

Exhibit No.:
Witness: Greg Meyer
Type of Exhibit: Rebuttal Testimony
Issue: Revenue Requirement
Sponsoring Parties: Industrials
Case No.: ER-2009-0089

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

_____)
In the Matter of the Application of Kansas)
City Power and Light Company for)
Approval to Make Certain Changes in its) **Case No. ER-2009-0089**
Charges for Electric Service To Continue)
the Implementation of Its Regulatory Plan.)
_____)

Rebuttal Testimony of
Greg Meyer
on Revenue Requirement Issues

On behalf of
NNSA
Midwest Energy Users Association
Missouri Industrial Energy Consumers
Praxair, Inc.

March 11, 2009



Project 9050

**Public
Version**

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

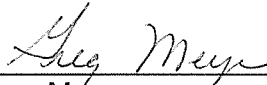
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_____)

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS) **SS**

Affidavit of Greg Meyer

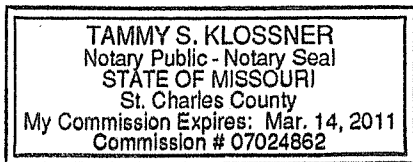
Greg Meyer, being first duly sworn, on his oath states:


1. My name is Greg 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 NNSA, Midwest Energy Users Association, Missouri Industrial Energy Consumers and Praxair, Inc. in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission Case No. ER-2009-0089.
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 Meyer

Subscribed and sworn to before me this 10th day of March, 2009.





Notary Public

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Rebuttal Testimony of Greg Meyer

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

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

4 **Q WHAT IS YOUR OCCUPATION?**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

8 A I have been involved in public utility regulation and utility economic analysis for
9 approximately 29 years, with most of my experience on the Staff of the Missouri
10 Public Service Commission. I began working at BAI June 1, 2008. A more detailed
11 description of my work experience and education is included in Appendix A to my
12 testimony.

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

2 A I am appearing on behalf of NNSA, Midwest Energy Users Association, Missouri
3 Industrial Energy Consumers and Praxair, Inc. (collectively “Industrials”). The
4 companies purchase substantial amounts of electricity from Kansas City Power and
5 Light Company (KCPL) and the outcome of this proceeding will have an impact on
6 their cost of electricity.

7 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A I am providing testimony in the area of Off-System Sales (OSS). Specifically, I am
9 recommending that the Commission reject KCPL’s proposal to reduce OSS margins
10 from the 25th percentile sponsored by KCPL witness Michael M. Schnitzer for the
11 impact of Purchase for Resale transactions. Second, I recommend that the proposed
12 reduction to Mr. Schnitzer’s OSS margins for transmission losses be adjusted. I am
13 also proposing that the margins from “Q Sales” during the test year be included in
14 KCPL’s cost of service.

15 Finally, I will discuss a concern I have with the OSS tracker as it relates to the
16 period from January 1, 2009 through the Operation of Law date (August 5, 2009) in
17 this rate case.

18 **Q CAN YOU PLEASE QUANTIFY THE VALUE OF YOUR PROPOSED**
19 **ADJUSTMENTS ON THE COMPANY’S REVENUE REQUIREMENT?**

20 A Yes, listed below are the revenue requirement values for each issue I am sponsoring:

21 1. OSS reduction for Purchase for Resale *****

22 2. OSS reduction for Transmission Losses *****

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1 3. Q Sales included in Cost of Service *****

2 The value of the OSS tracker issue cannot be quantified at this time.

3 **OSS Adjustments for Purchase for Resale**

4 **Q PLEASE DESCRIBE THE PURCHASE FOR RESALE ADJUSTMENT TO OSS.**

5 A KCPL has proposed that the level of OSS margins determined by witness Schnitzer
6 be reduced by ***** to reflect losses KCPL claims it experiences on
7 four different categories of Purchase for Resale during the test year. These claimed
8 losses generally result from selling some of the power for less than the purchased
9 price.

10 **Q PLEASE LIST THE CATEGORIES OF PURCHASE FOR RESALE KCPL
11 PROPOSES TO ADJUST FOR LOSSES.**

12 A The four categories of Purchase for Resale are listed below:

- 13 1. Bilateral Sales from Bilateral Purchases;
- 14 2. Sales into the Southwest Power Pool (SPP) from Bilateral Purchases;
- 15 3. Sales into SPP from SPP Purchases; and
- 16 4. Bilateral Sales from SPP Purchases.

17 ***** . The
18 other three categories had losses during the test year.

19 **Q CAN YOU DESCRIBE THESE TYPES OF TRANSACTIONS?**

20 A Sales into SPP from SPP Purchases relate primarily to the differences in generation
21 and load between KCPL owned generators operating in SPP and how those
22 imbalances of generation and load in SPP are recorded. This is the only type of

1 Purchase for Resale category which has a clear distinction. The other three
2 categories include numerous events which may cause the losses.

