

Exhibit No.:
Issue: *Off-System Sales Margin*
Witness: *V. William Harris*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *True-Up Direct Testimony*
Case No: *ER-2012-0175*
Date Testimony Prepared: *November 8, 2012*

Filed
December 04, 2012
Data Center
Missouri Public
Service Commission

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

TRUE-UP DIRECT TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

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

CASE NO. ER-2012-0175

*Jefferson City, Missouri
November 2012*

Staff Exhibit No. 386
Date 11-19-12 Reporter KF
File No. ER-2012-0175

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

NP

Staff Exhibit No. 386

1
2
3
4
5
6
7
8
9
10

**TABLE OF CONTENTS OF
TRUE-UP DIRECT TESTIMONY OF
V. WILLIAM HARRIS, CPA, CIA
KCP&L GREATER MISSOURI OPERATIONS COMPANY
GREAT PLAINS ENERGY, INC.
CASE NO. ER-2012-0175**

EXECUTIVE SUMMARY 1
KCPL'S RELATIONSHIP WITH GMO 3
GMO'S SIMILARITIES TO EMPIRE 5

True-Up Direct Testimony of
V. William Harris

1 normalize fuel and purchased power costs. The model generates a positive OSS margin
2 because it cannot generate a negative margin like the ones recorded on the Company's books.
3 If a sale resulted in a negative margin, the model simply would not make the sale. In reality,
4 GMO makes the sale anyway because, as I will demonstrate later in this testimony, KCPL
5 (acting as GMO's "agent") has the opportunity to realize retail profit margin on purchases it
6 makes for GMO while passing the cost of the purchases on to GMO. When GMO sells the
7 excess power it doesn't need for system load, often at a loss, it can pass the negative margin
8 on through its fuel adjustment clause (FAC).

9 Since the REALTIME Model Staff used does not simulate OSS, Staff accepted the
10 modest (but positive) margins generated by the MIDAS model in filing its direct case. The
11 assumptions GMO has input in the MIDAS model for the true-up case have resulted in a
12 much smaller margin that is now closer to being negative than it is to being at the level filed
13 by GMO in its direct case. Staff has decided to stay at the direct case level, which is very
14 comparable to the margin level of the Missouri electric utility most similar to GMO
15 (The Empire District Electric Company), rather than accept the near-negative margin level
16 GMO is now requesting.

17 Q. Did Staff indicate it would true-up OSS margin?

18 A. Yes. OSS margin was one of the items identified for true-up. In my direct
19 testimony I stated "Staff will continue to monitor GMO's off-system data as it becomes
20 available during the true-up period ending August 31, 2012. At the end of the true-up period,
21 Staff may propose other appropriate adjustments as necessary." Staff has continued to
22 monitor OSS data throughout the true-up period. Staff reviewed the true-up levels from the

1 MIDAS model supplied by GMO and found those levels were inappropriate. Therefore, Staff
2 continues to support the level of OSS margin in Staff's direct filing.

3 ~~KCPL'S RELATIONSHIP WITH GMO~~

4 Q. ~~If the MIDAS model GMO uses to normalize OSS reflects a positive (albeit~~
5 ~~small) level of margin, why is GMO consistently recording negative OSS margins on its~~
6 ~~books?~~

7 A. ~~Staff continues to search for explanations of why GMO consistently records~~
8 ~~negative margins on its books. GMO has attempted to justify the negative margins by~~
9 ~~claiming the margins are driven by sales made from purchased power rather than generation~~
10 ~~and that while KCPL also makes similar sales the effect is not as "apparent" on KCPL's~~
11 ~~overall margin due to the large volume of OSS that KCPL makes.~~

12 Staff ~~refuted the "purchased power driven" argument in demonstrating in surrebuttal~~
13 ~~testimony that the percentage of OSS from purchases has actually decreased significantly~~
14 ~~since the profitable Aquila years due largely to the increased generation available from~~
15 ~~Yatan 2, among other things. Staff also noted that The Empire District Electric Company~~
16 ~~(Empire), the most similar Missouri electric utility, continues to consistently experience~~
17 ~~positive OSS margins.~~

18 ~~In the evidentiary hearing on October 26, 2012, GMO counsel suggested that Empire~~
19 ~~might not be so similar because it is somewhat smaller than GMO in terms of customer size~~
20 ~~and generating capacity. However, these differences do not explain why GMO consistently~~
21 ~~records negative margins while Empire does not. The fact that Empire is smaller than GMO~~
22 ~~in terms of capacity actually undercuts GMO's explanation that its consistently negative~~
23 ~~margins are driven by purchased power.~~

