Exhibit No.:
Issue: Off-System Sales Adjustments And Margin
Witness: Burton L. Crawford
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2009-0089
Date Testimony Prepared: April 7, 2009

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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2009-0089**

# SURREBUTTAL TESTIMONY

**OF**

**BURTON L. CRAWFORD**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri**
**April 2009**

**"** [redacted] **" Designates "Highly Confidential" Information Has Been Removed Pursuant to 4 CSR 240-2.135.**

**SURREBUTTAL TESTIMONY**

**OF**

**BURTON L. CRAWFORD**

**Case No. ER-2009-0089**

1 **Q: Are you the same Burton L. Crawford who pre-filed Direct Testimony and Rebuttal**
2 **Testimony in this case on behalf of Kansas City Power & Light Company**
3 **("KCP&L" or the "Company")?**
4 A: Yes, I am.
5 **Q: What is the purpose of your Surrebuttal Testimony?**
6 A: I will address issues related to off-system sales ("OSS"). In particular, I will respond to
7 claims from various witnesses in this case that the Company's proposed treatment of OSS
8 is inappropriate and violates the Stipulation and Agreement in Case No. EO-2005-0329.
9 I will also address the Office of Public Counsel's ("OPC") OSS margin analysis of Office
10 of Public Counsel ("OPC") witness Barbara Meisenheimer.
11 __**Purchases for Resale**__
12 **Q: What claims has the Missouri Public Service Commission ("Commission") Staff**
13 **("Staff") made concerning the Company's OSS margins?**
14 A: Staff witness, V. William Harris, claims that the Company adjustments to OSS margins
15 to reflect Southwest Power Pool ("SPP") Line Losses and Purchases for Resale ("PFR")
16 are inappropriate.
17 **Q: Why does Mr. Harris believe these adjustments to be inappropriate?**

1 A: Mr. Harris claims that these adjustments remove a portion of OSS from the Company revenue requirements.

3 **Q: Is this claim correct?**

4 A: No. All projected OSS transactions are factored into the OSS margins included in the Company's filing in the current case.

6 **Q: How so?**

7 A: Company witness, Mr. Michael Schnitzer's OSS margin number represents OSS that are supplied by KCP&L's generating resources. The PFR adjustment to Mr. Schnitzer's margin represents OSS sales that are supplied by purchased power. As discussed in my Direct Testimony, the Company has included the OSS supported by purchased power based on the actual test year value and proposes to update this value in its true-up filing.

12 **Q: Is it appropriate to include OSS supplied by purchased power?**

13 A: Yes. As Mr. Harris points out in his Rebuttal Testimony, the Company agreed not to propose any adjustment that would remove any portion of its OSS from its revenue requirement determination and the Company has done just that.

16 In addition, Mr. Harris defines OSS in his Rebuttal Testimony as follows: "Margins (profits) are the gross revenues from each sale less the fuel and **purchased power** expenses KCP&L incurs in that sale" emphasis added (p.1, lines 22-23). KCP&L is simply including OSS that are supported by purchased power

20 **Q: Has any other party to this case opposed including OSS transactions supported by purchased power?**

22 A: Yes. Mr. Greg Meyer representing the National Nuclear Security Administration ("NNSA"), Midwest Energy Users Association, Missouri Industrial Energy Consumers,

1 and Praxair Inc. ("Industrials") recommends that the Commission not recognize any

2 losses associated with these transactions.

3 **Q: Why is Mr. Meyer recommending the Commission not recognize these transactions?**

4 A: Mr. Meyer states in his Rebuttal Testimony that he believes that an analysis of these

5 transactions would show that "customer rates already address many of the circumstances

6 which contribute to these losses" (Meyer Rebuttal, p.4, lines 8-9).

7 **Q: What evidence does Mr. Meyer present to support this belief?**

8 A: Mr. Meyer provides one example of how the Company can save purchased power

9 expense by buying blocks of energy needed to serve retail load while selling a portion of

10 the block when it is not needed.

