Exhibit No.:	
Witness:	Maurice Brubaker
Type of Exhibit:	Direct Testimony
Issue:	Off-System Sales
Sponsoring Parties:	Praxair, Inc. and Missouri Industrial Energy Consumers
Case No.:	ER-2006-0314

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	**))))))))**	**Case No. ER-2006-0314**

Direct Testimony of

Maurice Brubaker
on Revenue Requirement Issues

On Behalf of

Praxair, Inc. and
Missouri Industrial Energy Consumers

August 8, 2006

BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Project 8544

"NON-PROPRIETARY" VERSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	)	**Case No. ER-2006-0314**

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

Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Praxair, Inc. and Missouri Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on rate design issues which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2006-0314.

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

M. Brubaker

Maurice Brubaker

Subscribed and sworn to before this 7th day of August 2006.

CAROL SCHULZ
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 26, 2008

Carol Schulz

Notary Public

My Commission Expires February 26, 2008.

BEFORE THE PUBLIC SERVICE COMMISSION
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In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Begin the Implementation of Its Regulatory Plan	)	**Case No. ER-2006-0314**

Direct Testimony of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A.

Q ON WHOSE BEHALF ARE YOU PRESENTING THIS DIRECT TESTIMONY ON REVENUE REQUIREMENT ISSUES?

A This testimony is presented on behalf of Praxair, Inc. and the Missouri Industrial Energy Consumers (MIEC).

Q WHAT ASPECTS OF REVENUE REQUIREMENT ISSUES DO YOU ADDRESS IN THIS TESTIMONY?

A I address the issue of the margins earned by Kansas City Power & Light Company (KCPL) on off-system sales in the wholesale market.

Q HAVE YOU REVIEWED THE TESTIMONY AND EXHIBITS FILED BY KCPL IN THIS PROCEEDING?

A Yes. I have reviewed these documents as well as supporting workpapers and the responses to numerous data requests. I have also attended several collaborative sessions in which the off-system sales issue was discussed.

Q PLEASE SUMMARIZE YOUR TESTIMONY.

A My testimony may be summarized as follows:

1. KCPL earns significant margins by selling excess generation from its coal-fired resources into the wholesale market at prices approximating gas-fired generation.

2. The costs of the resources that are used to produce this power are, and always have been, supported by native load customers, including Missouri retail customers.

3. Native load customers are entitled to all of the benefits of the margins earned from these off-systems sales.

4. KCPL's level of off-system sales has been high, and there is no indication of a weakening in these sales.

5. For test year purposes, KCPL estimated that the most likely, or median, value of the margins from off-system sales would be ******.

6. Rather than credit customers with ******, KCPL proposes to discount the credit to ratepayers to ******.

7. The ****** proposal represents a level that KCPL is 75% confident of achieving.

8. Although KCPL admits that ratepayers should get the full benefit of off-system margins, the significant discount which it has applied in the rate case effectively allocates about 30% of these margins to stockholders.

9. KCPL attempts to justify its proposal by referring to financial metrics required to support its construction program. However, two factors are also relevant. First, KCPL has not begun the construction of Iatan 2 so the high level of capital expenditures for which the regulatory plan was created has not yet become a reality. Second, KCPL has announced that it plans to have essentially annual rate cases for the duration of the construction program. Thus, to the extent margins in future years are different, the rate setting process can take that into account.

10. If a probabilistic analysis such as KCPL's is employed, it is important also to look at the issue from the customer's point of view. In order to ensure customers the same degree of confidence (75%) that they are receiving the full value of off-system margins, the Commission would need to credit customers with ****** of margins.

Q WHAT ARE OFF-SYSTEM SALES?

A Off-system sales are sales of energy made by KCPL to other entities in the wholesale power market. Essentially, KCPL sells to other entities, such as utilities and marketers, the energy available from its system, after first having assigned the most economical energy to serve its native load customers.

The costs associated with these KCPL generation resources (O&M expense, depreciation, return, etc.) are, and always have been, supported by native load customers through the revenue requirement determination process. Accordingly, they should be entitled to all of the benefits of the profits, or margins, earned from these sales.

Q WHAT ARE NATIVE LOAD CUSTOMERS?

A Native load customers consist of retail customers plus any wholesale customers for whom the utility has the obligation to serve. On the KCPL system, less than 1% of the load falls in the wholesale category, so 99% of the margins should be allocated (approximately) to Missouri (47%) and Kansas (52%) retail customers.

