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Witness: James R. Dauphinais  
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Sponsoring Parties: Missouri Industrial Energy Consumers  
and Public Counsel  
Case No.: ER-2014-0370  
Date Testimony Prepared: June 5, 2015

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Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

\_\_\_\_\_  
In the Matter of Kansas City )  
Power & Light Company's Request )  
for Authority to Implement A General )  
Rate Increase for Electric Service )  
\_\_\_\_\_ )

Case No. ER-2014-0370

Surrebuttal Testimony of

**James R. Dauphinais**

On behalf of

**Missouri Industrial Energy Consumers  
and  
Office of the Public Counsel**

MIEC Exhibit No. 558  
Date 6-16-15 Reporter TW  
File No. ER-2014-0370

June 5, 2015



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STATE OF MISSOURI     )  
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COUNTY OF ST. LOUIS    )     SS

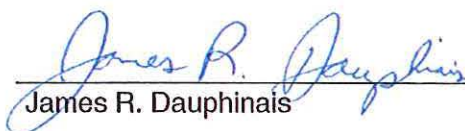
**Affidavit of James R. Dauphinais**

James R. Dauphinais, being first duly sworn, on his oath states:

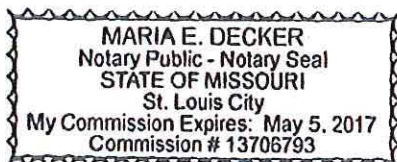
1. My name is James R. Dauphinais. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by Missouri Industrial Energy Consumers and Office of the Public Counsel in this proceeding on their behalf.

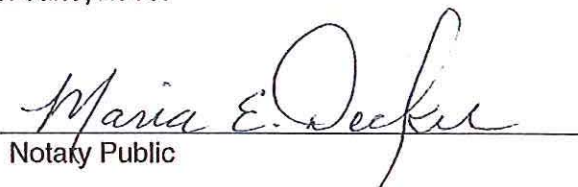
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in the Missouri Public Service Commission, Case No. ER-2014-0370.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

  
\_\_\_\_\_  
James R. Dauphinais

Subscribed and sworn to before me this 5<sup>th</sup> day of June, 2015.



  
\_\_\_\_\_  
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION  
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**BEFORE THE PUBLIC SERVICE COMMISSION  
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Case No. ER-2014-0370

**Surrebuttal Testimony of James R. Dauphinais**

**I. INTRODUCTION**

1

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A James R. Dauphinais. My business address is 16690 Swingley Ridge Road,  
4 Suite 140, Chesterfield, MO 63017.

5 Q WHAT IS YOUR OCCUPATION?

6 A I am a consultant in the field of public utility regulation and a Managing Principal of  
7 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

8 Q ARE YOU THE SAME JAMES R. DAUPHINAIS WHO PREVIOUSLY FILED  
9 TESTIMONY IN THIS PROCEEDING?

10 A Yes. On May 7, 2015, I filed Rebuttal Testimony on behalf of Missouri Industrial  
11 Energy Consumers ("MIEC") and Office of the Public Counsel ("OPC").

12 Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A I respond to certain arguments made in the rebuttal testimony of Kansas City Power  
14 and Light Company ("KCPL" or "Company") witnesses Carlson, Rush, Blunk and  
15 Overcast regarding KCPL's proposal to include within in its proposed Fuel Adjustment

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1 Clause ("FAC"): (i) certain North American Electric Reliability Corporation ("NERC"),  
2 Federal Energy Regulatory Commission ("FERC") and Southwest Power Pool ("SPP")  
3 administration charges and (ii) wholesale transmission charges incurred by KCPL for  
4 reasons other than the transmission of purchased power. I also respond to claims by  
5 Mr. Rush in his rebuttal testimony that KCPL no longer utilizes its generation to meet  
6 its load requirements. Finally, I respond to Commission Staff ("Staff") witness Sarah  
7 Kliethermes' apparent confusion between the per kWh avoided fuel cost to serve a  
8 customer and the per kWh average fuel cost to serve a customer.

9 The fact I do not address any other particular issues or am silent with respect  
10 to any portion of the rebuttal testimonies of the KCPL and Staff witnesses I am  
11 responding to in this surrebuttal testimony should not be interpreted as an approval of  
12 any position taken by KCPL, Staff or any other party in rebuttal testimony.

