EXHIBIT

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Issue(s): Off-System Non-Firm Sales
Witness: Ted Robertson
Type of Exhibit: True-Up Rebuttal
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Case Number: ER-2007-0291
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TRUE-UP REBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2007-0219

NP

** ____ ** Denotes "Highly Confidential" Information that has been redacted

November 6, 2007

Pub Counsel Exhibit No. 211 NP
Case No(s). ER 2007 0291
Date 11/9/07 Rptr PF

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 Implement its Regulatory Plan)

Case No. ER-2007-0291

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my true-up rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 6th day of November 2007.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036

Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

TRUE-UP REBUTTAL TESTIMONY
OF
TED ROBERTSON

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2007-0291

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP REBUTTAL TESTIMONY?

A. The purpose of my testimony is to address comments contained within the True-Up Direct Testimony of Company witnesses, Mr. Chris B. Giles and Mr. Burton L. Crawford.

Q. HAS THE COMPANY REVISED ITS EXPECTED LEVEL OF OFF-SYSTEM SALES MARGINS FOR CALENDAR YEAR 2007?

A. Yes. According to Mr. Giles's testimony, page 2, line 9, the projected total for the year is about **_________**.

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Q. IS THE PROJECTED AMOUNT FOR 2007 NON-FIRM OFF-SYSTEM SALES LESS THAN THE AMOUNT CURRENTLY INCLUDED IN RATES?

A. Yes. Mr. Giles' testimony states that the projected amount for 2007 is around **________** less than the amount currently included in rates.

Q. WHAT ARE THE REASONS GIVEN FOR THE SHORTFALL?

A. On page 2, lines 1-6 of his testimony, Mr. Giles states:

> The Commission properly determined that rates for off-system sales margins should be accounted for differently, considering the variability and volatility of wholesale electricity markets. I previously testified that a variety of variables contribute to the risk of this market. These variables include: the market price of power, primarily driven by the price of natural gas; generation unit availability, both on KCPL's system and on the systems of nearby and regional utilities; and retail load requirements. Each of these variables contributed to a lower level than expected amount of off-system sales margins.

Whereas, on page 2, lines 4-5 of his testimony, Mr. Crawford describes the shortfall being due to:

> There are two primary drivers for lower off-system sales margins: (1) reduced wholesale energy market prices and (2) lower MWh sales volumes.

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Q. DID MR. GILES TESTIMONY FURTHER CORROBORATE MR. CRAWFORD'S TESTIMONY REGARDING THE REASONS FOR THE SHORTFALL?

A. Yes. On page 2, lines 9-11 of his testimony, Mr. Giles added:

> Unplanned generation unit outages, lower natural gas prices, and higher retail load requirements all contributed to the much lower than expected off-system sales margins.

Q. WHAT EFFECT HAS THE REDUCED WHOLESALE ENERGY MARKET PRICES AND LOWER MWH SALES VOLUMES HAD ON COMPANY'S BUDGETED OFF-SYSTEM SALES MARGINS?

A. On page 2, line 11 of his testimony, Mr. Crawford states that, through September 2007, the reduction in wholesale energy prices resulted in a **__________** reduction in margins. Furthermore, beginning on page 2, line 21 of his testimony, he identifies that, through September 2007, the volume of off-system sales from KCPL's generation was significantly lower than budget. The impact of the lower off-system sales volume (which was due in part to an increase in native load requirements) is approximately **__________**.

Q. DOES MR. CRAWFORD EXPLAIN WHAT WAS THE PRIMARY CAUSE FOR THE REDUCTION IN OFF-SYSTEM SALES VOLUMES FROM KCPL GENERATION?

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A Yes. On page 3, lines 4-7 of his testimony, he identifies that the majority of the KCPL generation reduction was due to a much larger increase in forced outages.

Q. WHAT IS THE DOLLAR IMPACT FROM THE FORCED OUTAGES?

A. Company's response to OPC Data Request No. 2101 identifies that the impact for the higher than normal level of forced outages was approximately ** __________**. Which according to the Company's response to OPC Data Request No. 2102 approximates **____** of the total reduction in non-firm margins.

Q. WERE HIGHER THAN NORMAL FORCED OUTAGES OF KCPL GENERATION A RISK OF VARIABILITY WHICH THE COMMISSION RELIED UPON WHEN IT FIRST AUTHORIZED SETTING THE LEVEL OF OFF-SYSTEM SALES MARGINS FOR THE COMPANY AT THE 25TH PERCENTILE?

A. No. The Commission's decision to assign the off-system sales margins risk normally associated with KCPL to ratepayers was largely based upon its concerns of the unpredictability of market forces. It was not to insulate the Company from its own operational inefficiencies.

