

Exhibit No.:  
Issue: Risk from Off-System Sales  
Witness: Michael M. Schnitzer  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Kansas City Power & Light Company  
Case No.: ER-2009-0089  
Date Testimony Prepared: March 11, 2009

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2009-0089**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL M. SCHNITZER**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri  
March 2009**

**\*\* [REDACTED] \*\* Designates "Highly Confidential" Information  
Has Been Removed. Certain Schedules Attached to This Testimony  
Also Contain Highly Confidential Information  
And Have been Removed  
Pursuant To 4 CSR 240-2.135.**

**REBUTTAL TESTIMONY**

**OF**

**MICHAEL M. SCHNITZER**

**Case No. ER-2009-0089**

1 **Q: Please state your name and business address.**

2 A: My name is Michael M. Schnitzer. My business address is 30 Monument Square,  
3 Concord, Massachusetts 01742.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am a Director of the NorthBridge Group, Inc. ("NorthBridge"). NorthBridge is a  
6 consulting firm specializing in providing economic and strategic advice to the electric  
7 and natural gas industries.

8 **Q: Are you the same Michael M. Schnitzer who provided Direct Testimony in support**  
9 **of Kansas City Power & Light Company ("KCP&L") in this Case No. ER-2009-**  
10 **0089?**

11 A. Yes, I am.

12 **I. PURPOSE OF TESTIMONY AND CONCLUSIONS**

13 **Q: Please describe the purpose of your Rebuttal Testimony.**

14 A. The purpose of my Rebuttal Testimony is to address Staff's use of my initial prospective  
15 calculation of Off-System Contribution Margin for KCP&L provided in the fourth part of  
16 my Direct Testimony in this case.<sup>1</sup> (Staff Report, at p. 68) In light of the circumstances I  
17 discuss below, the probability distribution resulting from my initial calculation (as of July

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<sup>1</sup> My Direct Testimony in this case originally addressed the probability distribution of Off-System Contribution Margin for the period July 1, 2009 to June 30, 2010, which is referred to in my Direct Testimony as the "2009-2010 Period." KCP&L subsequently updated the study period to August 1, 2009 to July 31, 2010, which is referred to in this Rebuttal Testimony as the "Revised 2009-2010 Period."

1 15, 2008) does not reflect current market conditions and must be updated. The first  
2 update (“September 30th Update”) was completed in November 2008, and is based on  
3 market data and inputs provided to NorthBridge by KCP&L as of September 30, 2008<sup>2</sup>.  
4 The second update (“Rebuttal Update”) was undertaken to prepare this Rebuttal  
5 Testimony and is based on market data and inputs provided to NorthBridge by KCP&L  
6 as of February 24, 2009.

7 **Q: Could you please summarize your conclusion?**

8 A. Yes, the distribution of Off-System Contribution Margin outcomes in my Direct  
9 Testimony had a median value of \*\* [REDACTED] \*\* and a 25th percentile value of  
10 \*\* [REDACTED] \*\*. In the September 30th Update, the median value declined to  
11 \*\* [REDACTED] \*\* and the 25<sup>th</sup> percentile declined to \*\* [REDACTED] \*\*. In the Rebuttal  
12 Update, the median value further declined to \*\* [REDACTED] \*\* and the 25<sup>th</sup> percentile  
13 value further declined to \*\* [REDACTED] \*\*. The probabilistic distributions of Off-System  
14 Contribution Margin outcomes in the two updates represent a dramatic reduction from the  
15 values originally filed in my Direct Testimony. The reasons for these reductions are  
16 described in the second and third sections below.

17  
18 **II. SEPTEMBER 30TH UPDATE TO OFF-SYSTEM MARGIN CALCULATIONS**

19 **Q: Please describe the September 30th Update to your Direct Testimony.**

20 A. The prospective analysis of 2009-2010 Off-System Contribution Margin contained in my  
21 Direct Testimony was based on market data and KCP&L inputs as of July 15, 2008. In  
22 November 2008, KCP&L provided inputs to NorthBridge (as of September 30, 2008),

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<sup>2</sup> My Direct Testimony filed on September 5, 2008 was based on market data and inputs provided to NorthBridge by KCP&L as of July 15, 2008.

1 which were then used to update my probabilistic analysis. A comparison of the  
2 probability distributions from the Direct Testimony and the September 30th Update is  
3 shown in Schedule MMS-6.

4 **Q. Why did the median value and the 25<sup>th</sup> percentile value for the September 30th**  
5 **Update decline from those filed in your Direct Testimony?**

6 A. Schedule MMS-7 shows graphically the significant sources of difference from the Direct  
7 Testimony probabilistic analysis that account for the net decline in Off-System  
8 Contribution Margin calculated at the median. The graph begins at the left with the  
9 Direct Testimony value and then moving left to right shows two positive effects and  
10 seven negative effects which total to the September 30th Update value. The net effect of  
11 all nine sources of difference is to produce an updated probability distribution with a net  
12 reduction in the median of \*\* [REDACTED] \*\*. The corresponding reduction in the 25<sup>th</sup>  
13 percentile is \*\* [REDACTED] \*\*.