3 **Q WHAT ARE YOUR GENERAL CONCLUSIONS REGARDING THE APPROPRIATE**
4 **TREATMENT FOR EACH OF THESE TYPES OF PURCHASE FOR RESALE**
5 **TRANSACTIONS?**

6 A I recommend that the Commission not recognize any losses associated with these
7 transactions until the Company has performed a thorough analysis of the cause for
8 these specific losses. I believe it will be discovered that customer rates already
9 address many of the circumstances which contribute to these losses. Therefore, it is
10 possible that customer rates already encompass some reflection of the losses
11 contemplated by KCPL's adjustment.

12 **Q WHY ARE YOU PROPOSING NOT TO RECOGNIZE THESE LOSSES?**

13 A There are several reasons for not making this adjustment to the level of OSS. First, it
14 is not clear that these losses should be considered as a component in the revenue
15 requirement without consideration of their impact on annualized fuel expense.
16 Second, it is unclear how these losses have been recorded on the Company books.
17 Finally, I believe this adjustment violates a condition of the Regulatory Plan (Plan)
18 and the precedent that has been established in this area since the Plan has been in
19 force.

1 **Q PLEASE DESCRIBE YOUR CONCERNS WITH THE ADJUSTMENT AND THE**
2 **ANNUALIZATION OF FUEL EXPENSE.**

3 A I attended (via telephone) a meeting with KCPL and the Staff on January 15, 2009 to
4 discuss OSS. During the meeting, KCPL stated that some portion of the OSS
5 reduction stemmed from a situation where KCPL bought power for a longer period of
6 time than was needed and then lost money on portions of that power when it was
7 resold into the SPP or through a bilateral transaction. An example will better illustrate
8 this concept.

9 Assume that KCPL needed to purchase 100 MWs of power to meet its peak
10 load requirements from 2 p.m. to 6 p.m., and that KCPL could buy that power at \$90
11 a MW (Total cost = \$36,000).

12 However, KCPL power traders discovered that they could buy an eight-hour
13 strip of power from 2 p.m. to 10 p.m. for \$40 a MW (Total Cost = \$32,000). During
14 the period from 2 p.m. to 6 p.m., the eight-hour strip of power produced substantial
15 savings from the peak purchase price (\$90 - \$40). However, from 7 p.m. to 10 p.m.
16 the price of power dropped to \$35 per MW. KCPL sold the excess energy back to
17 SPP at \$35 per MW and lost \$5 per MW for each MW per hour (Loss = \$2,000).

18 KCPL is attempting to recover the \$2,000 loss by reducing the Schnitzer OSS
19 levels. This adjustment should not be recognized because there was no
20 consideration given to the savings generated by the purchase during the peak hours.
21 Since KCPL does not operate under a fuel adjustment clause, any savings that it
22 recognizes in fuel and purchased power expense, relative to the cost built into base
23 rates, will inure directly to the benefit of its shareholders. Historically, KCPL
24 shareholders would receive the net benefit (i.e., the gain portion less the loss portion).
25 By this adjustment, however, KCPL wants to separate the gain portion of the

1 transaction from the loss portion of the transaction. Once separated, KCPL proposes
2 that its shareholders receive the entirety of that gain while customers bear the burden
3 of any loss. The equitable treatment is that KCPL's shareholders, as the recipients of
4 the gain, also bear the associated loss.

5 **Q WHY DO YOU SAY THAT NO CONSIDERATION WAS GIVEN TO SAVINGS**
6 **DURING THE PEAK HOURS?**

7 A The production cost model used to calculate annualized fuel expense would have
8 bought the power for those four hours at \$90 per MW for a fuel expense of \$36,000.
9 In this instance, KCPL would have saved \$20,000 of fuel expense from that which
10 was included in the revenue requirement during peak, but would have lost \$2,000
11 during the non-peak hours. At the conclusion of the transaction, KCPL would have
12 saved fuel expense from the level built into the revenue requirement.

13 For this reason, those claimed losses should not be a reduction to the
14 Schnitzer 25th percentile of OSS. The Company has provided no details regarding
15 these types of losses and has made no attempt to verify if these losses are justified in
16 relation to the annualization of fuel expense.

17 As I explain later, I also believe this and other proposed OSS adjustments
18 violate the Plan.

19 **Q WHAT IS THE DOLLAR VALUE OF THE ADJUSTMENT?**

20 A The value of this adjustment is *****.

1 **Q Sales Margins**

2 **Q PLEASE DESCRIBE YOUR UNDERSTANDING OF Q SALES.**

3 A Q Sales are interchange sales which do not involve any KCPL generators or rely on
4 the transmission system of KCPL. An example of a Q Sale would be where KCPL
5 buys energy from PJM and sells that energy to Entergy. Another example would be
6 where KCPL buys energy from MISO and then subsequently sells that same energy
7 back to MISO.

