Exhibit No.:
Issue: Off-System Sales
Witness: Burton L. Crawford
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

SURREBUTTAL TESTIMONY

OF

BURTON L. CRAWFORD

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
October 2012

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

SURREBUTTAL TESTIMONY

OF

BURTON L. CRAWFORD

Case No. ER-2012-0174

Q: Please state your name and business address.

A: My name is Burton L. Crawford. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: Are you the same Burton L. Crawford who pre-filed Direct and Rebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: The purpose of my Surrebuttal Testimony is to address the Rebuttal Testimony of Missouri Public Service Commission Staff ("Staff") witnesses Mr. V. William Harris on issues related to Kansas City Power & Light Company's ("KCP&L" or the "Company") off-system sales ("OSS") margins.

Q: Please summarize your testimony.

A: The Company has concerns that Staff has changed its position in regards to the OSS margin adjustments proposed by the Company. While Staff believes these are revenues and costs that need to be reflected in the determination of the Company's revenue requirements, they no longer feel it is appropriate to reflect these adjustments in the OSS margins. The Company believes it is still appropriate to include these adjustments in the OSS margin as was ordered by the Commission in KCP&L's last rate case (Case No. ER-2010-0355).

In addition, I will address Staff's concerns with the "moving target" nature of the OSS margin estimates produced by the NorthBridge Group. I will show how the actual results have changed significantly because of factors outside the Company's control, as well as provide the Company's outlook for 2013 margins from KCP&L resources at **[redacted]** million (total company).

OFF-SYSTEM SALES MARGINS

Q: Please describe Staff's latest position on OSS adjustments.

A: After having previously not opposed the Company's proposed adjustments to its OSS in the previous rate case and recommending in their Direct Testimony in the current case that the adjustments be made, Staff has decided to exclude them from the Company's OSS margin calculations. These adjustments include Purchases for Resale, Southwest Power Pool ("SPP") net Line Loss charges, and SPP's Revenue Neutrality Uplift.

Q: Do you have any concerns with Staff's latest position on the adjustments to OSS margins?

A: Yes. Nothing has changed from previous rate case where Staff was not opposed to making the adjustments and the Commission accepted them.

Q: What is the basis for Staff's change in position on Purchases for Resale?

A: Staff's only reason for excluding this adjustment from OSS is that: "The results of Mr. Schnitzer's model should not be adjusted to reflect revenues or charges related to sales that are not in Mr. Schnitzer's database." (Harris Rebuttal, p. 9, ll. 21-22).

Q: Has the model developed and used by Mr. Schnitzer and the NorthBridge Group (of which he is a director and co-founder) changed in its treatment of Purchases for Resale over the last four KCP&L rate cases where it has been used by the

Commission to determine the appropriate level of OSS margin to include in retail rates?

A: No, it has not changed.

Q: What has been the treatment of Purchases for Resale in the NorthBridge OSS margin model?

A: Purchases for Resale are not included.

Q: Why not?

A: The NorthBridge model is similar to other production cost simulation models in that it simulates sales made from KCP&L's physical resources. It does not simulate purchases of energy from the wholesale market that are later sold back to the wholesale market. None of the production cost models presented in this case (the Company's Midas model, Staff's RealTime model, MECG's RealTime model, or the NorthBridge OSS model) include these transactions.

Q: Do you agree with Staff that the lack of Purchase for Resale transactions in the NorthBridge database used by Mr. Schnitzer is reasonable grounds to exclude them from the Company's OSS margins?

A: Not at all. In fact, it is for this very reason that they need to be included in the Company's OSS margin calculation.

Q: Why do Purchases for Resale need to be included?

A: KCP&L makes OSS from two sources: (1) owned resources and (2) purchased power. When determining the appropriate level of OSS margin to include as an offset to the retail cost of service, both sales from owned resources and sales from purchased power need to be considered. The model used by Mr. Schnitzer estimates OSS margins from

KCP&L resources. The Company estimates the OSS margin from purchased power (i.e., Purchases for Resale). The two components are simply added together to arrive at the OSS margin to include in the case.

Q: How does the Company estimate the Purchases for Resale amounts to include in the case?

A: As explained in my Direct Testimony at page 12, the Purchases for Resale are based on known historic values. For the true-up case, the Company plans to include the actual margins from the 12-month period ending August 31, 2012.

Q: Does Staff recognize that the Company has Purchases for Resale?

A: Yes. In addition to Staff having not opposed the inclusion of OSS backed by purchases in the OSS margin in the previous case, Mr. Harris' Rebuttal Testimony in this case states: "KCPL makes a considerable amount of OSS from purchased power (29% of the total MWH sold and 42% of the total $ cost of sales in 2011)." (Harris Rebuttal, p. 7). With a "considerable" amount of OSS coming from purchases, it is difficult to understand why Staff now wants to exclude these transactions from the OSS margins in this case.

