

Exhibit No.:
Issue: Policy
Witness: Curtis D. Blanc
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2010-0355
Date Testimony Prepared: January 5, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355

SURREBUTTAL TESTIMONY

OF

CURTIS D. BLANC

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
January 2011**

SURREBUTTAL TESTIMONY

OF

CURTIS D. BLANC

Case No. ER-2010-0355

1 **Q: Please state your name and business address.**

2 A: My name is Curtis D. Blanc. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

4 **Q: Are you the same Curtis D. Blanc who prefiled direct and rebuttal testimony in this**
5 **matter?**

6 A: Yes.

7 **Q: What is the purpose of your surrebuttal testimony?**

8 A: The purpose of my surrebuttal testimony is to respond to the positions taken by certain
9 witnesses in their pre-filed rebuttal testimony. Specifically, I address (i) the rebuttal
10 testimony of Staff witness William Harris, who proposes to impose additional off-system
11 sales risk on the Company; (ii) the rebuttal testimony of Staff witnesses Lisa Kremer and
12 Gregory Brossier concerning the appropriateness of providing a performance incentive
13 for utilities to provide better service than is strictly required under Missouri law; (iii) the
14 rebuttal testimony of Staff witness Keith Majors, who argues that fees paid to Chris Giles
15 should be disallowed; and (iv) the rebuttal testimony of Staff witness Charles Hyneman
16 concerning KCP&L's management of the Iatan construction contracts.

17 **THE COMMISSION SHOULD NOT IMPOSE**
18 **ADDITIONAL OFF-SYSTEM SALES RISK ON THE COMPANY**

19 **Q: What is Mr. Harris's recommendation concerning the treatment of KCP&L's off-**
20 **system sales margins for ratemaking purposes?**

1 A: Mr. Harris adopts the recommendation suggested by MEUA witness Greg Meyer in his
2 Direct Testimony. That is, Mr. Harris believes it would be appropriate to significantly
3 increase the portion of KCP&L's off-system margins that are presumed to be realized in
4 KCP&L's Missouri retail rates. In KCP&L's prior rate cases, the amount of off-system
5 sales margins the Company is presumed to earn is set using a probabilistic analysis of the
6 likelihood of KCP&L realizing a particular level of margins, as explained in the Direct
7 Testimony of Michael Schnitzer. The Commission has adopted the 25th percentile level
8 of off-system sales margins as the appropriate level, which is consistent with KCP&L's
9 request in this case. Mr. Harris and Mr. Meyer argue to increase KCP&L's presumed
10 off-system sales margins from an amount equal to the 25th percentile to an amount equal
11 to the 40th percentile.

12 **Q: Do you agree?**

13 A: Absolutely not. As I explained in my rebuttal testimony in response to Mr. Meyer, in
14 KCP&L's prior rate cases, the Commission has chosen the 25th percentile as the
15 appropriate level of off-system sales margins that it presumes KCP&L will realize. That
16 presumed level of margins is credited against KCP&L's cost to serve its customers. That
17 is, KCP&L's rates are set as though it is a certainty KCP&L will realize at least that level
18 of off-system sales margins. No such certainty exists. KCP&L is entirely at risk for
19 realizing the threshold level of off-system sales margins. If at least that level of margins
20 is not ultimately realized, there is no way for KCP&L to be made whole. For ratemaking
21 purposes, it is the same as an unrecovered cost.

22 For these reasons, in KCP&L's prior rate cases, the Commission has used the 25th
23 percentile as the appropriate level of off-system sales margins to presume that KCP&L

1 will realize. That continues to be appropriate, and neither Mr. Meyer nor Mr. Harris
2 provides a sufficient rationale for changing the Commission's prior practice. All of
3 KCP&L's off-system sales margins are returned to customers under either KCP&L's or
4 Staff's proposal. The only question is what level of margins KCP&L should be
5 presumed to realize when setting its Missouri retail rates.

6 **Q: What rationale does Mr. Harris offer in support of his proposal?**

7 A: Mr. Harris argues that (i) the completion of Iatan 2; (ii) the need to "provide a greater
8 incentive" for KCP&L to make off-system sales; as well as (iii) the fact that off-system
9 sales margins fluctuate support his proposal to shift additional risk to the Company.

