

Exhibit No.:
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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

**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.



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



Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

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**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 ** _____ **.

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

3 A. Yes. Mr. Giles' testimony states that the projected amount for 2007 is around
4 ** _____ ** less than the amount currently included in rates.
5

6 Q. WHAT ARE THE REASONS GIVEN FOR THE SHORTFALL?

7 A. On page 2, lines 1-6 of his testimony, Mr. Giles states:
8

9 The Commission properly determined that rates for off-system
10 sales margins should be accounted for differently, considering the
11 variability and volatility of wholesale electricity markets. I previously
12 testified that a variety of variables contribute to the risk of this
13 market. These variables include: the market price of power,
14 primarily driven by the price of natural gas; generation unit
15 availability, both on KCPL's system and on the systems of nearby
16 and regional utilities; and retail load requirements. Each of these
17 variables contributed to a lower level than expected amount of off-
18 system sales margins.
19
20

21 Whereas, on page 2, lines 4-5 of his testimony, Mr. Crawford describes the shortfall
22 being due to:
23

24 There are two primary drivers for lower off-system sales margins: (1)
25 reduced wholesale energy market prices and (2) lower MWh sales
26 volumes.
27
28

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

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

4
5 Unplanned generation unit outages, lower natural gas prices, and
6 higher retail load requirements all contributed to the much lower
7 than expected off-system sales margins.
8
9

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

13 A. On page 2, line 11 of his testimony, Mr. Crawford states that, through September
14 2007, the reduction in wholesale energy prices resulted in a ** _____ **
15 reduction in margins. Furthermore, beginning on page 2, line 21 of his testimony,
16 he identifies that, through September 2007, the volume of off-system sales from
17 KCPL's generation was significantly lower than budget. The impact of the lower off-
18 system sales volume (which was due in part to an increase in native load
19 requirements) is approximately ** _____ **.

20
21 Q. DOES MR. CRAWFORD EXPLAIN WHAT WAS THE PRIMARY CAUSE FOR THE
22 REDUCTION IN OFF-SYSTEM SALES VOLUMES FROM KCPL GENERATION?

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

3
4 Q. WHAT IS THE DOLLAR IMPACT FROM THE FORCED OUTAGES?

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

9
10 Q. WERE HIGHER THAN NORMAL FORCED OUTAGES OF KCPL GENERATION A
11 RISK OF VARIABILITY WHICH THE COMMISSION RELIED UPON WHEN IT
12 FIRST AUTHORIZED SETTING THE LEVEL OF OFF-SYSTEM SALES MARGINS
13 FOR THE COMPANY AT THE 25TH PERCENTILE?

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

18
19 Beginning on page 31 of the Report and Order in KCPL Case No. ER-2006-0314 it
20 states:
21

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

10
11
12 Mr. Schnitzer's testimony, in Case No. ER-2006-0314, was the expert testimony
13 upon which the Commission relied to base its decision to authorize the current 25th
14 percentile imputation of off-system sales margins for KCPL. Mr. Schnitzer's
15 testimony in that general rate increase case, as it did in the instant case, focused on
16 market price volatility and the variability in sales quantity. According to his
17 testimony, the uncertainty or "market risks" associated with the off-system sales
18 market are driven by underlying factors such as coal and emission allowance prices,
19 weather, fluctuations in economic activity and demographics, unit availability and
20 construction/retirement of generating units throughout SPP. His analysis, though
21 incorporating the probabilities of forced outages, was primarily driven to explain the
22 impact on off-system sales margins by outside market forces where the control of
23 KCPL and its managers does not exist or is extremely limited. To my knowledge,
24 the Commission's decision to accept the Company's recommendation of the 25th
25 percentile imputation was based primarily on its concerns of the unpredictability of
26 the outside market forces described by Mr. Schnitzer.

1
2 Q. HAS THE COMPANY CONTINUED TO STRESS THE IMPACT OR "MARKET
3 RISK" OF OUTSIDE MARKET FORCES ON ITS ABILITY TO ACHIEVE OFF-
4 SYSTEM SALES MARGINS?

5 A. Yes. In KCPL Case No. ER-2006-0314, KCPL Pre-hearing Brief, filed 10-22-
6 2006, pages 25 and 26, Company stated:

7
8 Given the risk and volatility of the competitive wholesale power
9 markets, a probabilistic determination of expected margins from
10 Off-System Sales ("OSS") should be included in KCPL's cost of
11 service for the year in which the rates set by this case will be in
12 effect.