8 **Q HOW DID THE COMPANY EXCLUDE THESE SALES FROM COST OF SERVICE?**

9 A The Company adjusted the test year level of OSS margins (which included Q Sales
10 margins) to reflect the 25th percentile of OSS margins determined by Mr. Schnitzer.
11 Mr. Schnitzer's analysis does not include Q Sales margins and, consequently, they
12 are excluded from cost of service.

13 **Q WHY SHOULD THE COMMISSION INCLUDE Q SALES IN COST OF SERVICE?**

14 A These sales will continue to be made by KCPL employees using KCPL assets.
15 Employee costs and infrastructure costs are included in cost of service. Therefore,
16 these profits should flow to the benefit of the ratepayers. Furthermore, this
17 adjustment also violates the conditions of the Plan. KCPL's OSS levels should be
18 increased by ***** above the 25th percentile level recommended by Mr.
19 Schnitzer.

1 Q PLEASE EXPLAIN WHY YOU BELIEVE THIS ADJUSTMENT AND THE
2 ADJUSTMENT FOR CLAIMED LOSSES VIOLATE THE PLAN AND THE
3 PRECEDENT ESTABLISHED DURING THE TIME THE PLAN HAS BEEN IN
4 EFFECT.

5 A KCPL entered into a Plan with the Staff, Office of the Public Counsel and various
6 Intervenors which was subsequently approved by the Commission. The Plan
7 addressed the future supply of and pricing of electricity for KCPL and its customers,
8 and any other issues impacting KCPL that arose from discussions among the parties.

9 The Plan contains a section on OSS which is included below:

10 **j. Off-System Sales**

11 KCPL agrees that off-system energy and capacity sales revenues and
12 related costs will continue to be treated above the line for ratemaking
13 purposes. KCPL specifically agrees not to propose any adjustment
14 that would remove any portion of its off-system sales from its revenue
15 requirement determination in any rate case, and KCPL agrees that it
16 will not argue that these revenues and associated expenses should be
17 excluded from the ratemaking process.

18 As can be seen from Section j. of the Plan, no adjustments were contemplated
19 to the level of OSS. In KCPL's two previous rate cases, these types of adjustments
20 were not proposed.

21 However, now in the third rate case of the Plan, adjustments are proposed by
22 KCPL. These adjustments violate the Plan (and the previous rate case treatment of
23 OSS) and thus should be rejected.

1 **Line Losses on OSS**

2 **Q PLEASE EXPLAIN THE ISSUE AS IT RELATES TO THE TRANSMISSION LINE**
3 **LOSSES FROM OSS.**

4 A When KCPL makes an OSS outside of the SPP Energy Imbalance Service (EIS)
5 market footprint, KCPL incurs a line loss charge which compensates transmission
6 owners for system energy losses. SPP collects these charges and then distributes
7 them back to SPP transmission owners according to a specific formula. Due to the
8 introduction of the EIS market in February 2007, KCPL was not charged any
9 transmission line losses for OSS prior to and during January 2007. Mr. Crawford's
10 testimony states that this adjustment is necessary to capture a full year of net line
11 losses. (Net line losses are the difference between the charges for transmission line
12 losses and the subsequent transmission line loss revenues distributed back to SPP
13 network customers.)

14 **Q WHAT IS YOUR CONCERN WITH THIS TYPE OF ADJUSTMENT?**

15 A Mr. Crawford proposes to include the total difference between transmission line loss
16 charges and revenues as the adjustment. The correct annualization method would
17 be to recognize the inclusion of the January 2007 line loss charge in cost of service.
18 By including the total impact for 2007, there exists the possibility that these expenses
19 will be counted twice in cost of service. It is unclear from Mr. Crawford's testimony
20 why the total is included instead of the incremental amount.

21 I have discussed this concern with KCPL and they have agreed to provide the
22 accounts where these transmission losses and revenues are recorded. After
23 reviewing the data, this adjustment may need to be revised.

1 At this time, I propose that only the incremental amount (which is the estimate
2 for January 2007) be included in the adjustment and the other portion of the
3 adjustment be disallowed. This reduction from claimed expenses amounts to
4 *****.

5 **Q PLEASE DESCRIBE YOUR CONCERN WITH THE BOOKS OF KCPL.**

6 A I have attempted to trace the figures included in Mr. Crawford's Schedule BLC-6 back
7 to the books and records of KCPL. It is not evident where these transmission losses
8 may have been recorded on the books of KCPL. Depending on where these
9 transmission losses are booked, one could argue that the losses are already included
10 in KCPL's cost of service and thus do not need to be recognized for a second time.