Beginning on page 31 of the Report and Order in KCPL Case No. ER-2006-0314 it states:

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> KCPL sponsored the testimony of Michael Schnitzer, Director of the NorthBridge Group, Inc., a consulting firm for the electric and natural gas industry. Mr. Schnitzer's testimony focused on the risk KCPL faces in the off-system sales market, and offered a probabilistic analysis of what KCPL's non-firm off-system sales would be in 2007. In summary, Mr. Schnitzer opined that the Commission should set the non-firm off-system margin at the 25th percentile, meaning that KCPL would have a 75% chance of achieving or exceeding the predicted level of those sales.

Mr. Schnitzer's testimony, in Case No. ER-2006-0314, was the expert testimony upon which the Commission relied to base its decision to authorize the current 25th percentile imputation of off-system sales margins for KCPL. Mr. Schnitzer's testimony in that general rate increase case, as it did in the instant case, focused on market price volatility and the variability in sales quantity. According to his testimony, the uncertainty or "market risks" associated with the off-system sales market are driven by underlying factors such as coal and emission allowance prices, weather, fluctuations in economic activity and demographics, unit availability and construction/retirement of generating units throughout SPP. His analysis, though incorporating the probabilities of forced outages, was primarily driven to explain the impact on off-system sales margins by outside market forces where the control of KCPL and its managers does not exist or is extremely limited. To my knowledge, the Commission's decision to accept the Company's recommendation of the 25th percentile imputation was based primarily on its concerns of the unpredictability of the outside market forces described by Mr. Schnitzer.

Q. HAS THE COMPANY CONTINUED TO STRESS THE IMPACT OR "MARKET RISK" OF OUTSIDE MARKET FORCES ON ITS ABILITY TO ACHIEVE OFF-SYSTEM SALES MARGINS?

A. Yes. In KCPL Case No. ER-2006-0314, KCPL Pre-hearing Brief, filed 10-22-2006, pages 25 and 26, Company stated:

> Given the risk and volatility of the competitive wholesale power markets, a probabilistic determination of expected margins from Off-System Sales ("OSS") should be included in KCPL's cost of service for the year in which the rates set by this case will be in effect.
>
> The Company's recommendation is based on the study conducted by Michael M. Schnitzer, co-founder of the NorthBridge Group which provides economic and strategic advice to energy companies. He describes in detail why the three key drivers of OSS margins — natural gas prices, the market heat rate, and the quantity sold — are uncertain and cannot be forecast with precision.

Continuing, Post Hearing Brief of Kansas City Power and Light Company, filed 11-17-2006, pages 11 and 12, Company stated:

> Most experts testifying at the hearing agreed that KCPL faced substantial risks in the volatile wholesale electricity market and acknowledged that it was difficult to predict accurately the level of off-system sales margins, particularly because its prices are mainly driven by the price of natural gas.

> Given the general consensus that the wholesale market poses problematic risks and is volatile...

And, KCPL`s Final Post Hearing Brief, filed 11-27-2006, page 6:

> The parties who oppose KCPL's proposal to set rates for off-system sales at the 25% point on the probability range presented by Michael Schnitzer uniformly fail to appreciate the risks that KCPL faces in this volatile market. They also misconstrue KCPL's proposal as a violation of the Stipulation when its purpose is simply to recognize the risk of this market.

In the instant case, the Transcript of Proceedings Evidentiary Hearing, October 3, 2007, Jefferson City, Missouri, Volume 7, states on pages 527 and 528:

> BY MR. MILLS:
> Q. So it could have been set at the 20th percentile, the 30th percentile, either of those or within the realm of reason?
> A. Yes.
> Q. Okay. In this case, what factor should the Commission look at to decide whether they should set it at the 25th, the 26th, the 24th, whatever level? What -- what -- what determines that -- that level?
> A. What should determine that level is the volatility and the potential risk of that market. And in the last case, and again in this case, my argument and KCPL's argument has been that that market is not the same as retail revenue, and should not be accorded the same treatment as retail revenue

> in calculating the revenue requirement.
> So largely, that is what the Commission
> should take into account, that as Chairman Davis
> was -- was alluding to earlier, once -- once a
> revenue requirement is established and these
> off-system sales margins are included in that revenue
> requirement, should the company not hit that
> potential level of off-system sales margins, then
> both the earnings potential and the cash potential
> for the year the rates would be in effect are in
> jeopardy, and much more so than the normal retail
> revenue requirement.
> Q. Now, just -- just to take a
> hypothetical, the rates -- if the rates in the last
> case -- well, let me approach this a different way.
> Assume with me that the company through
> the course of 2007 does not hit the 50th percentile
> that was -- that Mr. Schnitzer projected in the last
> case. There could be several reasons for that; is
> that not true?
> A. The market is very volatile. It's --
> Q. Well, my question was not what the
> reasons were.
> A. Okay, yes. There are -- there are many.