Q DOES KCPL ACKNOWLEDGE THAT MISSOURI RETAIL CUSTOMERS (AND OTHER NATIVE LOAD CUSTOMERS) SHOULD RECEIVE 100% OF THE BENEFIT OF THESE MARGINS?

A Yes. KCPL has acknowledged this on many occasions, including in response to OPC Data Request No. 5013 (a):

> "**Question No. 5013 (a):** Please confirm that it is not KCPL's intent to retain any portion of the off-system sales margin for shareholders.
>
> **Response to 5013 (a):** Yes, that is correct. "

However, as will be discussed subsequently, KCPL's proposed rate case adjustments significantly reduce the amount of credit that native load customers should receive, and transfer it to stockholders.

Q WHY HAVE OFF-SYSTEM MARGINS BEEN SO ATTRACTIVE FOR KCPL?

A In the past decade, electric utilities have dramatically increased their amount of natural gas-fired generation. As a result, the demand for natural gas has increased and the price has also increased. Given a utility's practice of economic dispatch, the nuclear, hydro and coal-fired units are typically used to meet native load with the natural gas generation used for peaking power and for sale on the wholesale electric market. As a general statement, therefore, the price of energy on the wholesale market often is based upon the higher priced natural gas generation.

Recognizing its abundance of nuclear and coal-fired generation (according to the latest 10K: 2,788 MWs), KCPL is frequently able to sell energy generated by the lower cost coal-fired generating units at wholesale market prices that are based on higher priced natural gas generation. The difference between the low cost of supplying power and the higher price established by the wholesale market necessarily leads to large off-system margins for KCPL. On an historical basis the annual contribution from wholesale margins have been large, but contrary to suggestions by KCPL, these margins are continuing to grow.

Q WHAT IS YOUR BASIS FOR SAYING THAT "MARGINS ARE CONTINUING TO GROW?"

A On August 3, 2006, Great Plains Energy, the parent company of KCPL, issued its press release detailing 2nd Quarter 2006 financial results. In that press release, Great Plains discussed the contribution made by KCPL resulting from its performance in the wholesale market. The press release noted: "Wholesale revenues in the second quarter 2006 also increased to $46.2 million, up $8.9 million compared to the second quarter last year. The increase in wholesale revenues was driven by a 23% increase in average wholesale prices." KCPL continues to benefit from its abundance of low price coal generation as well as a wholesale energy price based upon high priced natural gas.

Q FOR PURPOSES OF SETTING RATES IN THIS PROCEEDING, HAS KCPL ASSIGNED TO MISSOURI RETAIL CUSTOMERS THEIR APPROPRIATE JURISDICTIONAL SHARE OF THE EXPECTED MARGINS FROM OFF-SYSTEM SALES?

A No. KCPL substantially discounts the expected margins for purposes of setting rates. Of course, this makes the proposed retail rates higher than they otherwise would be had retail customers been assigned their full entitlement to the off-system sales margins.

Q WHAT MARGINS DID KCPL EARN FROM THESE OFF-SYSTEM SALES IN 2005?

A KCPL earned approximately ****** in 2005. (This is a total company number, not a Missouri jurisdictional number. For purposes of consistency, whenever I refer to a figure associated with off-systems sales margins, I will be referring to the total company number unless I explicitly state otherwise.)

Q WHAT IS THE BUDGETED LEVEL FOR 2006?

A The 2006 budgeted amount (established at the same time the rate case was prepared) is ******.

Q FOR THE RATE CASE, WHAT ESTIMATES DID KCPL DEVELOP FOR EXPECTED MARGINS FROM OFF-SYSTEM SALES?

A In developing its budget for 2007, KCPL reports that its MIDAS modeling indicated that the most reasonable estimate (50% above/50% below) for these margins was ******. The same number was derived as the median of the distribution of off-system sales margins from a separate probabilistic analysis of off-system sales margins, as discussed in the testimony of KCPL witness Schnitzer. Information provided in connection with KCPL's June 30, 2006 update indicates that this is still the expected median value.

Q WHAT AMOUNT OF OFF-SYSTEM MARGIN DOES KCPL PROPOSE TO CREDIT TO CUSTOMERS IN THIS CASE?