True-Up Direct Testimony of
V. William Harris

1 ~~Less generating capacity may be one of the reasons that a significant amount of~~
2 ~~Empire's OSS also comes from purchased power, just like GMO. Yet, while GMO asserts~~
3 ~~that its reliance on purchased power produces negative margins, Empire still continues to~~
4 ~~consistently experience profitable OSS in spite of its reliance on purchased power.~~

5 ~~As I mentioned in my rebuttal testimony when providing a list of similarities (such as~~
6 ~~SPP membership and implementation of an FAC in 2007), perhaps the most apparent~~
7 ~~difference between the two companies is GMO's relationship with KCPL.~~

8 ~~Q. Please explain.~~

9 ~~A. When Great Plains Energy (GPE) acquired the Aquila property in 2008, Aquila~~
10 ~~(now GMO) and KCPL became affiliated companies. Aquila/GMO has a FAC. KCPL does~~
11 ~~not. GPE is concerned with maximizing profits for both KCPL and GMO as a whole. When~~
12 ~~KCPL, acting as GMO's "agent," purchases power on the open market and makes sales to~~
13 ~~GMO at market rates, it has the opportunity to profit from the transaction while GMO is made~~
14 ~~whole by recovering any related loss through its FAC.~~

15 ~~Acting as GMO's agent, KCPL has the opportunity to purchase power for both parties.~~
16 ~~KCPL then has the further opportunity to keep the "prime" piece of the power and pass the~~
17 ~~less desirable part on to GMO, who in turn remains unharmed through FAC recovery.~~
18 ~~Overall, GPE has the opportunity to realize a net profit.~~

19 ~~Q. Can you provide an example?~~

20 ~~A. Acting as GMO's agent, KCPL purchases more blocks of purchased power~~
21 ~~than is needed for retail (native load) customers. This is done to get a better price for the~~
22 ~~larger block of power. While the retail customers benefit from these transactions because of~~
23 ~~the economic purchase, part of the power purchased is not needed by the retail customer and~~

1 ~~is sold at times at losses, because the OSS transactions sometimes occur during non-peak~~
2 ~~hours. These OSS transactions can result in negative margins that are reflected on the~~
3 ~~financial books of GMO. These negative margins for OSS are passed through the fuel clause,~~

4 ~~Q. Does KCPL sell GMO the larger block of power?~~

5 ~~A. Yes. KCPL, as well as other utilities, sells these larger blocks of power to~~
6 ~~GMO. GMO uses the power to supply native load to its retail customers. GMO then sells~~
7 ~~the excess power, not needed for retail, on the OSS market during times of non-peak hours.~~

8 ~~**GMO'S SIMILARITIES TO EMPIRE**~~

9 ~~Q. Why does Staff assert that Empire is the Missouri electric utility most similar~~
10 ~~to GMO?~~

11 ~~A. KCPL and Ameren Missouri are much larger than GMO in virtually every~~
12 ~~way. It is unreasonable to suggest that the remaining Missouri electric utility (Empire) is~~
13 ~~nearly identical to GMO, but there are certain significant, relevant similarities that are~~
14 ~~illustrated in the table below:~~

15

| Comparable Item | GMO (negative) | Empire | Difference over (under) | % over (under) GMO |
|--|---------------------------|--------------------------|------------------------------------|-------------------------------|
| Generating capacity | 2139 MW | 1392 MW | (747 MW) | (34.92%) |
| % of generation from coal-fired base-load units | 48.25% | 38.51% | (9.74%) | (20.19%) |
| MWH sold | 8,520,415 | 5,815,365 | (2,705,050) | (31.75%) |
| Operating revenue | \$759,742,827 | \$524,275,875 | (\$235,466,952) | (30.99%) |
| OSS \$ @ 3/31/2012 | ** _____ ** | \$15,142,175 | ** _____ ** | ** _____ ** |
| Margin @ 3/31/2012 | ** _____ ** | \$1,016,228 | ** _____ ** | ** _____ ** |
| Staff's margin | ** _____ ** | \$1,016,228 | ** _____ ** | ** _____ ** |

16

NP

True-Up Direct Testimony of
V. William Harris

1 ~~As the table above illustrates, Empire is approximately 30-35 percent smaller than~~
2 ~~GMO in terms of generating capacity, MWH sold and operating revenue, yet Empire~~
3 ~~experiences significantly higher levels of OSS and OSS margin. In addition, the table shows~~
4 ~~that in File No. ER-2012-0345, Empire requested a test-year level of OSS margin that is~~
5 ~~** ** smaller than the OSS margin Staff is recommending for GMO in this case,~~
6 ~~which reflects a level consistent with Empire's relatively smaller generating capacity, MWH~~
7 ~~sales and operating revenue.~~

8 Q. Does this conclude your True-up Direct Testimony?

9 A. Yes it does.

NP