10 **Q: Do you agree?**

11 A: No, I do not. The completion of Iatan 2 does not decrease KCP&L's exposure to the
12 risks of the off-systems sales market. If anything, it increases it. Iatan 2 coming on line
13 means that KCP&L will likely have more megawatt hours available for sale off system.
14 Most importantly, the 25th percentile level of presumed off-system sales margins
15 proposed by KCP&L includes the additional capacity from Iatan 2. The Company's
16 proposal already takes into account the additional capacity that results from the
17 completion of Iatan 2. That is, the Company's proposal to continue using the 25th
18 percentile level already presumes that KCP&L will realize additional off-system sales
19 revenues from Iatan 2. It is not necessary to also use the completion of Iatan 2 as an
20 excuse to increase the percentile level of margins from the 25th percentile to the 40th
21 percentile.

22 Next, Mr. Harris argues that using the 40th percentile provides "a greater
23 incentive" for KCP&L to make off-system sales. However, Mr. Harris does not present

1 any evidence suggesting that KCP&L needs a greater incentive, or more importantly, that
2 exposing KCP&L to more risk is the appropriate incentive if one is needed. If a greater
3 incentive is needed, letting KCP&L retain a portion of its off-system sales margin is
4 better than arbitrarily exposing the Company to additional risk.

5 Finally, Mr. Harris correctly notes that KCP&L “has experienced a fluctuating
6 level of off-system sales, costs and resulting margins.” Harris Rebuttal, at p. 5. That is
7 precisely why it would be inappropriate to increase the percentile level of margins
8 KCP&L is presumed to realize. Off-system sales margins fluctuate significantly due to
9 factors entirely beyond KCP&L’s control, *e.g.*, the price of natural gas and the demand
10 for wholesale power in this region of the country. As a result, increasing the presumed
11 level to the 40th percentile accomplishes nothing more than to increase the likelihood that
12 KCP&L will not recover its cost to serve its customers, as deemed just and reasonable by
13 the Commission in this case.

14 **IT IS APPROPRIATE TO REWARD KCP&L**
15 **FOR STRONG CUSTOMER SERVICE AND RELIABILITY**

16 **Q: Do you agree with Ms. Kremer’s and Mr. Brossier’s claim that it is inappropriate to**
17 **provide a performance incentive for a utility with strong customer service and**
18 **reliability?**

19 **A:** No, I do not. Their argument is essentially two fold: (i) that a utility is required by law
20 to provide safe and adequate service and (ii) that KCP&L’s rates include its costs to
21 provide customer service and maintain the reliability of its system. Neither argument
22 supports denying KCP&L’s request for a 25 basis point adder to its authorized return on
23 equity. To the contrary, the issues highlighted by Ms. Kremer and Mr. Brossier support
24 the Company’s request.

1 **Q: Please explain.**

2 A: KCP&L provides safe and adequate service, as do all of the utilities against which it is
3 compared for customer satisfaction and reliability, which is precisely the point. KCP&L
4 has achieved stronger customer satisfaction and reliability for its customers than its peers
5 at costs that are generally consistent with those peers. That is, all of the utilities have
6 customer service and reliability costs in their rates that a commission has deemed to be
7 prudently incurred and to result in just and reasonable rates. With that same level of
8 investment, KCP&L has achieved stronger performance. That is the type of management
9 I would think the Commission would want to reward. No one is suggesting that KCP&L
10 is passing along excessive costs to its customers to “gold plate” its system or to provide
11 unnecessarily good customer service.

12 The position advocated by Ms. Kremer and Mr. Brossier is potentially dangerous
13 in my mind. Rather than encourage utilities to excel to the highest level of customer
14 satisfaction and reliability that is possible at just and reasonable rates, their argument has
15 the potential to create the perverse incentive for utilities to provide the bare minimum of
16 what would be deemed safe and adequate under the law. Staff suggests bad things would
17 happen if a utility falls below the “safe and adequate” threshold, but rejects as
18 inappropriate an incentive for better performance. That policy effectively sets a minimal
19 level of service that Missouri utilities must provide. However, that policy does nothing to
20 incent Missouri utilities to provide service that is better than safe and adequate at rates
21 that continue to be just and reasonable.