11 **OSS Tracker**

12 **Q PLEASE EXPLAIN YOUR ISSUE WITH THE OSS TRACKER.**

13 A The OSS tracker was established by the Commission to track OSS margins above
14 the 25th percentile in order to refund those excess margins to ratepayers in a future
15 rate case. The Plan originally contemplated filings by KCPL in February of a given
16 year. In that way, rates would become effective at the end of that calendar year and
17 the tracker could be used to measure OSS for calendar years.

18 Due to delays in the construction of Iatan Unit 1 Air Quality Control (AQC)
19 equipment, KCPL recognized during the pendency of the last rate case
20 (ER-2007-0291) that it would not be able to file the current case until April or May
21 2008. The actual date of the filing of this case was September 5, 2008. This delay in
22 filing the rate case has now altered the timing of the measurement of the OSS
23 tracker.

1 For purposes of this case, the tracker will be measured through 2008 as part
2 of the true-up. Calculating the tracker through 2008 leaves the time period between
3 January 1, 2009 and the Operation of Law date of August 5, 2009 to be subject to the
4 current tracker.

5 I submitted a data request (Praxair HC Data Request No. 18) asking KCPL at
6 what level OSS margins would begin to be refunded back to ratepayers for the period
7 January 1, 2009 through the Operation of Law date (August 5, 2009). KCPL
8 responded that the level of OSS margins would still need to achieve a level of
9 ***** before any excess margins would be recognized for crediting back to
10 ratepayers in a subsequent rate case. KCPL cited the Commission Order as support
11 for this contention. I do not believe that the entire ***** in OSS margins
12 should have to be achieved before any excess margins are refunded back to
13 ratepayers. The ***** represents an annual amount and this amount
14 should be prorated over the period from January 1, 2009 through August 5, 2009.

15 Furthermore, by not prorating the annual level of OSS margins to the period of
16 time consistent with the implementation of new rates, KCPL is incited to not file their
17 rate cases in a manner originally contemplated by the Plan. Given KCPL's
18 interpretation of this issue, KCPL would be allowed to manipulate its earnings from
19 OSS margins to the benefit of the Company's shareholders and not the ratepayers of
20 Missouri. KCPL's interpretation of the Commission Order in this instance is
21 unsupportable and would deprive customers of margins to which they are entitled.

22 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 **A** Yes, it does.

Qualifications of Greg Meyer

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

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

4 **Q PLEASE STATE YOUR OCCUPATION.**

5 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
6 Associates, Inc. (BAI), energy, economic and regulatory consultants.

7 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A I graduated from the University of Missouri in 1979 with a Bachelor of Science Degree
10 in Business Administration, with a major in Accounting. Subsequent to graduation I
11 was employed by the Missouri Public Service Commission. I was employed with the
12 Commission from July 1, 1979 until May 31, 2008.

13 I began my employment at the Missouri Public Service Commission as a
14 Junior Auditor. During my employment at the Commission, I was promoted to higher
15 auditing classifications. My final position at the Commission was an Auditor V, which I
16 held for approximately ten years.

17 As an Auditor V, I conducted audits and examinations of the accounts, books,
18 records and reports of jurisdictional utilities. I also aided in the planning of audits and
19 investigations, including staffing decisions, and in the development of staff positions in
20 which the Auditing Department was assigned. I served as Lead Auditor and/or Case

1 Supervisor as assigned. I assisted in the technical training of other auditors, which
2 included the preparation of auditors' workpapers, oral and written testimony.

3 During my career at the Missouri Public Service Commission, I have
4 presented testimony in nine electric rate cases, nine gas rate cases, seven telephone
5 rate cases and several water and sewer rate cases. In addition, I have been involved
6 in cases involving service territory transfers. In the context of those cases listed
7 above, I have presented testimony on all conventional ratemaking principles that are
8 related to a utility's revenue requirement. During the last three years of my
9 employment with the Commission, I was involved in developing transmission policy
10 for the Southwest Power Pool as a member of the Cost Allocation Working Group.

11 In June of 2008, I joined the firm of Brubaker & Associates, Inc. as a
12 Consultant. The firm Brubaker & Associates, Inc. provides consulting services in the
13 field of energy procurement and public utility regulation to many clients including
14 industrial and institutional customers, some utilities and, on occasion, state regulatory
15 agencies.

16 More specifically, we provide analysis of energy procurement options based
17 on consideration of prices and reliability as related to the needs of the client; prepare
18 rate, feasibility, economic, and cost of service studies relating to energy and utility
19 services; prepare depreciation and feasibility studies relating to utility service; assist
20 in contract negotiations for utility services, and provide technical support to legislative
21 activities.

22 In addition to our main office in St. Louis, the firm has branch offices in
23 Phoenix, Arizona and Corpus Christi, Texas.

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