13
14 The Company's recommendation is based on the study conducted
15 by Michael M. Schnitzer, co-founder of the NorthBridge Group
16 which provides economic and strategic advice to energy
17 companies. He describes in detail why the three key drivers of OSS
18 margins — natural gas prices, the market heat rate, and the
19 quantity sold — are uncertain and cannot be forecast with
20 precision.
21
22

23 Continuing, Post Hearing Brief of Kansas City Power and Light Company, filed
24 11-17-2006, pages 11 and 12, Company stated:

25
26 Most experts testifying at the hearing agreed that KCPL faced
27 substantial risks in the volatile wholesale electricity market and
28 acknowledged that it was difficult to predict accurately the level of
29 off-system sales margins, particularly because its prices are mainly
30 driven by the price of natural gas.
31

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

3
4
5 And, KCPL's Final Post Hearing Brief, filed 11-27-2006, page 6:

6
7 The parties who oppose KCPL's proposal to set rates for off-system
8 sales at the 25% point on the probability range presented by
9 Michael Schnitzer uniformly fail to appreciate the risks that KCPL
10 faces in this volatile market. They also misconstrue KCPL's
11 proposal as a violation of the Stipulation when its purpose is simply
12 to recognize the risk of this market.
13
14

15 In the instant case, the Transcript of Proceedings Evidentiary Hearing, October 3,
16 2007, Jefferson City, Missouri, Volume 7, states on pages 527 and 528:

17
18 11 BY MR. MILLS:

19 12 Q. So it could have been set at the 20th
20 13 percentile, the 30th percentile, either of those or
21 14 within the realm of reason?

22 15 A. Yes.

23 16 Q. Okay. In this case, what factor should
24 17 the Commission look at to decide whether they should
25 18 set it at the 25th, the 26th, the 24th, whatever
26 19 level? What -- what -- what determines that -- that
27 20 level?

28 21 A. What should determine that level is the
29 22 volatility and the potential risk of that market.

30 23 And in the last case, and again in this case, my
31 24 argument and KCPL's argument has been that that
32 25 market is not the same as retail revenue, and should

33
34 1 not be accorded the same treatment as retail revenue

1 2 in calculating the revenue requirement.
2 3 So largely, that is what the Commission
3 4 should take into account, that as Chairman Davis
4 5 was -- was alluding to earlier, once -- once a
5 6 revenue requirement is established and these
6 7 off-system sales margins are included in that revenue
7 8 requirement, should the company not hit that
8 9 potential level of off-system sales margins, then
9 10 both the earnings potential and the cash potential
10 11 for the year the rates would be in effect are in
11 12 jeopardy, and much more so than the normal retail
12 13 revenue requirement.

13 14 Q. Now, just -- just to take a
14 15 hypothetical, the rates -- if the rates in the last
15 16 case -- well, let me approach this a different way.
16 17 Assume with me that the company through
17 18 the course of 2007 does not hit the 50th percentile
18 19 that was -- that Mr. Schnitzer projected in the last
19 20 case. There could be several reasons for that; is
20 21 that not true?

21 22 A. The market is very volatile. It's --

22 23 Q. Well, my question was not what the
23 24 reasons were.

24 25 A. Okay, yes. There are -- there are many.

27 Continuing, on pages 540-543, it states:

29 4 QUESTIONS BY COMMISSIONER CLAYTON:

30 5 Q. Welcome back, Mr. Giles.

31 6 A. Thank you.

32 7 Q. Can you help me with a -- just a few
33 8 basic things here? I don't want to belabor this, but
34 9 can you basically just give me a very brief summary
35 10 of KCPL's position on off-system sales?

36 11 A. Sure. Our position is that, first of
37 12 all, the off-system sales margin that is essentially
38 13 a credit back to the revenue requirement or customers

14 should first of all be a projected number. It should
15 look to the year the rates will be in effect, which
16 in this particular case is 2008, because the history
17 as we've seen this year, is fairly meaningless in
18 this market. Unlike a retail revenue requirement
19 that has some basis for normalcy, this does not.
20 So our first position is, it should be a
21 projected number. Our next position is that it
22 should be established at a 25th percentile likelihood
23 versus a 50 percent likelihood. And the reason for
24 that is, once you build in that expected value, that
25 credit into rates, it has a significant impact on the

1 company's earnings in 2008, and particularly also its
2 cash flow if we don't hit that 25th percentile.
3 And this year has proven how critical
4 that is. When we were in the last case and we were
5 estimating for 2007, that number that was at the 50th
6 percentile was about \$70 million more than we are
7 right now today.

