

Exhibit No.:
Issue(s): Rebuttal of KCP&L
Off-System Sales Position
and Staff's Treatment of SO₂ Premiums
Witness: Ryan Kind
Type of Exhibit: Rebuttal
Sponsoring Party: Public Counsel
Case Number: ER-2006-00314
Date Testimony Prepared: September 8, 2006

REBUTTAL TESTIMONY
OF
RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2006-0314

**** CONTAINS KCPL-DESIGNATED "HIGHLY CONFIDENTIAL"
INFORMATION WHICH HAS BEEN REDACTED****

September 8, 2006

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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 Begin the Implementation of Its
Regulatory Plan

[illegible]

My commission expires August 10, 2009.

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1 A. Yes, prior to this case I submitted written testimony in: numerous gas rate cases, several
2 electric rate design cases and rate cases, as well as other miscellaneous gas, electric, and
3 telephone cases.

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. This testimony will address:

- 6 • The position taken by Kansas City Power & Light Company (KCPL) in its direct
7 testimony regarding its off-system sales margins that OPC believes is not consistent with
8 the Stipulation and Agreement in Case No. EO-2005-0329 (the Stipulation and
9 Agreement).
- 10 • The position taken by the Commission Staff (Staff) in its direct testimony regarding the
11 ratemaking treatment of premiums paid for the purchase of low sulfur coal (SO₂
12 premiums) that OPC believes is not consistent with the Stipulation and Agreement.

13 Q. HOW DID THE STIPULATION AND AGREEMENT ADDRESS THE TREATMENT OF OFF-
14 SYSTEM SALES?

15 A. Page 22 of the Stipulation and Agreement signed by KCPL and other parties states:

16 KCPL agrees that off-system energy and capacity sales revenues and
17 related costs will continue to be treated above the line for ratemaking
18 purposes. **KCPL specifically agrees not to propose any adjustment**
19 **that would remove any portion of its off-system sales from its**
20 **revenue requirement determination in any rate case**, and KCPL
21 agrees that it will not argue that these revenues and associated expenses
22 should be excluded from the ratemaking process. (emphasis added)

23 Q. HAS THE COMPANY PROPOSED TO INCLUDE A NORMALIZED LEVEL OF OFF SYSTEM
24 SALES MARGIN IN THE REVENUE REQUIREMENT IN THIS CASE?

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1 A. No. KCPL witness Chris Giles discusses the Company's proposal to include a level of
2 off-system sales margin in the revenue requirement equal to the 25th percentile of the
3 range of off-system sales calculated under various assumptions, fuel modeling, and
4 weather conditions.

5 Q. PLEASE EXPLAIN WHY THE 25TH PERCENTILE DOES NOT EQUAL A NORMALIZED LEVEL.

6 A. The use of a normalized level of any component of the revenue requirement is a common
7 practice in regulatory proceedings. "Normalization adjustments are usually made to
8 revenues or to expenses to compensate for unusual levels of operations..."¹ Use of the
9 25th percentile for "normalizing" off-system sales margins is equivalent to saying 75% of
10 the expected probable outcomes will be greater than the "normalized" level. That
11 assertion is simply an improper characterization of normalization. Hahne and Aliff go on
12 to describe normalization as "restating the test year to a normal, ongoing level of
13 operations", page 7-9. I can say based on my experience that normalizations usually are
14 calculated based on some sort of averaging in an attempt to create a situation where the
15 actual future outcome is expected to equal the regulatory treatment over time. Clearly,
16 use of the 25th percentile would not yield such a result.

17 Q. IS THE COMPANY'S PROPOSAL CONSISTENT WITH THE REGULATORY PLAN APPROVED
18 BY THE COMMISSION IN CASE NO. EO-2005-0329?

19 A. No it is not. Paragraph III.B1.j clearly states:

20 KCPL specifically agrees not to propose any adjustment that would
21 remove any portion of its off-system sales from its revenue requirement
22 determination in any rate case, and KCPL agrees that it will not argue

¹ Accounting for Public Utilities by Hahne and Aliff, page 7-8.

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that these revenues and associated expense should be excluded from the ratemaking process.

Absent a tracker mechanism for off-system sales, a normalized level of a sales would be the method used in the ratemaking process. KCPL's proposal to use a level of off-system sales, which is designed to make the Company a winner 75% of the time, is an adjustment to the normalized level that is prohibited by the Stipulation and Agreement.

