

**EXHIBIT**

Exhibit No.:  
Issue(s): Rebuttal of KCP&L  
Off-System Sales Position  
and Staff's Treatment of SO<sub>2</sub> 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**

**FILED**

NOV 13 2006

Missouri Public  
Service Commission

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

OPC Exhibit No. 204  
Case No(s) ER-2006-0314  
Date 10-16-06 Rptr XF

**NP**

**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 Begin the Implementation of Its )  
Regulatory Plan )


**Case No. ER-2006-0314**

**AFFIDAVIT OF RYAN KIND**

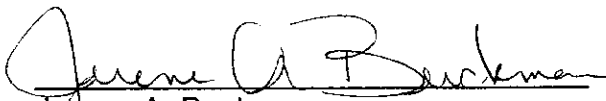
STATE OF MISSOURI    )  
                                  ) ss  
COUNTY OF COLE    )

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. I am Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 6 and Attachments RK-1.
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.

  
\_\_\_\_\_  
Ryan Kind

Subscribed and sworn to me this 8<sup>th</sup> day of September 2006.

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My commission expires August 10, 2009.

1                                   **REBUTTAL TESTIMONY**

2   **OF**

3   **RYAN KIND**

4                                   **KANSAS CITY POWER & LIGHT COMPANY**

5                                   **CASE NO. ER-2006-0314**

6           Q.       PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

7           A.       Ryan Kind, Chief Public Utility Economist, Office of the Public Counsel, P.O. Box 2230,  
8                   Jefferson City, Missouri 65102.

9           Q.       PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

10          A.       I have a B.S.B.A. in Economics and a M.A. in Economics from the University of  
11                   Missouri-Columbia (UMC). While I was a graduate student at UMC, I was employed as  
12                   a Teaching Assistant with the Department of Economics, and taught classes in  
13                   Introductory Economics, and Money and Banking, in which I served as a Lab Instructor  
14                   for Discussion Sections.

15                   My previous work experience includes three and one-half years of employment with the  
16                   Missouri Division of Transportation as a Financial Analyst. My responsibilities at the  
17                   Division of Transportation included preparing transportation rate proposals and testimony  
18                   for rate cases involving various segments of the trucking industry. I have been employed  
19                   as an economist at the Office of the Public Counsel (Public Counsel or OPC) since April  
20                   1991.

21          Q.       HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

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Ryan Kind

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 (SO<sub>2</sub>  
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 25<sup>th</sup> 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 25<sup>TH</sup> 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..."<sup>1</sup> Use of the  
9 25<sup>th</sup> 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 25<sup>th</sup> 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

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<sup>1</sup> 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 SO<sub>2</sub> 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 SO<sub>2</sub>, emissions allowances, reduced by any premiums the Company had to pay to its suppliers for the coal it received being lower in SO<sub>2</sub> content than required by contract." Mr. Vesely states further, that "for a complete discussion of SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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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Ryan Kind

1 Q. DOES PUBLIC COUNSEL BELIEVE THE STAFF SHOULD HAVE MADE AN ADJUSTMENT TO  
2 ACCOUNT 254 FOR SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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 SO<sub>2</sub> 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.  
15  
16  
17



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