Continuing, on pages 540-543, it states:

> QUESTIONS BY COMMISSIONER CLAYTON:
> Q. Welcome back, Mr. Giles.
> A. Thank you.
> Q. Can you help me with a -- just a few
> basic things here? I don't want to belabor this, but
> can you basically just give me a very brief summary
> of KCPL's position on off-system sales?
> A. Sure. Our position is that, first of
> all, the off-system sales margin that is essentially
> a credit back to the revenue requirement or customers

should first of all be a projected number. It should look to the year the rates will be in effect, which in this particular case is 2008, because the history as we've seen this year, is fairly meaningless in this market. Unlike a retail revenue requirement that has some basis for normalcy, this does not. So our first position is, it should be a projected number. Our next position is that it should be established at a 25th percentile likelihood versus a 50 percent likelihood. And the reason for that is, once you build in that expected value, that credit into rates, it has a significant impact on the company's earnings in 2008, and particularly also its cash flow if we don't hit that 25th percentile. And this year has proven how critical that is. When we were in the last case and we were estimating for 2007, that number that was at the 50th percentile was about $70 million more than we are right now today. So our position is that it has been confirmed by our experience this year we would not have been able to meet our credit metrics and would likely have been downgraded but for the fact that we did set this at the 25th percentile. So our position is that we should continue that approach definitely until we see some kind of more stability or change in this market.

Q. What change in the market would -- would increase off-system sales on the part of KCP&L?

A. The direct driver is natural gas prices. Natural gas prices set the price in most hours for this market. So a fairly long-term sustainable increase of natural gas prices will cause this market for us to increase and we would have more off-system sales margins. There's a lot of volatility, obviously, in the gas -- natural gas markets. And since a year ago when we were here, the prices have fairly plummeted. We were at $10 MCF. We're down around

> five to six today. Will it return and will it be stable is an open-ended question at this point.
>
> Q. When gas prices were at $3 back -- I guess you have to go back to, what, 2003 when -- when we last time saw $3 gas, what was the profile of KCP&L's off-system sales at that time? Did you make any?
>
> A. We made some, yes. We were probably -- I would say from our peak which was about a year ago, maybe a year and a half ago, we were probably 60 -- well, 20 percent of that peak. So it increased probably 80 percent from 2003 until our peak period.
>
> Q. Prior to -- prior to the volatility of the gas market which really kicked in sometime after '01 or really kind of permanently after '03, were -- were KCPL's off-system sales over time prior to that fairly consistent?
>
> A. Fairly consistent, yes.
>
> Q. I mean, within a -- within a certain range of five or ten million or something like that?
>
> A. Yes.
>
> Q. Okay. So the volatility has -- has been -- has been a great benefit to KCP&L in recent years?
>
> A. It -- it -- it was --
>
> Q. In the gas market, I guess I should say.
>
> A. Yes, the natural gas market essentially kept us out of rate cases from 1999 until 2006.
>
> Q. It's an interesting way to answer that question. Has KCP&L benefited from the volatility in the gas market?
>
> A. Yes.

Q. SHOULD KCPL BE ABSOLVED OF THE RISKS ASSOCIATED WITH GENERATION PLANT OUTAGES THAT ARE WITHIN ITS CONTROL?

A. No. In its Report and Order in Case No. ER-2006-0314 the Commission did not explicitly address absolving KCPL of all risk associated with incurring a higher than normal level of generation plant outages. I believe to do so would be improper because the risk associated with the outages occurring are not impacted to any large degree by outside market forces. The risks that are associated with the abnormal level of forced outages is the result of decisions made by KCPL's management regarding the operation and maintenance of its generation plant. Therefore, I believe that the costs associated with the abnormal level of forced outages is not a risk of variability upon which the Commission greatly relied to base its decision in shifting the off-system sales margins risk from KCPL to ratepayers.

Q. IF THE HIGHER THAN NORMAL LEVEL OF FORCED OUTAGES HAD NOT OCCURRED, IS IT LIKELY THAT RATEPAYERS WOULD BE DUE REFUNDS?

A. Yes. If the cost of the higher than normal level of forced outages were not included in the Company's projected off-system sales margins for 2007, ratepayers would likely be due a substantial refund from KCPL.

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION?

A. Public Counsel believes that KCPL should not be allowed carte blanche authorization to pass the risk or associated costs of the abnormal generation plant outages to ratepayers. Such authorization would completely eliminate the

Company's responsibility for operating the plants effectively and efficiently. The higher than normal level of forced outages of KCPL's generation plant are an operation and maintenance risk which is solely within the realm of the management responsibilities of KCPL's managers. KCPL's managers alone are responsible for operating and monitoring the generation plant to achieve optimal performance. This includes budgeting for and implementing appropriate maintenance and repair activities that would keep the plant available for operation as needed. Company's admission of a higher level than normal of forced outages indicates a failure by those same managers to do due their jobs properly. KCPL should not be protected, nor ratepayers harmed, due to past or future generation plant failures. The impact of the costs incurred on the level of off-system sales margins associated with the higher outage levels should either be retained by KCPL or the Commission should incent the Company to reduce the future level of forced outages by adopting the 40th percentile imputation recommendation of Public Counsel.

Q. DOES THIS CONCLUDE YOUR TRUE-UP REBUTTAL TESTIMONY?

A. Yes, it does.