Q: What is the basis for Staff's change in position on SPP loss charges?

A: Staff's sole basis for excluding this adjustment from OSS is that "KCPL is reducing margins which originate in the SPP footprint for sales outside the SPP footprint." (Harris Rebuttal, p. 10, ll. 1-2).

Q: Is this a valid reason for excluding SPP loss charges from the calculation of OSS margins?

A: No.

Q: Please explain.

A: KCP&L incurs costs when making OSS. Among these costs are the charges incurred for transmission line losses. The Company is simply reflecting the fact that it incurs these costs in making OSS and has included them in the OSS margin estimate in this case. KCP&L also includes the SPP Line Loss credit or revenue that it receives as well. This reflects KCP&L's share of the transmission losses charges collected by SPP that are allocated back to the Company by SPP.

While it is true that this SPP Line Loss adjustment reduces margins, it is derived from an expense directly incurred when making such margins and, therefore, the adjustment is appropriate. In the previous case the Staff and Commission agreed. Nothing has changed from the previous case that should change this outcome. The Company includes these net charges based on the actual net charges incurred from SPP. These net charges are not reflected anywhere else in the case and reflect legitimate costs associated with making OSS. As such, the Commission should continue to include these costs in the OSS margin.

If the Commission were to exclude these costs from the OSS margin calculation, it could easily create a scenario that places the Company in a position where it would be incented to not make certain OSS. This incentive to not make sales would be created from the inability of the Company to recover the SPP Line Loss charges through the OSS margin process while the benefits of the sale would flow back to retail customers. Note this assumes that the Company was expecting to exceed the OSS margin threshold set in this case. There is no reason for the Commission to place the Company in such a position for a cost that Staff agrees should be recoverable.

Q: Has Staff changed their position on any other OSS related issues?

A: Yes. In addition to changing their position on Purchases for Resale and SPP Line Loss Charges, Staff has changed its view concerning SPP Revenue Neutrality Uplift ("RNU").

Q: What is the basis for Staff's change in SPP RNU treatment?

A: Staff opposes the Company's treatment of SPP RNU as they feel that "KCPL has not provided any information which shows that these net charges are related to OSS." (Harris Rebuttal, p. 10).

Q: Why is KCP&L's proposed treatment appropriate?

A: As explained in my Rebuttal Testimony at page 9, KCP&L incurs these charges and credits due to its participation in the SPP energy imbalance market. The charges and credits are recorded as wholesale purchases and sales. As such, these are wholesale transactions and should be a part of the OSS calculation which is consistent with the Commission's decision in the last rate case, as noted in the Report and Order at pages 140-41, Case No. ER-2010-0355. The Commission should continue this treatment in the current case.

Q: Do you have any additional comments concerning Staff's position regarding KCP&L's OSS margins?

A: Yes. I would like to address Mr. Harris' concern as expressed in his Rebuttal Testimony at page 6 that the recommended level of OSS margin produced by Mr. Schnitzer has been a "moving target" over the years.

Q: Would you agree that the results of the analysis conducted by Mr. Schnitzer has moved over the years?

A: Yes, they have.

Q: **Are there valid reasons for this movement?**

A: Yes. There are many variables that can impact KCP&L's OSS margins. It was these concerns over the volatility and potential movement in margins that led to the current OSS margin treatment.

Q: **Would you expect this uncertainty to continue?**

A: Yes.

Q: **Can you please describe the current environment for KCP&L's wholesale sales?**

A: The current environment can best be described as weak with very low average sale prices. Through August 2012, the average 2012 OSS price received from generation supplied sales was **[redacted]** per MWh with total margins of **[redacted]** million. The average margin on these sales was only **[redacted]** per MWh.

The average price has declined from **[redacted]** per MWh in 2011. Margins have also narrowed. The 2011 average margin was **[redacted]** per MWh. To put this in some perspective, if KCP&L sold 4 to 6 million MWh per year into the wholesale market (which it may do depending on the year), the difference in average sales price between 2011 and 2012 is worth an additional **[redacted]** per year in OSS margins.

Going back 5 years to 2007, the average OSS price from all sources was significantly higher at **[redacted]** per MWh. If today's wholesale market was yielding the same prices as it did in 2007, KCP&L would have earned margins of **[redacted]** million (assuming the range of 4 to 6 million MWh sold). The average margin on these sales would be **[redacted]** per MWh.