A KCPL proposes only to credit ****** for rate setting purposes.

Q WHY DID KCPL REDUCE THE EXPECTED MARGINS TO ****?**

A KCPL explains that it is concerned that it only has a 50%/50% chance of reaching this ****** expected level of off-system sales. In light of its construction program, KCPL claims that it needs a greater assurance of cash flow than is produced by a 50%/50% estimate. The specific value that KCPL proposes to use as a credit in setting rates, ******, is ****** below the 2005 margins, and ****** below the 50%/50% estimate for 2007.

Q HOW WAS THE **** NUMBER DERIVED AND WHAT DOES IT REPRESENT?**

A In analyzing the range of possible outcomes for off-system sales margins, KCPL witness Schnitzer conducted probabilistic modeling, in which 200 different Monte Carlo simulations were performed. This produced 200 discrete results. The ****** represents the 75% point on the probability distribution curve. It is a number which KCPL believes it has a 75% chance of meeting or exceeding. Roughly 150 of the 200 Monte Carlo runs produced a margin of ****** or higher.

Q IN YOUR EXPERIENCE, IS THIS A STANDARD OR TRADITIONAL APPROACH TO ESTABLISHING A REVENUE REQUIREMENT DETERMINATION IN A RATE CASE?

A No, it is rather unusual. The more normal process would be to utilize the actual value or the best estimate available. In this case, the best estimate would seem to be much closer to the actual value of ****** or the median value, which is the ****** margin which splits the outcome so that there is a 50%/50% chance of being above or below. That would represent an equitable allocation of the risk between customers and shareholders.

In contrast, with KCPL's proposed 75% probability point on the curve, the odds are stacked against the customers by a 3 to 1 ratio (75% shareholder/25% customer).

Q DID KCPL DERIVE THE 75% PROBABILITY POINT FROM MR. SCHNITZER'S ANALYSIS?

A No. While Mr. Schnitzer's analysis quantified the margin at the 75% probability level, it is my understanding that the decision to establish the credit based on the 75% probability level was that of KCPL's management.

Q HAS KCPL EXPLAINED THE PROCESS BY WHICH IT SELECTED THE 75% PROBABILITY POINT?

A Not with any specificity. KCPL addresses the issue by discussing the risks that it perceives and indicates that numerous internal discussions were held about this matter. (For example, see KCPL response to Praxair Question No. 81.)

Q HAS KCPL PROVIDED ANY QUANTIFICATION OF THE POTENTIAL IMPACT THAT FALLING SHORT OF EXPECTED MARGINS WOULD HAVE ON ITS FINANCIAL METRICS AND ABILITY TO EXECUTE ITS CONSTRUCTION PROGRAM?

A No. KCPL has only raised this issue, but has not provided any quantification or any demonstration of such impacts.

Q IN TERMS OF KCPL'S FINANCIAL METRICS AND ABILITY TO PURSUE THE CONSTRUCTION PROGRAM, DOES KCPL INTEND TO FILE SUBSEQUENT RATE CASES?

A Yes. It is important to understand that KCPL intends to file rate cases on essentially an annual basis through the duration of the construction program for Iatan and the emission control facilities. Accordingly, the rates being set in this case are essentially for a one-year period. Further, KCPL has not initiated construction of the Iatan unit, so the need for capital has not yet risen to the level that prompted the development of the regulatory plan. Therefore, the Commission should feel comfortable in setting rates in this case based on the current evidence as to near term margins. To the extent that margins in a future case appear to be different, the rates established in that case will take that into account.

Q DID KCPL HAVE ANY OTHER COMMENTS WITH RESPECT TO SELECTING THE LEVEL OF OFF-SYSTEM SALES MARGINS TO USE AS A CREDIT IN SETTING RATES?

A Yes. At page 28 of his testimony, KCPL witness Giles observed that there could be ways to address the upside potential from whatever level of credit is used to set rates.

However, both in this testimony and in response to MPSC Staff Data Request No. 217, Mr. Giles spoke in very broad generalities and did not offer any specific proposals for consideration.

Q LOOKING AT THE SAME ISSUE FROM THE CUSTOMER'S PERSPECTIVE, WHAT AMOUNT WOULD BE INCLUDED AS OFF-SYSTEM SALES MARGIN IF CUSTOMERS WANTED TO BE 75% CERTAIN THAT KCPL WOULD NOT EARN MARGINS GREATER THAN WHAT WAS INCLUDED IN THE REVENUE REQUIREMENT?