Q. HOW DID THE COMMISSION STAFF TREAT SO₂ PREMIUMS IN ITS DIRECT TESTMONY?

A. According to the direct testimony of Staff Witness Graham Vesely, who was responsible for calculating the balance in Account 254, Regulatory Liability—Emission Allowances, "The balance of this account represents the cumulative net proceeds from sales of SO₂, emissions allowances, reduced by any premiums the Company had to pay to its suppliers for the coal it received being lower in SO₂ content than required by contract." Mr. Vesely states further, that "for a complete discussion of SO₂ coal premiums paid by KCPL and charged to Account 254, see the direct testimony of Staff Witness Charles R. Hyneman filed in this case."

At lines 11 through 15 on page 13 of his testimony, Charles Hyneman describes the adjustment that he made to Account 254 in order to reflect the cost of SO₂ premiums as follows: "I subtracted ** [REDACTED] ** from the Account 254, Emission Allowance Sales regulatory liability proposed by Staff witness Vesely and included in Accounting Schedule 2, Rate Base." The workpaper prepared for Graham Vesely for Account 254 (see Attachment 1) shows how this adjustment was calculated.

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1 Q. DID THE STIPULATION AND AGREEMENT IN CASE NO. EO-2005-0329 SPECIFY HOW
2 SO₂ PREMIUMS INCURRED FROM THE EFFECTIVE DATE OF THE ORDER APPROVING THE
3 STIPULATION AND AGREEMENT THROUGH THE END OF 2007 WOULD BE TREATED FOR
4 RATEMAKING PURPOSES?

5 A. Yes. The relevant portion of the Stipulation and Agreement appears on pages 9 and 10 of
6 that agreement and states:

7 KCPL currently purchases coal from vendors under contracts that
8 indicate nominal sulfur content. To the extent that coal supplied has a
9 lower sulfur content than specified in the contract, KCPL may pay a
10 premium over the contract price. The opportunity to burn coal with
11 lower sulfur content is both advantageous to the environment and
12 reduces the number of SO₂ emission allowances that must be used. To
13 the extent that KCPL pays premiums for lower sulfur coal up until
14 January 1, 2007, it will determine the portion of such premiums that
15 apply to retail sales and will record the proportionate cost of such
16 premiums in Account 254. **But in no event will the charges to the**
17 **Missouri jurisdictional portion of Account 254 for these premiums**
18 **exceed \$400,000 annually.** The portion of premiums applicable to retail
19 will be determined monthly based on the system-wide percentage of
20 MWh's from coal generation used for retail sales versus wholesale sales
21 as computed by the hourly energy costing model. This system-wide
22 percentage will be applied to premiums invoiced during the same period.
23 (emphasis added)

24 Q. DID THE STAFF PROPOSE A RATEMAKING TREATMENT FOR SO₂ PREMIUMS THAT IS
25 NOT ALLOWED BY THE STIPULATION AND AGREEMENT?

26 A. Yes. According to the Stipulation and Agreement provision quoted above, the amount of
27 SO₂ premiums that can be reflected in Account 254 is limited to "\$400,000 annually."
28 Schedule 1 shows that the Staff made an adjustment to Account 254 that greatly exceeds
29 the \$400,000 annual limit set forth in the above quoted section of the Stipulation and
30 Agreement.

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1 Q. DOES PUBLIC COUNSEL BELIEVE THE STAFF SHOULD HAVE MADE AN ADJUSTMENT TO
2 ACCOUNT 254 FOR SO₂ PREMIUMS, AND IF SO, HOW SHOULD THAT ADJUSTMENT BE
3 CALCULATED?

4 A. Yes, it is necessary to make an adjustment to Account 254 for SO₂ premiums that were
5 incurred by KCPL subsequent to effective date (August 7, 2005) of the order approving
6 the Stipulation and Agreement. This adjustment should reflect the annual level of the
7 amount of SO₂ premiums incurred from August 7, 2005, through June 30, 2006. Since
8 this time period is slightly less than eleven months, the annual amount of SO₂ premiums
9 that could be reflected in Account 254 in this case would be less than \$400,000 x .916667
10 (11/12 = .916667), assuming the amount of SO₂ premiums incurred by KCPL during that
11 time period was at least as large as the annual amount permitted by the Stipulation and
12 Agreement.

13 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

14 A. Yes.
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Attachment RK-1
has been deemed
“Highly Confidential”
in its entirety.