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**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

REBUTTAL TESTIMONY OF

MICHAEL M. SCHNITZER

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO BEGIN THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 06-KCPE-828-RTS

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

2 A: My name is Michael M. Schnitzer. My business address is 55 Old Bedford Road,
3 Lincoln, Massachusetts 01773.

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.

1 **Q: Are you the same Michael M. Schnitzer who provided Direct Testimony in**
2 **support of Kansas City Power & Light Company in this Docket No. 06-KCPE-**
3 **828-RTS?**

4 A: Yes, I am.

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

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

7 A: My Rebuttal Testimony has two main purposes. First, I provide an update (as of
8 June 30, 2006) to the prospective calculation of Off-System Contribution Margin for
9 KCPL in 2007 provided in the second part of my Direct Testimony. Second, I
10 respond to issues regarding the calculation of Off-System Contribution Margin raised
11 in the testimony of certain intervenor witnesses.

12 **Q: Could you please summarize your conclusions?**

13 A: Yes, there are two. First, the updated distribution of potential Off-System
14 Contribution Margin outcomes has a median value of ****[REDACTED]****, with a
15 25th percentile value of ****[REDACTED]****. These estimates are similar in magnitude to
16 the values originally filed in my Direct Testimony in January – the distribution of
17 Off-System Contribution Margin outcomes in January had a median value of
18 ****[REDACTED]**** and a 25th percentile of ****[REDACTED]****. However, the new
19 calculations do not include the 2007 margin from the 50 MW firm sale that KCPL has
20 recently entered into with MJMEUC, the margin from which is netted against test
21 year revenue requirements separately from Off-System Contribution Margin.

22 Second, none of the intervenor witnesses takes issue with the probabilistic
23 methodology I used to calculate Off-System Contribution Margin, as described in my

1 Direct Testimony, and certain of these witnesses support 2007 estimates of
2 Off-System Contribution Margin derived from my analysis. However, the witnesses
3 do take issue with the Company's proposal to offset less than the median value
4 identified in my analysis. This criticism is responded to in the Rebuttal Testimony of
5 witness Chris Giles on behalf of the Company. As in its direct case, KCPL continues
6 to propose a mechanism that establishes the offset to test year revenue requirements
7 below the median value of the probability distribution shown in Exhibit MMS-8. In
8 rebuttal, Mr. Giles proposes to establish the offset at the 25th percentile of this
9 distribution as shown in Exhibit MMS-9.

10 **II. JUNE 30, 2006 UPDATE TO OFF-SYSTEM MARGIN CALCULATIONS**

11 **Q: Please describe the update to your Direct Testimony.**

12 A: The prospective analysis of 2007 Off-System Contribution Margin contained in my
13 Direct Testimony was based on inputs from the Company's November 22, 2005
14 budget. In July, KCPL provided inputs to NorthBridge as of June 30, 2006, which
15 were then used to update my probabilistic analysis. A comparison of the probability
16 distribution from the updated analysis and the original analysis is shown in Exhibit
17 MMS-8. Both distributions have a median value of ** [REDACTED] **.

18 **Q: Does that mean that no changes have taken place since January?**

19 A: No, it does not. There are three significant sources of difference from the January
20 analysis. The net effect of all three sources of difference is to produce an updated
21 probability distribution with the same median, although the distributions are not the
22 same. The first source of difference is simply the passage of time. The January
23 analysis looked forward between 12 and 24 months to 2007, while the updated

1 analysis looks forward only 6 to 18 months. Since volatility increases with time, we
2 would expect that other things being equal, the July probability distribution of
3 outcomes would be more centered or “concentrated” about the median value than the
4 January distribution.

5 The second source of difference is the change in individual inputs from
6 KCPL, which could have either a negative or a positive effect. For example, as of
7 June 30, 2006, KCPL is forecasting lower around-the-clock energy prices in
8 SPP-North which would tend to decrease Off-System Contribution Margin. But,
9 KCPL is also forecasting favorable changes to heat rates and outage rates for its
10 generating units, which would tend to increase Off-System Contribution Margin.

11 The third and most significant source of difference is the 50 MW MJMEUC
12 wholesale contract, which has reduced the number of MWHs that are available for
13 off-system sale and accounted for as part of the Off-System Contribution Margin. As
14 described at pp. 13-14 of my Direct Testimony: *‘If the Native Load and “Firm”*
15 *wholesale sales volumes increase, then all other things equal, there will be a smaller*
16 *amount of economic output available for off-system sale at market prices.’* The
17 January analysis contained a “Firm” wholesale sales estimate for 2007 of
18 350,400 MWH. As of June 30, 2006, the “Firm” wholesale sales estimate has
19 increased to 788,400 MWH. The effect of the MJMEUC sale is to decrease the
20 number of MWHs available for sale off-system, and hence to decrease the projected
21 Off-System Contribution Margin. However, this is partially offset by an
22 approximately 300,000 MWH reduction in forecast native load obligations.

1 *equate to the best estimate of KCPL and Northbridge, based on the detailed analysis*
2 *conducted by NorthBridge.*” She does, however, take issue with the use that the
3 Company makes of my probabilistic modeling, criticizing the Company’s proposal to
4 use the 25th percentile in establishing 2007 revenue requirements. Mr. Giles responds
5 to Ms. Crane on this point.

6 **Q: Please respond to Mr. Selecky.**

7 A: As with Ms. Crane, Mr. Selecky does not take issue with my probabilistic analysis.
8 At p. 27 of his Direct Testimony, he supports using the median value of my analysis
9 as an equitable balance between the shareholder and the Company. But at pp. 22-27
10 of his testimony he criticizes the Company’s proposal to use the 25th percentile in
11 establishing 2007 revenue requirements. Mr. Giles responds to this criticism.

12 **Q: Does Mr. Selecky advocate any other treatment of off-system sales in**
13 **establishing KCPL’s revenue requirements?**

14 A: At p. 27 of his testimony he appears to endorse the potential for the Commission
15 establishing the level of Off-System Contribution Margin at the 75th percentile of my
16 probabilistic analysis (i.e., at the level of projected margin where there is only a
17 25% probability that the Company will actually realize that or a greater amount). As
18 noted in the Rebuttal Testimony of Mr. Giles, this would stand the Company’s
19 proposal on its head and increase the risk to the Company’s financial viability during
20 the time it is constructing the Iatan Unit 2 generating plant. In its direct case, KCPL
21 had proposed establishing the offset at the 25th percentile and stated its intention to
22 account for the potential earnings upside above this offset amount (see Mr. Giles’
23 Direct Testimony at pp. 25-26). By setting the revenue requirement offset for

1 Off-System Contribution Margin above the median value of the probability
2 distribution, Mr. Selecky's proposal simply makes it more likely that the Company
3 will fall short of its cash needs in 2007.

4 **Q: Does that conclude your testimony?**

5 **A:** Yes, it does.

EXHIBITS MMS-8 & MMS-9

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