A This information can be found in KCPL's response to OPC Data Request No. 5004. Based on the probability table on page 2 of that response, the amount to be credited to the revenue requirement as an offset for off-system sales profit would be ******.

Q WHAT IS YOUR RECOMMENDATION WITH RESPECT TO KCPL'S PROPOSED **** OFFSET FOR OFF-SYSTEM SALES MARGIN IN SETTING RETAIL RATES?**

A KCPL's proposed offset is inadequate. By a three-to-one margin, it stacks the deck in favor of KCPL and puts the customers at a disadvantage. If this type of analysis is to be pursued, the Commission should look at the issue from the customer's perspective and be inclined to set the margin offset at a level which would provide customers with 75% assurance that they will receive the benefit of off-system sales margins. As noted previously, KCPL's own probabilistic analysis would put this offset at ******, as compared to KCPL's ****** and the median of ******.

Q **YOU MENTIONED EARLIER THAT KCPL INCLUDED ONLY ****** OF OFF-SYSTEM SALES MARGINS IN ITS CASE BECAUSE, IN LIGHT OF ITS CONSTRUCTION PROGRAM, KCPL CLAIMS THAT IT NEEDS A GREATER ASSURANCE OF CASH FLOW THAN IS PRODUCED BY A 50%/50% ESTIMATE. DO YOU HAVE ANY COMMENTS REGARDING THIS NEED FOR GREATER ASSURANCE OF CASH FLOW?**

A Yes. In the context of negotiating the KCPL Regulatory Plan (Case No. EO-2005-0329), the parties specifically contemplated the possibility that KCPL may need a greater assurance of cash flow during this period of increased construction. Unlike KCPL's attempts to address such cash flow needs through proposals, such as the one in question which is overwhelmingly tilted in favor of shareholders, the parties to the regulatory plan (including KCPL) crafted assurances of cash flow which would fairly balance the interests of shareholders and ratepayers. These assurances of increased cash flow would take the form of regulatory amortizations. In fact, it is my understanding that in a July 18, 2006 call with Standard & Poor's set up by KCPL, S&P specifically said that the regulatory plan and the included amortizations were "well thought out and structured."

It is inappropriate for KCPL to bypass the protections of the regulatory amortizations which it agreed to and which the Commission approved, in favor of an off-system sales proposal which would deprive customers of approximately ****** of off-system sales margins associated with generation facilities for which they have provided financial support. If credit and/or cash flow issues arise, they should be handled pursuant to the regulatory plan agreed to by KCPL and approved by this Commission.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON REVENUE REQUIREMENT ISSUES?

A Yes, it does.

Appendix A

<u>Qualifications of Maurice Brubaker</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and President of the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income. I have also addressed utility resource planning principles and plans, reviewed capacity additions to determine whether or not they were used and useful, addressed demand-side management issues independently and as part of least cost planning, and have reviewed utility determinations of the need for capacity additions and/or purchased power to determine the consistency of such plans with least cost planning principles. I have also testified about the prudency of the actions undertaken by utilities to meet the needs of their customers in the wholesale power markets and have recommended disallowances of costs where such actions were deemed imprudent.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

During the past ten years, Brubaker & Associates, Inc. and its predecessor firm has participated in over 700 major utility rate and other cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water, and steam rates and other issues. Cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

An increasing portion of the firm's activities is concentrated in the areas of competitive procurement. While the firm has always assisted its clients in negotiating contracts for utility services in the regulated environment, increasingly there are opportunities for certain customers to acquire power on a competitive basis from a supplier other than its traditional electric utility. The firm assists clients in identifying and evaluating purchased power options, conducts RFPs and negotiates with suppliers for the acquisition and delivery of supplies. We have prepared option studies and/or conducted RFPs for competitive acquisition of power supply for industrial and other end-use customers throughout the Unites States and in Canada, involving total needs in excess of 3,000 megawatts. The firm is also an associate member of the Electric Reliability Council of Texas and a licensed electricity aggregator in the State of Texas.

In addition to our main office in St. Louis, the firm has branch offices in Phoenix, Arizona; Chicago, Illinois; Corpus Christi, Texas; and Plano, Texas.

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