13 **Q PLEASE SUMMARIZE YOUR SURREBUTTAL CONCLUSIONS AND**  
14 **RECOMMENDATIONS.**

15 **A** I continue to recommend that the Commission deny KCPL's proposal to include in its  
16 proposed FAC: (i) NERC, FERC and SPP administration charges and (ii) wholesale  
17 transmission charges incurred by KCPL for reasons other than the transmission of  
18 purchased power. As I discussed at length in my rebuttal testimony and further  
19 discuss herein, these costs are neither fuel costs, purchased power costs, nor  
20 transportation costs incurred to deliver fuel or purchased power. As such, they may  
21 not be recovered through an FAC since Section 386.266.1, RSMo (Supp. 2011)  
22 permits only the inclusion of fuel, purchased power and transportation costs incurred  
23 for the delivery of fuel or purchased power in an FAC. Furthermore, KCPL has not  
24 reasonably demonstrated that these costs meet the requirements that should be met

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1 to justify granting KCPL a transmission tracker as proposed by KCPL witness Rush  
2 as an alternative to inclusion in KCPL's proposed FAC.

3 In addition, as I discussed in my rebuttal testimony and as I further discuss  
4 herein, contrary to the testimony of KCPL witness Rush, KCPL continues to rely on its  
5 own generation facilities, supplemented by very limited market purchases from the  
6 wholesale market, to meet its load obligations.

7 Finally, I conclude, that, Staff witness Sarah Kliethermes is incorrect with  
8 respect to her conclusion that KCPL's net fuel cost is not relevant to the cost to  
9 supply a customer with a kWh of energy. The per kWh SPP market price for energy  
10 at the location of KCPL's load is the cost KCPL could avoid by not serving a kWh of  
11 load and instead selling that kWh into the SPP Integrated Marketplace. However, it is  
12 not the cost to provide that kWh to its load. KCPL's fuel cost to provide a kWh to its  
13 load has been, and continues to be, its net fuel cost divided by its total kWh of load.

14 **II. RESPONSE TO REBUTTAL TESTIMONY**  
15 **OF KCPL WITNESS CARLSON**

16 Q KCPL WITNESS CARLSON ARGUES THAT KCPL'S WHOLESALE  
17 TRANSMISSION CHARGES FROM SPP ARE VOLATILE (CARLSON REBUTTAL  
18 AT 5-6). DO YOU AGREE?

19 A No. Mr. Carlson defines volatile as "characterized by or subject to rapid or  
20 unexpected change, or is variable or unsteady." However, he readily admits that, for  
21 the transmission charges that he is claiming are volatile, "the changes may not be  
22 unexpected." As Mr. Carlson points out, KCPL witness Rush, in his Schedule TMR-5,  
23 presents a chart noting the SPP's projected transmission cost estimates allocable to  
24 KCPL. This plot demonstrates that the variability between the estimates (which are  
25 routinely updated and disseminated by SPP) is very small in early years and

1 increases as the projected estimates move further out in time. This makes sense as  
2 near-term forecasts tend to be more accurate than long-term forecasts.

3 This phenomenon is also seen in the chart presented on page 8 of  
4 Mr. Carlson's rebuttal testimony. The estimates made years in advance have far  
5 greater variability to the actual cost, and the estimated costs converge toward the  
6 actual costs as the estimated periods become closer in time to the present. In fact,  
7 using the 2014 example that Mr. Carlson discussed on page 7 of his rebuttal  
8 testimony, the estimates for the 2014 costs prepared between January 2013 and July  
9 2014 have a Coefficient of Variance<sup>1</sup> ("COV") of roughly 10% and produced an  
10 expected value that is 17% above the actual 2014 cost. This is hardly volatile,  
11 especially when compared to the volatility in the wholesale electricity and natural gas  
12 markets.