11 **Q: Does this situation occur in actual operation?**

12 A: Yes, it does.

13 **Q: Are these savings reflected in the annualized fuel expense in the Company's case?**

14 A: No, they are not.

15 **Q: Please explain.**

16 A: The model that the Company uses to normalize and annualize fuel and purchased power

17 expense reflects the hourly market for purchased power, not an average block price. This

18 is true of any production cost simulation model in that certain simplifying assumptions

19 are made that do not always match what happens in real operations. The RealTime

20 model used by Staff and OPC makes this same assumption.

21 **Q: Has the Company proposed any adjustments to address Mr. Meyer's concern?**

22 A: Yes. In my Rebuttal Testimony in this case, I propose that at the time of true-up in this

23 case, the Company will adjust the OSS margin threshold to reflect the purchased power

1 savings realized by the Company during the previous 12 months. This will appropriately
2 match the benefits of these block purchase with the cost of the block purchases. I also
3 proposed in my Rebuttal Testimony that when determining any regulatory liability for
4 exceeding the 25th percentile determined in this case, the Company will adjust the actual
5 OSS margins to reflect any actual savings realized by the Company from making these
6 purchases.

7 **Q: Does Mr. Meyer have any other concerns with reflecting these PFR transactions in**
8 **the OSS margins?**

9 A: Yes. He expressed two additional concerns; (1) an unclear understanding on how these
10 losses have been recorded on the Company books, and (2) a belief that this adjustment
11 violates a condition of the Regulatory Plan.

12 **Q: How are these transactions recorded on the Company books?**

13 A: As I explained in my Direct Testimony in this case, these transactions are a normal part
14 of ensuring sufficient energy is reliability and economically available to meet KCP&L
15 load obligations. These transactions are normal purchase and sale transactions and are
16 recorded on the books as such. In determining the regulatory liability associated with the
17 actual OSS margins in 2007 and 2009, all OSS supported by purchased power were
18 determined by the Company's post analysis program.

19 **Q: Do you agree with Mr. Meyer that the PFR adjustment violates a condition of the**
20 **Regulatory Plan?**

21 A: No, I do not.

22 **Q: Why not?**

1 A: As explained above, in my Rebuttal Testimony to the similar claim from Mr. Harris, the
2 Company has factored in all projected OSS transactions in the OSS margins included in
3 the Company's filings in the current case, and proposes to include all OSS transactions
4 when determining the Company's actual OSS margin and any associated regulatory
5 liability related to such.

6 **Q: On page 2 of his Rebuttal Testimony, Mr. Kumar, representing NNSA and the**
7 **Federal Executive Agencies, lists other factors besides gas prices which should be**
8 **included in the OSS margin computations. Have the impacts of these other items**
9 **been considered in the OSS margin computations?**

10 A: As described in my Direct Testimony (Pages 2 – 5), the Company price forecast
11 modeling used in the OSS margin computations uses a multitude of inputs, including the
12 two items he specifically states – loads and congestion costs via transmission constraints.
13 Therefore, the power prices used in the OSS margin already considers these factors.

14 **Q: On page 2 of his Rebuttal Testimony, Mr. Kumar states that Staff and the Company**
15 **have not included revenues from the sale of capacity and ancillary services. Do you**
16 **agree with this statement?**

17 A: Definitely not. These revenues are included in both the Staff and Company cases.

18 **SPP Line Loss Charges**

19 **Q: Is Staff witness Harris correct in his assertion that the Company's adjustment for**
20 **Southwest Power Pool ("SPP") transmission line losses violates the Stipulation and**
21 **Agreement in Case No. EO-2005-0329?**

22 A: No, he is not.

23 **Q: Why not?**

1 A: Mr. Harris claims this adjustment removes OSS from the Company's revenue
2 requirement. The Company's adjustment for SPP line losses does not remove any of its
3 OSS from its revenue requirements. As I stated earlier, all projected OSS transactions are
4 factored into the OSS margins included in the Company's filings in the current case.
5 This adjustment for SPP line losses appropriately represents the costs charged by SPP to
6 the Company on wholesale transactions. Absent this adjustment, KCP&L would not
7 recover these costs imposed by SPP as part of its Federal Energy Regulatory
8 Commission-approved regional transmission tariff.

