted assumptions relied upon by  
13 Schnitzer. Specifically, the Commission faulted the KCPL analysis because it relied  
14 upon a forecasted level for its Firm Load Obligation. Instead, the Commission  
15 appeared to indicate that the assumptions utilized in the Schnitzer OSS analysis  
16 should have consistent assumptions with those used in the production cost model.  
17 Therefore, the Commission appeared to be seeking an OSS analysis that was also  
18 based upon normalized test year assumptions. Specifically, the Commission faulted  
19 KCPL’s use of a forecast Firm Load Obligation instead of the normalized test year  
20 Firm Load Obligation used in the fuel model. Clearly then, contrary to KCPL’s current  
21 assertions, the Commission did not completely accept the use of forecasted  
22 assumptions in that case.

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<sup>6</sup>*Id.* at pages 7-8.

1 **Q DO YOU HAVE ANYTHING FURTHER TO DISCUSS REGARDING THE LEVEL OF**  
2 **OSS MARGINS?**

3 A Yes. I want to remind the Commission that the position of MIEC/MECG on OSS  
4 margins is to set a level and then allow the utility to retain all margins which exceed  
5 that level. I was not able to find any rebuttal testimony from KCPL which discussed  
6 this concept. I can only surmise that the main difference between KCPL and  
7 MIEC/MECG is the level of OSS margins that should be established in base rates.

8 **Q PLEASE SUMMARIZE YOUR POSITION.**

9 A I continue to support the level of OSS margins proposed by my colleague, Nicholas  
10 Phillips. The OSS margins developed by Mr. Phillips utilize consistent fuel inputs  
11 based on normalized historic data, are consistent with the test year concept, and are  
12 a reasonable level to include in KCPL's cost of service.

13 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A Yes, it does.