

*Exhibit No.:*  
*Issue:* Payroll, Fuel Expense, Fuel  
Inventory,  
*Witness:* Keith Majors  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* True-up Direct Testimony  
*Case Nos.:* ER-2012-0174 & ER-2012-0175  
*Date Testimony Prepared:* November 8, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**KEITH MAJORS**

**Great Plains Energy, Incorporated  
KANSAS CITY POWER & LIGHT COMPANY and  
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**CASE NOS. ER-2012-0174 and ER-2012-0175**

*Jefferson City, Missouri  
November 8, 2012*

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PAYROLL EXPENSE..... 2  
FUEL EXPENSE..... 2  
FUEL INVENTORIES ..... 3



1 **PAYROLL EXPENSE**

2 Q. How did Staff true-up payroll expense?

3 A. Staff applied the current employee levels and wage rates as of August 31,  
4 2012, to calculate an annualized level of total KCPL payroll expense. Because KCPL  
5 employees constitute GMO's workforce, Staff then allocated that annual level of payroll  
6 expense between KCPL and GMO. It further allocated the GMO payroll expense to the  
7 MPS and L&P rate districts. Staff further allocated the payroll expense allocated to KCPL,  
8 and the MPS and L&P rate districts between Operations & Maintenance ("O&M") and  
9 capitalized amounts.

10 Staff added to the payroll expense that Staff allocated to KCPL a trued-up annual  
11 amount for Wolf Creek payroll, based on the 12 months ending August 31, 2012. As a 47%  
12 owner of Wolf Creek, KCPL is billed by the Wolf Creek Nuclear Operating Corporation  
13 ("WCNOC") for its 47% share of payroll, benefits, and other expenses related to the operation  
14 of Wolf Creek.

15 Staff trued-up payroll taxes for KCPL and the MPS and L&P rate districts consistent  
16 with how it trued-up payroll expense.

17 **FUEL EXPENSE**

18 Q. How did Staff true-up fuel and purchased power expense for KCPL and GMO?

19 A. There are a number of inputs that Staff uses to determine fuel and purchased  
20 power expense. Staff used the most current information available to it as of the August 31,  
21 2012, true-up cutoff date to determine those inputs. The fuel and purchased power expense  
22 input changes Staff used for its true-up can be broadly categorized as 1) updates in delivered

1 | prices for coal, natural gas, and oil, or variable fuel costs, and 2) updates to semi-fixed and  
2 | fixed fuel-related expenses.

3 | Staff used updated information for delivered coal, natural gas, and oil prices in its  
4 | RealTime™ production cost model runs, or fuel model, to calculate the annual variable fuel  
5 | and purchased power expenses for KCPL, and the GMO MPS and L&P rate districts.

6 | The updated semi-fixed fuel-related expenses include various fuel additives  
7 | (ammonia, lime, limestone) and fuel adders (unit train leases and maintenance and natural gas  
8 | reservation charges). The fixed fuel-related expenses also include demand charges related to  
9 | purchased power agreements.

#### 10 | **FUEL INVENTORIES**

11 | Q. Did Staff make changes to fuel inventories as part of its true-ups of the revenue  
12 | requirements of KCPL, and the GMO MPS and L&P rate districts to the August 31, 2012  
13 | true-up cut-off date?

14 | A. Yes.

15 | Q. What changes did it make?

16 | A. There are three categories of fuel inventories that Staff changed: 1) coal, 2) oil,  
17 | and 3) fuel additives.

18 | Q. Do you know why they changed?

19 | A. Yes. The three drivers of the changes in overall rate base values of the coal,  
20 | oil and additive inventories are 1) changes in annual coal burn, 2) changes in physical  
21 | inventory amounts, and 3) changes in the delivered prices of fuel and additives.

22 | Q. How did Staff determine the amounts of total coal inventory in the rate bases  
23 | of KCPL, and the GMO MPS and L&P rate districts?

1           A.     Coal inventory is kept for three distinct purposes: 1) to support annual  
2 coal burns for native load, or, the energy needed to provide service to the Company's  
3 retail customers and firm bulk power sales, 2) to support annual coal burns for interchange, or  
4 off-system, sales, and 3) basemat, the bottom most layer of coal, which is considered difficult  
5 to burn and generally not included in burnable inventory.

6           Q.     How did Staff determine the levels of coal inventory required for native load  
7 for the true-ups?

8           A.     For determining the native load portion of coal inventory, Staff utilized the  
9 annual burns in MMBTU (million British Thermal Units) for native load from its RealTime™  
10 fuel model runs and converted them to delivered tons of coal. Staff then converted this annual  
11 amount of burned coal to a daily burn amount of burned coal using 365 days. Staff obtained  
12 the total available days' inventory from KCPL's Utility Fuel Inventory Model ("UFIM"),  
13 which calculates an appropriate days' inventory from a variety of inputs to determine an  
14 appropriate inventory based on balancing the cost of the investment in inventory with the cost  
15 of replacement energy should coal inventory be depleted. Staff multiplied the total days'  
16 inventory from KCPL's UFIM by the daily burn to arrive at an appropriate level of native  
17 load coal inventory. Staff then applied the most recent delivered coal prices, which include  
18 variable freight and fuel surcharges, to arrive at a total company value for its rate base  
19 calculation. The change in native load coal inventory from Staff's March 31, 2012 direct filed  
20 case to Staff's August 31, 2012 true-up filed case is detailed in the tables below:

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23 *continued on next page*

True-Up Direct Testimony of  
Keith Majors

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Q. Does Staff know what caused its coal inventory expenses for KCPL, and

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GMO's MPS and L&P rate districts to change in the true-ups?



