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NOV 13 2007

**Missouri Public
Service Commission**

Exhibit No.:

Issue: Off-System Sales Margins

Witness: Chris B. Giles

Type of Exhibit: True-Up Direct Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2007-0291

Date Testimony Prepared: November 2, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2007-0291

TRUE-UP DIRECT TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
November 2007**

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

Co Exhibit No. 39NP
Case No(s). ER-2007-0291
Date 11-9-07 Rptr PF

TRUE-UP DIRECT TESTIMONY

OF

CHRIS B. GILES

Case No. ER-2007-0291

1 **Q: Are you the same Chris B. Giles who submitted Direct and Rebuttal Testimony in**
2 **this proceeding?**

3 **A: Yes, I am.**

4 **Q: What is the purpose of your True-Up Direct Testimony?**

5 **A: The purpose of my testimony is to set forth the level of off-system sales margins**
6 **anticipated for calendar year 2007, and to explain why margins are less than expected.**

7 **Q: In last year's rate proceeding what amount of off-system sales margins were**
8 **included in the revenue requirement for purposes of setting rates effective January**
9 **1, 2007?**

10 **A: The Commission included **[REDACTED]** on a total Company basis of off-system sales**
11 **margins for purposes of setting rates. This equaled the amount associated with the 25th**
12 **percentile level of the range of probabilities of the Company's likely 2007 actual off-**
13 **system sales margins. In setting rates for such margins at the 25th percentile level, the**
14 **Commission recognized that the risk of attaining an historical level or a projected**
15 **midpoint or 50th percentile level was unlikely and would have posed greater risks for**
16 **KCPL than the risk of retail sales margins. The Commission properly determined that**
17 **rates for off-system sales margins should be accounted for differently, considering the**

1 variability and volatility of wholesale electricity markets. I previously testified that a
2 variety of variables contribute to the risk of this market. These variables include: the
3 market price of power, primarily driven by the price of natural gas; generation unit
4 availability, both on KCPL's system and on the systems of nearby and regional utilities;
5 and retail load requirements. Each of these variables contributed to a lower level than
6 expected amount of off-system sales margins. In fact, KCPL will not likely reach the 25th
7 percentile level of off-system sales for the calendar year 2007. For the nine months
8 ended September 30, 2007 off-system sales margins were about **[REDACTED]** and
9 the projected total for the year is about **[REDACTED]**. Unplanned generation unit
10 outages, lower natural gas prices, and higher retail load requirements all contributed to
11 the much lower than expected off-system sales margins. Fortunately, the amount of off-
12 system sales margins was not set at the 50th percentile for purposes of setting rates. At
13 the 25th percentile, KCPL will likely fall **[REDACTED]** below the amount included in
14 rates. Had the 50th percentile been chosen, KCPL would likely have fallen below the rate
15 level by **[REDACTED]** on a total Company basis. This would have caused an even
16 greater cash and earnings shortfall than the Company has already experienced due to the
17 outages, all during a time of significant cash and earnings requirements to fund major
18 construction programs.

19 **Q: During the October hearing you were asked questions regarding the amount of**
20 **purchases included in the cost of providing off-system sales, as set forth contained in**
21 **Exhibit 35. Do you have additional information to provide to the Commission**
22 **regarding the date in Exhibit 35?**

1 A: Yes. The purchases shown in Exhibit 35 included energy balancing transactions
2 attributable to the implementation of the Southwest Power Pool ("SPP") Energy
3 Imbalance Service ("EIS") market which became operational in February 2007. As
4 explained in the True-Up Direct Testimony of KCPL witness Burton Crawford, these
5 purchases should not be included as purchases related to off-system sales. In fact, both
6 the wholesale sales and purchases power costs are overstated in Exhibit 35 due to the SPP
7 EIS market. Energy imbalance services were never considered to be transactions related
8 to off-system sales prior to the SPP EIS market. They also don't reflect purchases
9 normally attributable to retail sales. We have revised the data contained in Exhibit 35 for
10 these post-EIS market transactions, which Mr. Crawford also explains. He describes how
11 actual off-system sales margins are appropriately calculated now that the SPP EIS market
12 is in effect.

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

14 A: Yes, it does.

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariff to) Case No. ER-2007-0291
Continue the Implementation of Its Regulatory Plan)

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President, Regulatory Affairs.

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.

Chris B. Giles

Subscribed and sworn before me this 2nd day of November 2007.

Nicol A. Wang
Notary Public

My commission expires: Feb. 4 2011