9 **Q: Has any other party to this case claimed that this adjustment for SPP line loss**
10 **charges may be inappropriate?**

11 A: Yes. Mr. Greg Meyer claims that the "correct annualization method would be to
12 recognize the inclusion of January 2007 line losses in the cost of service" (p.9, Lines 16-
13 17).

14 **Q: Do you agree with Mr. Meyer that the correct annualization method would be to**
15 **recognize the inclusion of January 2007 line losses in the cost of service?**

16 A: Yes, except Mr. Meyers proposed adjustment would not account for the net SPP line loss
17 charges for a full-year period.

18 **Q: Please explain.**

19 A: Since the SPP regional transmission organization ("RTO") did not begin charging for line
20 losses until February 2007, the 2007 test year in this case did not reflect an entire 12-
21 month period of these charges. Therefore an annualization adjustment was made in the
22 Company's direct filing to reflect this.

1 However, this only accounts for one month of net SPP transmission line loss charges.
2 Actual charges are recorded as Purchased Power Expense and Off-System Sales
3 Revenues. In the Company's cost of service, the test period values for these accounts are
4 eliminated in their entirety and the results of the Fuel and Purchased Power and OSS
5 margin modeling are included in their place. Thus, absent this adjustment, the net costs
6 for SPP transmission line loss charges would not be included in the Company's cost of
7 service. These are costs directly related to wholesale transactions and should be included
8 in ratemaking. These costs began with the implementation of the SPP Energy Imbalance
9 Service market.

10 **Q: Is this issue of potentially missing the net SPP line loss charges recognized by any**
11 **party in this case?**

12 A: Yes. Mr. Meyer appears to recognize the potential to have missed these costs.

13 **Q: Please explain.**

14 A: Mr. Meyer states in his Rebuttal Testimony that he has requested additional information
15 from the Company as to where the SPP line loss expenses and revenues are booked and
16 that his proposed adjustment may need to be revised. Mr. Meyer does not appear to be
17 arguing against the Company recovering the net SPP line loss charges, but rather wants to
18 ensure that these costs are not "recognized for a second time", or in other words, double
19 counted.

20 **Q: Does the Company's proposed adjustment for SPP line loss charges recognize these**
21 **costs for a second time?**

22 A: No. As explained earlier, the net SPP line loss charges do not appear in any other
23 location in the Company's cost of service.

1 **Off-System Sales Margins**

2 **Q: In OPC witness Ms. Barbara Meisenheimer's Rebuttal Testimony she states her**
3 **belief that their modeling run using Staff's inputs will produce a better predictor of**
4 **non-firm off-sales margins than the Company's approach. Do you agree with this**
5 **statement?**

6 A: No, I do not. We have identified two significant areas of concern with the results of the
7 modeling performed by the OPC. The first relates to the generation levels that OPC's
8 modeling projects. The second area relates to the market prices of energy used in OPC's
9 modeling. Other less significant issues may exist in their modeling.

10 **Q: Could you explain your concern related to generation levels?**

11 A: The OPC modeling projects the total generation from KCP&L's coal-fired fleet to be
12 approximately 16.8 million MWhs for the test year. As a comparison, the Company's
13 five-year average (2004 – 2008) coal generation was 15.1 million MWhs. The
14 Company's maximum coal fleet generation was 15.7 million MWhs in 2004. In fact, if
15 one would sum up the maximum generation by unit in any year, the total generation
16 would be 16.1 million MWhs. One can clearly see that OPC's modeling results project
17 generation levels that far exceed levels the Company has generated in the past.

18 **Q: What are some possible causes of this overstatement of generation?**

19 A: Based on our preliminary review, it appears that OPC's modeling has not properly
20 reflected the operational characteristics of these generating units. One area of concern is
21 that Ms. Meisenheimer appears to have used a forced outage rate ("FOR") that reflects
22 when units are forced out of service, rather than an equivalent forced outage rate
23 ("EFOR"), which includes times where the unit is still on-line, but its output is limited.

