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Witness: V. William Harris  
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Case No: ER-2012-0175  
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Missouri Public  
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

KCP&L GREATER MISSOURI OPERATIONS  
GREAT PLAINS ENERGY, INC.

CASE NO. ER-2012-0175

Jefferson City, Missouri  
October 2012

Staff Exhibit No. 295-NP  
Date 10/12/12 Reporter MM  
File No. ER-2012-0175

**\*\* Denotes Highly Confidential Information \*\***

**NP**

Staff Exhibit - 295

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Surrebuttal Testimony of  
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1 rebuttal testimony that the negative margins are being driven by purchased power is simply  
2 not supported by fact. Before the 2008 acquisition by Great Plains Energy, Inc. (GPE),  
3 GMO's predecessor company, Aquila, Inc. (Aquila) consistently recorded positive OSS  
4 margins even though its percentage of purchased power sold compared to generation sold  
5 exceeded the same percentages GMO has experienced since the acquisition. Since the  
6 acquisition, as GMO's percentages of purchased power sold compared to generation sold have  
7 *decreased*, GMO's negative OSS margin levels have *increased*. In fact, in the months since  
8 Iatan 2 was placed in service (August 2010) in which GMO sold more generation than  
9 purchased power, it has still recorded negative OSS margins.

10 The Empire District Electric Company (Empire) is similarly situated to GMO in terms  
11 of size (number of customers, rate base, revenues, etc.) and also sells a significant amount of  
12 purchased power on the OSS market. Staff will continue to look for an explanation of why  
13 GMO is the only Missouri jurisdictional electric utility to consistently record negative OSS  
14 margins.

15 **Discussion of Mr. Crawford's Rebuttal Testimony**

16 Q. On page 8, line 13, of his direct testimony, Mr. Crawford states "The negative  
17 margins are being driven by Purchases for Resale transactions." Mr. Crawford goes on to say  
18 on lines 15 and 16, "these transactions represent GMO wholesale sales that are supplied by  
19 purchased power as compared to wholesale sales supplied by GMO owned generation." Do  
20 you agree?

21 A. No. GMO owns 18 percent of the Iatan 2 generation plant. Since Iatan 2 was  
22 placed in service in August 2010, GMO has recorded 4 months of OSS in which the related  
23 costs from generation exceeded the costs from purchased power. GMO recorded negative

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1 margins in 3 of the 4 months resulting in a cumulative negative margin of nearly  
2 \*\* \_\_\_\_\_ \*\* as seen in the following HC table:

3

Month	Sales	Generation Cost	Purchased Power Cost	Net Margin
July 2011	** _____ **	** _____ **	** _____ **	** _____ **
August 2011	** _____ **	** _____ **	** _____ **	** _____ **
January 2012	** _____ **	** _____ **	** _____ **	** _____ **
May 2012	** _____ **	** _____ **	** _____ **	** _____ **
4-month total	** _____ **	** _____ **	** _____ **	** _____ **

4  
5 The numbers show that GMO is recording negative sales regardless of the source of  
6 the related costs.

7 Mr. Crawford also fails to explain why these purchased power costs never had a  
8 similar, negative impact on Aquila's net margins prior to the GPE acquisition in July 2008,  
9 even though Aquila experienced significantly higher percentages of OSS costs related to  
10 purchased power than GMO has experienced since the acquisition. I have attached as HC  
11 Schedule VWH-SUR-1 an analysis of OSS and OSS margins comparing Aquila's experience  
12 before the GPE acquisition to GMO's experience since the acquisition. Please note the  
13 following:

- 14
- 15 • The 3 years prior to the acquisition (2005-2007) Aquila's purchased power  
16 costs of OSS averaged 92.11% of its total costs. Over that same period,  
17 Aquila had positive net margins each year with a cumulative net margin of  
22.02%.
  - 18 • The year of the acquisition (2008) Aquila/GMO's combined purchased  
19 power costs to total OSS costs dropped to 82.08% and Aquila/GMO  
20 combined for another positive net margin of 24.03%.

**NP**

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- 1                   • The 3-year period after the acquisition (2009-2011) GMO's purchased  
2                   power costs to total OSS costs continued to drop (64.84%) with the 2011  
3                   year being only slightly higher than half (56.67%). Yet GMO recorded a  
4                   negative net margin each of the three years with the cumulative total being  
5                   *negative* 35.87%.

6                   Comparing Aquila's final 3 years before the year of the acquisition to GMO's 3 years  
7                   after the acquisition contradicts Mr. Crawford's explanation that negative margins are "being  
8                   driven" by purchased power costs in that:

- 9                   • Purchased power costs *decreased* 74.87% while net margins went from  
10                  positive 22% to negative 36%.

11                  Q.    Is there anything else in Mr. Crawford's rebuttal testimony to which you wish  
12                  to respond?

13                  A.    Yes. On page 9, lines 5 through 9, Mr. Crawford states that KCPL also  
14                  sometimes sells purchased power at a loss, but the losses aren't as apparent because of its  
15                  ability to sell significantly more power than GMO.

16                  Unlike KCPL, Empire is a Missouri jurisdictional electric utility similarly sized to  
17                  GMO (in terms of customers, rate base and revenues) that also sells a significant amount of  
18                  purchased power in the OSS market. Like KCPL, but unlike GMO (post acquisition), Empire  
19                  has historically and consistently experienced profitable OSS.

20                  Q.    Does this conclude your Surrebuttal Testimony?

21                  A.    Yes it does.

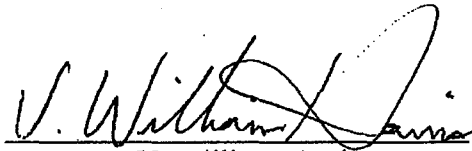
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

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 V. WILLIAM HARRIS

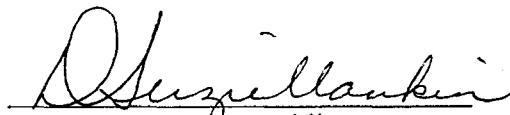
STATE OF MISSOURI     )  
                                  )           ss.  
COUNTY OF COLE     )

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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.

  
V. William Harris

Subscribed and sworn to before me this 9<sup>th</sup> day of October, 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

**SCHEDULE VWH-SUR-1**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN IT'S ENTIRETY**