1           A.     Yes. The net change in inventory is primarily driven by the changes in  
2 delivered coal prices, which include commodity, freight, and fuel surcharge charges, and,  
3 more importantly, by reduced generation from coal burning baseload units.

4           Q.     How did Staff determine the levels of coal inventory for interchange, or off-  
5 system sales, for the true-ups?

6           A.     Staff included coal inventory for off-system sales in KCPL's rate base, but not  
7 in inventory for MPS or L&P. GMO has nominal interchange sales; therefore, no significant  
8 coal inventory is required for those sales. Instead of changing its basis for determining coal  
9 inventory for interchange sales to the twelve months ended August 31, 2012, for the true-ups  
10 Staff continued to use the megawatt hour ("MWh") sales volumes that it calculated for its  
11 Staff's March 31, 2012, direct filed cases.

12           Staff converted those sales volumes to an appropriate tonnage burned, by baseload  
13 coal unit, to determine the appropriate amounts of inventory to include in the rate bases.  
14 Similar to how it determined native load coal inventory, Staff used the results from KCPL's  
15 UFIM to determine the appropriate days' inventories. Staff used current delivered coal prices  
16 based on commodity, freight, and fuel surcharges as of August 31, 2012, to value the  
17 appropriate amounts of inventory.

18           The change in KCPL interchange sales coal inventories from Staff's March 31, 2012  
19 direct case for KCPL to Staff's August 31, 2012 true-up case for KCPL is shown in the  
20 table below:

21  
22  
23 *continued on next page*



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The total megawatt hours generated for off-system sales in the 12 months ending March 31, 2012 was \*\* \_\_\_\_\_ \*\* or \*\* \_\_\_\_\_ \*\* of total MWhs, compared to retail load megawatt hours of 16.6 million MWh, or \*\* \_\_\_\_\_ \*\* of the total of \*\* \_\_\_\_\_ \*\* MWhs of generation needed to meet both interchange (“off-system”) sales and retail loads.

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8

Q. How do the coal inventory volumes for interchange sales that Staff used in its analysis for KCPL compare to native, or retail load coal inventory volumes?

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A. Staff compared the native load coal inventory to the interchange sales coal inventory. The results of that comparison are shown in the table below:

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The change in basemat coal inventory is due to a correction of the inventory of jointly owned units.

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True-Up Direct Testimony of  
Keith Majors

1           At the August 31, 2012 true-up, the total level of KCPL coal inventory for off-system  
2 sales is \*\* \_\_\_\_\_ \*\* of the total coal inventory, compared to retail  
3 load coal requirements of \*\* \_\_\_\_\_ \*\* of the total coal inventory of  
4 \*\* \_\_\_\_\_ \*\* When comparing the percentage of off-system sales coal inventory  
5 to off-system MWh sales, Staff has included a significantly higher percentage of coal  
6 inventory for off-system sales in KCPL's rate base than the level of off-system sales  
7 compared to retail load.

8           Q.     How did Staff determine the basemat coal inventory levels for the true-ups?

9           A.     Staff used the basemat amounts it identified in its March 31, 2012, direct cases,  
10 then applied the August 31, 2012, delivered prices to obtain their rate base values. The total  
11 tons of basemat coal were determined by a third party contracted by KCPL, MIKON, who  
12 utilized various testing methods to determine the amount of basemat coal.

13          Q.     Would you summarize the differences in coal inventories between Staff's  
14 direct filed March 31, 2012 cases and Staff's August 31, 2012 true-up cases for KCPL, and  
15 the GMO MPS and L&P rate districts?

16          A.     The March 31, 2012 direct filed coal inventory for KCPL, MPS and L&P are  
17 in the tables below. Basemat volumes are included in total inventory value:

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True-Up Direct Testimony of  
Keith Majors

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The Staff's March 31, 2012 direct filed L&P coal inventory, corrected for jointly  
4 owned inventory allocations, appears below:

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The Staff's August 31, 2012 true-up coal inventory for KCPL, MPS and L&P are in  
8 the tables below:

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True-Up Direct Testimony of  
Keith Majors

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Q. Does this conclude your true-up direct testimony?

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A. Yes.

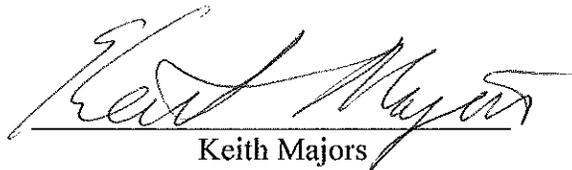
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light )  
Company's Request for Authority to ) Case No. ER-2012-0174  
Implement A General Rate Increase for )  
Electric Service )  
)  
)  
In the Matter of KCP&L Greater Missouri )  
Operations Company's Request for Authority ) Case No. ER-2012-0175  
to Implement General Rate Increase for )  
Electric Service )

AFFIDAVIT OF KEITH MAJORS

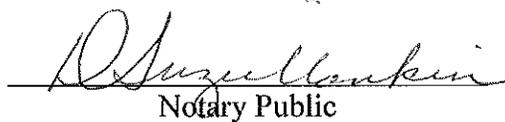
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Keith Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing True-Up Direct 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.

  
Keith Majors

Subscribed and sworn to before me this 8<sup>th</sup> day of November, 2012.

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

  
Notary Public