13 Furthermore, as Mr. Carlson states on pages 4-5 of his rebuttal testimony,  
14 KCPL and other stakeholders participate in an open and transparent process which  
15 determines whether a project will be approved and pursued. This process, like most  
16 regulatory processes, takes time. The potential changes in approved projects do not  
17 fluctuate rapidly, for instance when compared to the rapid hourly fluctuations in the  
18 market price for electric energy, or daily fluctuation for the price of natural gas. Even  
19 if new federal energy policy requires extensive action, the roll out and reactions to  
20 policy changes will take time to plan and implement. This ensures that KCPL will  
21 have ample opportunity to determine, when considered alongside all other operation  
22 earnings, whether these changes would warrant the filing of a rate case.

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<sup>1</sup>Coefficient of Variance is often used as a comparative measure of volatility. It is calculated as the standard deviation of the samples divided by the mean of the samples. A higher COV value is often interpreted as an indication of higher volatility.

1 Q MR. CARLSON PRESENTED AN ANALYSIS OF THE VOLATILITY BY  
2 EXAMINATION OF THE COV. DO YOU HAVE ANY CONCERNS WITH HIS  
3 ANALYSIS?

4 A Yes. Mr. Carlson's application of the COV to the data he examined is fundamentally  
5 incorrect.

6 Mr. Carlson asserts that the COV for base plan (SPP Schedule 11) funding  
7 from 2007 – 2014 is 120% and that the COV for SPP administrative fees, Schedules  
8 1-A and 12 was approximately 75% and concludes that these indicate high volatility.  
9 However, Mr. Carlson's analysis is erroneous as he uses the mean of historical actual  
10 charges as the expected value for the charges for every year. However, as can be  
11 seen from the table on page 8 of his rebuttal testimony, each year has its own series  
12 of biannually updated estimates that clearly and consistently indicate an expected  
13 increase in these charges over time. This expected increase needs to be taken into  
14 consideration by calculating the COV separately for each year based on the series of  
15 biannually updated estimates for each year.

16 Correcting Mr. Carlson's error, the COV using the data provided in the table  
17 presented on page 8 of his rebuttal testimony demonstrates that the COV of the cost  
18 estimates for any given year is at most approximately 20% and in many cases much  
19 less (as low as 5%).

20 Q WHAT DO YOU CONCLUDE WITH RESPECT TO THE VOLATILITY OF SPP  
21 TRANSMISSION COSTS?

22 A SPP transmission costs are not volatile when the definitions and analytical techniques  
23 discussed by KCPL are properly applied. The cost estimates do not have high levels  
24 of unexpected variance and the cost estimates for the charges are routinely updated  
25 and disseminated by SPP. In addition, the stakeholder and regulatory process for

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1 approval of transmission projects combined with these cost estimates provides KCPL  
2 more than enough time to analyze the costs in conjunction with the costs of all of its  
3 other operations and, if necessary, react by filing a rate case. Therefore, these are  
4 not costs that need to be included in an FAC or tracker.

5 **Q IN HIS REBUTTAL TESTIMONY, MR. CARLSON ARGUES THAT ALL OF KCPL'S**  
6 **WHOLESALE TRANSMISSION CHARGES AND SPP SCHEDULE 1-A CHARGES**  
7 **ARE INEXTRICABLY TIED TO KCPL'S ABILITY TO SERVE ITS LOAD AND SELL**  
8 **OFF-SYSTEM POWER (CARLSON REBUTTAL AT 9-10). IS THIS A REASON TO**  
9 **ALLOW THEIR INCLUSION IN KCPL'S PROPOSED FAC?**

10 **A** No. The test is whether the costs are recoverable under Section 386.266.1, RSMo  
11 (Supp. 2011). The costs in question are neither fuel costs nor purchased power  
12 costs. As a result, they are only includable in an FAC to the extent they are  
13 transmission costs incurred to deliver purchased power. As I discussed in my rebuttal  
14 testimony, only approximately 7.3% of KCPL's wholesale transmission charges are  
15 incurred for the delivery of purchased power to KCPL's load and would qualify for  
16 inclusion in an FAC (Dauphinais Rebuttal at 9-14). The remaining 92.7% of these  
17 charges would not (*Id.*). Also, it is important to note that there are many other costs  
18 that KCPL incurs that are inextricably linked to KCPL's ability to serve its load and sell  
19 off-system power that are not includable in an FAC. The most obvious examples of  
20 these are the depreciation expense and return on its generation and transmission  
21 facility investments as well as the fixed O&M costs for its generation and transmission  
22 facilities. It is not enough for the incurrence of a cost to be inextricably tied to a  
23 utility's ability to serve its load and sell off-system power. The cost must be incurred  
24 for the actual delivery of fuel or purchased power to be includable in an FAC.