1 Furthermore, her modeling appears not to have considered the impacts of normal,
2 recurring unit short-term planned derates which are when units are still on line, but are
3 not able to generate at full capacity. The net effect of this is that if a unit is not out of
4 service because of a maintenance or forced outage, it is apt to be treated as though it is
5 generating at full capacity.

6 Q: **How does this impact the OSS margin computation?**

7 A: This supposed excess projected generation results in increased OSS quantities, which
8 results in an overstatement of potential OSS margins.

9 Q: **Could you explain your concern with the market prices used in OPC's modeling?**

10 A: The OPC modeling used market prices based on the period of October 2007 through
11 September 2008. The average around-the-clock ("ATC") price during this time frame as
12 computed by the Staff was ** ** / MWh. In one part of Staff Witness Dr.
13 Proctor's testimony he explains how some of the electricity prices in this period are
14 *"...the highest prices observed over the past history of active wholesale power markets,*
15 *including the very high prices that occurred in 2005 following hurricanes Rita and*
16 *Katrina."* (Proctor Rebuttal, p.11 lines 5-6). These prices are higher than the prices that
17 the Company has seen subsequent to that time and higher than the prices that KCP&L has
18 projected for when these rates go into effect. When discussing the Company's forecast of
19 electricity prices, Dr. Proctor stated: *"this drop in KCPL's forecast of electricity prices is*
20 *consistent with what was taking place in electricity markets where forward trading has*
21 *developed. This drop in forecasted electricity prices is also consistent with the drop in*
22 *spot electricity prices that began in August 2008 in the SPP electricity markets."*
23 (Proctor Rebuttal, p.6 lines 7-10)

1 Q: **What has driven this decrease in market prices of energy?**

2 A: A primary driver of this decrease is the decrease in the price of natural gas. As discussed
3 in the Surrebuttal Testimony of KCP&L witness Mr. Wm. Edward Blunk, natural gas
4 prices have declined significantly beginning in July 2008.

5 Q: **What is the effect of the decrease in market prices of energy on OSS margins?**

6 A: As discussed in KCP&L witness Mr. Schnitzer's Rebuttal Testimony and attached
7 schedules, the decrease in energy prices resulted in a decrease in the total Company
8 median OSS margin of ** ** from direct filing to the September 30 update
9 and ** ** from that September 30 update to the rebuttal update.

10 Q: **Has the OPC's projection of the OSS margin reflected this decrease in market**
11 **prices of energy?**

12 A: In a word – No. OPC's modeling assumes the continuation of the prices during the test
13 period which Dr. Proctor noted were some of the "highest prices over the past history of
14 active wholesale power markets."

15 Q: **In light of the fact that the model used by the OPC is essentially the same as used by**
16 **the Staff in support of its variable fuel and purchased power expenses, do your**
17 **concerns with the OPC's modeling process also apply to the Staff's modeling?**

18 A: Generally, no. The issues discussed above primarily relate to the quantity of off-system
19 sales and the prices for which this energy was sold. In the Staff's modeling for fuel and
20 purchased power, the modeling feature allowing off-system sales was disabled.
21 Regarding the issue related to the plant generating levels, changes in the availability of
22 generating resources would reduce generation from lower cost units to higher cost units

1 or to power purchases. Thus the Staff's fuel and purchased power costs may have been

2 slightly understated.

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

4 A: Yes, it does.

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

| | | |
|---|---|---|
| In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariff to Continue the Implementation of Its Regulatory Plan | ) ) ) | Case No. ER-2009-0089 |

**AFFIDAVIT OF BURTON L. CRAWFORD**

**STATE OF MISSOURI** )
) ss
**COUNTY OF JACKSON** )

Burton L. Crawford, being first duly sworn on his oath, states:

1. My name is Burton L. Crawford. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Manager, Energy Resource Management.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eleven (11) pages ~~and Schedule(s) _____ through _____~~, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

[signature]
Burton L. Crawford

Subscribed and sworn before me this 7th day of ~~March~~ April 2009.

[signature]
Notary Public

My commission expires: Feb. 4 2011

"NOTARY SEAL"
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200