1 **FEES PAID TO CHRIS GILES WERE PRUDENTLY INCURRED**
2 **AND SHOULD BE RECOVERED**

3 **Q: Do you agree with Mr. Majors’s proposal to remove “all dollars KCPL has included**
4 **in rate case expense related to Mr. Giles’ services as an independent contractor”?**
5 **Majors Rebuttal, p. 21.**

6 **A:** No, I do not. Mr. Majors presents two rationales for this adjustment, both of which are
7 flawed. First, Mr. Majors argues that it is appropriate to exclude fees paid to Mr. Giles
8 because his salary was included in the rates that resulted from KCP&L’s last rate case.
9 That logic represents the very definition of single-issue ratemaking, and as such, should
10 be rejected. The Commission must look at all relevant factors when setting a utility’s
11 rates—not the change in employment status of a single individual. KCP&L witness John
12 Weisensee also addresses this issue in his surrebuttal testimony.

13 Second, Mr. Majors incorrectly suggests that Mr. Giles has the same job duties
14 that I have, and therefore customers are paying two people to do the same job. That is
15 not the case. While Mr. Majors is correct that I have “assumed the former duties of Mr.
16 Giles,” Majors Rebuttal, at p. 22, that does not mean that Mr. Giles continues to perform
17 those same duties as well. Mr. Giles provides support to me in the same manner as any
18 contract employee or KCP&L employee in the Regulatory Affairs Department. Staff
19 does not provide a substantive basis for denying KCP&L recovery of the fees it has paid
20 Mr. Giles. As such, the Commission should reject Mr. Majors’s proposed adjustment.

21 **KCP&L MANAGED THE IATAN CONSTRUCTION CONTRACTS WELL.**

22 **Q: Do you agree with Mr. Hyneman’s contention that “there is substantial evidence**
23 **that KCPL has been ineffective at managing its Iatan construction contracts and**

1 **enforcing the terms and conditions of its contracts with major Iatan construction**
2 **contractors and consultants”? Hyneman Rebuttal, at p. 4.**

3 A: No, I do not. To the contrary, there is substantial evidence that KCP&L was extremely
4 effective in managing its Iatan construction contracts, as explained in the pre-filed
5 testimony of KCP&L witnesses William Downey, Chris Giles, Brent Davis, Forrest
6 Archibald, Bob Bell, Steve Jones, Ken Roberts, Daniel Meyer, and Kris Nielsen. Iatan 2
7 was completed within three months of a target date established more than five years ago.
8 In addition, Iatan 2 was completed at a cost only 15% greater than the Control Budget
9 Estimate that was established in December of 2006. Those results are telling evidence
10 that KCP&L effectively managed its Iatan construction contracts.

11 **Q: What “substantial evidence” does Mr. Hyneman suggest supports his claim?**

12 A: Mr. Hyneman relies almost exclusively on self assessments and audits KCP&L
13 conducted to ensure it was effectively managing the Iatan projects.

14 **Q: Is it appropriate for Mr. Hyneman to use KCP&L’s self assessments and audits in**
15 **this manner?**

16 A: No. First, Mr. Hyneman recites the findings of KCP&L’s self assessments and audits
17 without also discussing how KCP&L reacted to its own findings. KCP&L responded to
18 issues as they arose. Second, Mr. Hyneman fails to acknowledge that conducting these
19 kinds of self assessments and audits is precisely what a prudent manager should do.
20 Considering this same issue, the Kansas Corporation Commission found that “use of
21 internal audits to criticize KCPL’s decisions ignore the fact that the process of conducting
22 on-going internal audits during a complex construction project is considered part of the
23 prudent management decision making process.” KCC Order, Docket No. 10-KCPE-415-

1 RTS (Nov. 22, 2010), at p. 27. Trying to hold against a company the findings of self
2 assessments and audits, as Mr. Hyneman proposes here, likely has a chilling effect on a
3 company's willingness to conduct such self assessments and audits in the first place.
4 Such a policy would be bad for Missouri utilities and ultimately their customers.

5 **Q: Does that conclude your testimony?**

6 **A: Yes, it does.**