8 So our position is that it has been
9 confirmed by our experience this year we would not
10 have been able to meet our credit metrics and would
11 likely have been downgraded but for the fact that we
12 did set this at the 25th percentile.

13 So our position is that we should
14 continue that approach definitely until we see some
15 kind of more stability or change in this market.

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

18 A. The direct driver is natural gas prices.

19 Natural gas prices set the price in most hours for
20 this market. So a fairly long-term sustainable
21 increase of natural gas prices will cause this market
22 for us to increase and we would have more off-system
23 sales margins.

24 There's a lot of volatility, obviously,
25 in the gas -- natural gas markets. And since a year

1 ago when we were here, the prices have fairly
2 plummeted. We were at \$10 MCF. We're down around

1 3 five to six today. Will it return and will it be
2 4 stable is an open-ended question at this point.
3 5 Q. When gas prices were at \$3 back -- I
4 6 guess you have to go back to, what, 2003 when -- when
5 7 we last time saw \$3 gas, what was the profile of
6 8 KCP&L's off-system sales at that time? Did you make
7 9 any?
8 10 A. We made some, yes. We were probably --
9 11 I would say from our peak which was about a year ago,
10 12 maybe a year and a half ago, we were probably 60 --
11 13 well, 20 percent of that peak. So it increased
12 14 probably 80 percent from 2003 until our peak period.
13 15 Q. Prior to -- prior to the volatility of
14 16 the gas market which really kicked in sometime after
15 17 '01 or really kind of permanently after '03, were --
16 18 were KCPL's off-system sales over time prior to that
17 19 fairly consistent?
18 20 A. Fairly consistent, yes.
19 21 Q. I mean, within a -- within a certain
20 22 range of five or ten million or something like that?
21 23 A. Yes.
22 24 Q. Okay. So the volatility has -- has
23 25 been -- has been a great benefit to KCP&L in recent
24
25 1 years?
26 2 A. It -- it -- it was --
27 3 Q. In the gas market, I guess I should say.
28 4 A. Yes, the natural gas market essentially
29 5 kept us out of rate cases from 1999 until 2006.
30 6 Q. It's an interesting way to answer that
31 7 question. Has KCP&L benefited from the volatility in
32 8 the gas market?
33 9 A. Yes.
34
35

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

1 A. No. In its Report and Order in Case No. ER-2006-0314 the Commission did not
2 explicitly address absolving KCPL of all risk associated with incurring a higher than
3 normal level of generation plant outages. I believe to do so would be improper
4 because the risk associated with the outages occurring are not impacted to any
5 large degree by outside market forces. The risks that are associated with the
6 abnormal level of forced outages is the result of decisions made by KCPL's
7 management regarding the operation and maintenance of its generation plant.
8 Therefore, I believe that the costs associated with the abnormal level of forced
9 outages is not a risk of variability upon which the Commission greatly relied to base
10 its decision in shifting the off-system sales margins risk from KCPL to ratepayers.
11

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

14 A. Yes. If the cost of the higher than normal level of forced outages were not included
15 in the Company's projected off-system sales margins for 2007, ratepayers would
16 likely be due a substantial refund from KCPL.
17

18 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION?

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

1 Company's responsibility for operating the plants effectively and efficiently. The
2 higher than normal level of forced outages of KCPL's generation plant are an
3 operation and maintenance risk which is solely within the realm of the management
4 responsibilities of KCPL's managers. KCPL's managers alone are responsible for
5 operating and monitoring the generation plant to achieve optimal performance. This
6 includes budgeting for and implementing appropriate maintenance and repair
7 activities that would keep the plant available for operation as needed. Company's
8 admission of a higher level than normal of forced outages indicates a failure by
9 those same managers to do due their jobs properly. KCPL should not be protected,
10 nor ratepayers harmed, due to past or future generation plant failures. The impact
11 of the costs incurred on the level of off-system sales margins associated with the
12 higher outage levels should either be retained by KCPL or the Commission should
13 incent the Company to reduce the future level of forced outages by adopting the
14 40th percentile imputation recommendation of Public Counsel.

15
16 Q. DOES THIS CONCLUDE YOUR TRUE-UP REBUTTAL TESTIMONY?

17 A. Yes, it does.