In KCP&L's last rate case, the Commission's Order effectively set the OSS margin component at roughly $80.6 million per year (total Company basis). Given the wholesale markets experienced in 2012 and the actual average OSS margins of **[redacted]** per MWh, KCP&L would have had to sell well over **[redacted]** MWh per year to meet the OSS margin included in retail rates. Since KCP&L's total annual generation has averaged about 20,000,000 MWh per year over the past 5 years (most of which goes to serve KCP&L's retail load), meeting the $80.6 million in margin is physically impossible given the recent wholesale market conditions.

Q: What factors are driving these low wholesale market prices?

A: Several factors have contributed to the low market prices experienced in 2012. These factors include low demand, low natural gas prices, higher wind generation supply, and transmission constraints.

Q: Please briefly explain these contributing factors.

A: Retail energy consumption during the first part of 2012 was down significantly from what it would have been under normal weather conditions. KCP&L load was down more than 4% due to the warmer than normal weather during the first quarter. Lower demand generally results in lower prices for wholesale energy.

In addition to the warmer than normal winter contributing to lower electric demand, natural gas consumption was also lower than it would have been under normal weather conditions. As a result, natural gas prices were lower. NYMEX natural gas prices for the first 9 months of 2012 were on average lower than the first 9 months of any year since 1999. Since at times the price of wholesale electric power in our region is tied to the price of natural gas, the lower natural gas prices resulted in lower wholesale electric market prices as well.

With the federal wind energy production tax credit ("PTC") set to expire at the end of 2012, a significant amount of new wind generation is being installed in the region before the credit expires. This additional energy supply contributes to lower wholesale energy prices not only through increased supply, but also by the fact that the PTC allows a wind facility to generate economically even if market prices are negative. In addition to reducing wholesale market energy prices, wind energy is increasing transmission system congestion. This congestion makes it more difficult for KCP&L to make OSS.

Given the current state of the regional transmission system, at times KCP&L finds itself in a position of having energy to sell, but not able to move the energy to loads wanting to buy the energy. In over 5% of the hours year-to-date through August 2012, KCP&L had energy to sell but could not obtain transmission service to move it to potential buyers. September 2012 was a particularly difficult month for obtaining transmission service when more than 12% of the time KCP&L could not obtain additional transmission service for OSS.

Q: Are there other indicators of the weak wholesale market that is contributing to low KCP&L OSS margins?

A: Yes. During periods of weak demand, KCP&L must place some base load facilities into "reserve shutdown" in order to meet North American Electric Reliability Corporation ("NERC") reliability standards.

Q: Please explain.

A: As a NERC Balancing Authority, KCP&L has responsibility to balance its generation and load obligations. This means that KCP&L system operators need to ensure that they are not significantly under-generating or over-generating relative to the Company's load requirements. During times of low load, particularly spring and fall, KCP&L may have more base load capacity than needed to meet its firm obligations. When sufficient transmission service is unavailable to move the energy to potential wholesale buyers, KCP&L can be forced to place a portion of its base load facilities in reserve shutdown. When in reserve shutdown, a facility is unavailable to make sales during subsequent higher load hours of the day when sales may have otherwise been economic.

During 2012 KCP&L's Montrose Station has experienced a number of reserve shutdown hours. Schedule BLC-14 shows the number of hours each month that the three Montrose units were placed in reserve shutdown. It is likely that at least two of the three Montrose units will be in reserve shutdown until December 2012 when winter loads are anticipated to increase.

Q: What is the Company currently forecasting for 2013?

A: Based on the current forward curve for natural gas prices, average wholesale prices are projected to improve over 2012. While prices may improve, KCP&L continues to expect difficulties in obtaining transmission service to move wholesale energy. KCP&L also anticipates continued reserve shutdowns during the low load months.

Assuming natural gas prices hold at the forward curve prices for 2013 as of the August 31, 2012 true-up date, KCP&L's projection for OSS margins sourced from KCP&L resources is **[redacted]** million on a total Company basis. This is based on the Company's MIDAS™ model results and includes some level of transmission constraints and reserve shutdowns.

Q: **How does this compare to last year's OSS margins?**

A: The 2011 OSS margin from KCP&L resources was about **[redacted]** million on a total Company basis. The margins would have been greater had it not been for the Missouri River flooding that occurred during 2011. Year-to-date through August 2012, KCP&L OSS margins from its resources have only been **[redacted]** million. For the 12-month period ending August 31, 2012 (the true-up date in this case), the Company earned **[redacted]** million in margin from KCP&L resources.

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

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2012-0174

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 Director, 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, 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.

Burton L. Crawford

Subscribed and sworn before me this 8th day of October, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200