14 **Q: Please describe the two positive effects.**

15 A: The first effect is that the September 30th Update contains a reduced load forecast  
16 allowing KCP&L to make more off-system sales, with a positive impact of  
17 \*\* [REDACTED] \*\*. The second effect is that natural gas prices have declined, which  
18 reduces the cost of generating electricity for off-system sale, with a positive impact of  
19 \*\* [REDACTED] \*\*.

20 **Q: Please describe the seven negative effects.**

21 A: The first effect (i.e., Other) is a small composite of miscellaneous impacts, with a net  
22 negative impact of \*\* [REDACTED] \*\*. The second effect is the shift in the study period to  
23 the Revised 2009-2010 Period noted in footnote 1 above, with a negative impact of

1           \*\*[REDACTED]\*\*. The third and fourth effects result from an increase in planned and  
2 forced outages at KCP&L plants, which reduce the amount of output available for off-  
3 system sale, with negative impacts of \*\*[REDACTED]\*\* respectively. The fifth  
4 effect is an increase in coal prices which reduces the margin from off-system sales made  
5 from KCP&L coal plants, with a negative impact of \*\*[REDACTED]\*\*. The sixth effect  
6 results from reduced wind generation, which reduces the amount of output available for  
7 off-system sale, with a negative impact of \*\*[REDACTED]\*\*. The seventh (and most  
8 significant) effect is a reduction in the wholesale electricity price at which off-system  
9 sales are made, with a negative impact of \*\*[REDACTED]\*\*.

### 11           **III. REBUTTAL UPDATE TO OFF-SYSTEM MARGIN CALCULATIONS**

12   **Q: Please describe the Rebuttal Update to your Direct Testimony.**

13   A. A further update of the prospective analysis of 2009-2010 Off-System Contribution  
14   Margin was based on market data and inputs from KCP&L as of February 24, 2009. A  
15   comparison of the probability distributions from the September 30th Update and the  
16   Rebuttal Update is shown in Schedule MMS-8.

17   **Q. Why have the median value and the 25<sup>th</sup> percentile value declined further from the**  
18   **September 30th Update?**

19   A. Schedule MMS-9 shows graphically the significant sources of difference from the  
20   September 30th Update's probabilistic analysis that account for the net decline in Off-  
21   System Contribution Margin calculated at the median. The graph begins at the left with  
22   the September 30th Update value and then moving left to right shows four positive  
23   effects and two negative effects which total to the Rebuttal Update value. The net effect

1 of all six sources of difference is to produce an updated probability distribution with a net  
2 reduction in the median of \*\* [REDACTED] \*\* from the September 30th Update. The  
3 corresponding reduction in the 25<sup>th</sup> percentile is \*\* [REDACTED] \*\*.

4 **Q: Please describe the four positive effects.**

5 A: The first effect is that the Rebuttal Update contains a still further reduced load forecast  
6 allowing KCP&L to make more off-system sales, with a positive impact of  
7 \*\* [REDACTED] \*\*. The second effect is lower total fuel prices (i.e., gas and coal), which  
8 reduce the cost of generating electricity for off-system sale, with a net positive impact of  
9 \*\* [REDACTED] \*\*. The third effect (i.e., Other) is a small composite of miscellaneous  
10 impacts, with a net positive impact of \*\* [REDACTED] \*\*. The fourth effect is a small  
11 change to both planned and forced outages, with a net positive impact of  
12 \*\* [REDACTED] \*\*.

13 **Q: Please describe the two negative effects.**

14 A: The first effect is the inclusion of NOx in the dispatch cost<sup>3</sup> of KCP&L generation units,  
15 which has the effect of dispatching the units less often and results in lower off-system  
16 sales, with a negative impact of \*\* [REDACTED] \*\*. The second (and most significant)  
17 effect is a reduction in the wholesale electricity price at which off-system sales are made,  
18 with a negative impact of \*\* [REDACTED] \*\*.

19  
20 **IV. CUMULATIVE IMPACT ON OFF-SYSTEM MARGIN CALCULATIONS**

21 **Q: What is the cumulative impact of both updates on the 2009-2010 Off-System**  
22 **Contribution Margin?**

1 A. A comparison of the probability distributions from the Direct Testimony, the September  
2 30th Update and the Rebuttal Update is shown in Schedule MMS-10. The cumulative  
3 impact of both updates is to reduce the median value from \*\* [REDACTED]  
4 [REDACTED]\*\* and to reduce the 25<sup>th</sup> percentile value from \*\* [REDACTED]  
5 [REDACTED]\*\*. A table of the key assumptions for the Direct Testimony, the September  
6 30th Update and the Rebuttal Update is shown in Schedule MMS-11.

7 **Q. Does that conclude your testimony?**

8 A. Yes, it does.

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<sup>3</sup> In the Rebuttal Update, as a result of recent environmental law changes, KCP&L is now accounting for the costs of NOx emission allowances in the dispatch price of units, as it has previously accounted for the dispatch costs of SO2 emission allowances.



**SCHEDULES MMS-6  
THROUGH MMS-11**

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