1 Q IN HIS REBUTTAL TESTIMONY, MR. CARLSON ALSO ARGUES THAT KCPL  
2 NOW SERVES ALL OF ITS LOAD WITH PURCHASED POWER AND SELLS ALL  
3 OF THE POWER FROM ITS GENERATION AS OFF-SYSTEM SALES (CARLSON  
4 REBUTTAL AT 12-14 AND SCHEDULES JRC-1 THROUGH JRC-3). HOW DO  
5 YOU RESPOND?

6 A This is incorrect. Schedules JRC-1 through JRC-3 show that KCPL clears all of its  
7 generation and all of its load in the SPP Integrated Marketplace. However, this does  
8 not mean that all of the power that KCPL generates is sold as an off-system sale to  
9 SPP or that KCPL supplies all of its load with purchased power.

10 As I discussed in detail in my rebuttal testimony, under FERC Order No. 668,  
11 KCPL in each hour of the day-ahead and real-time market must net its cleared  
12 generation and load into either an off-system sale (if KCPL cleared more MWh of  
13 generation than load in that hour) or a power purchase (if KCPL cleared more MWh  
14 of load than generation in that hour) (Dauphinais Rebuttal at 20). Furthermore,  
15 Schedules JRC-1 through JRC-3 do not correspond with KCPL's MWh of Account  
16 447 Sales for Resale to SPP and KCPL's MWh of Account 555 Purchased Power  
17 from SPP that are reported by KCPL for calendar year 2014 in the Form 1 filing that  
18 KCPL made to FERC on April 20, 2015.

19 On Line 2, Column (g) of Page 311.2 of its FERC Form 1 filing, KCPL reported  
20 only 6,175,961 MWh of Account 447 Sales for Resale to SPP in calendar year 2014,  
21 and on Line 7, Column (g) of Page 327.2 of its FERC Form 1 filing, KCPL reported  
22 only 1,243,020 MWh of Account 555 Power Purchases from SPP in calendar year  
23 2014. By comparison, in that same FERC Form 1 filing, KCPL identified it generated  
24 a total of 20,592,086 MWh in calendar year 2014 and had total retail load sales of  
25 14,919,674 MWh for calendar year 2014 (KCPL 2014 FERC Form 1 (April 20, 2015)  
26 at Page 401a, Lines 9 and 22). Considering the SPP Integrated Marketplace was in

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1 operation for 10 of the 12 months of calendar year 2014, if KCPL sold all of its  
2 generated power to SPP as an off-system sale, its total reported off-system sales to  
3 SPP would be far more than approximately 30% of its total reported generation.  
4 Similarly, if KCPL purchased all of the power for its retail load, its total reported  
5 purchased power from SPP would be far more than approximately 8% of its total  
6 reported retail load sales.

7 **III. RESPONSE TO REBUTTAL TESTIMONY**  
8 **OF KCPL WITNESS RUSH**

9 Q IN HIS REBUTTAL TESTIMONY, KCPL WITNESS RUSH INDICATES THAT THE  
10 COMMISSION FOUND IN ER-2012-0166 THAT RTO TRANSMISSION CHARGES  
11 ARE VOLATILE AND APPROPRIATE FOR INCLUSION IN AN FAC (RUSH  
12 REBUTTAL AT 9-10). HOW DO YOU RESPOND?

13 A First, the case in question involved the wholesale transmission charges that Ameren  
14 Missouri pays to the Midcontinent Independent System Operator, Inc. ("MISO", not  
15 the wholesale transmission charges that KCPL pays to SPP. Second, the facts  
16 before the Commission in this current proceeding are not necessarily the same as  
17 those before the Commission in ER-2012-0166. Third, as I discussed in detail above,  
18 KCPL has not reasonably shown in this current proceeding that its SPP wholesale  
19 transmission expenses are volatile. Finally, and most importantly, the Commission in  
20 ER-2012-0166 was not presented with the legal issue of whether wholesale  
21 transmission charges incurred for reasons other than the delivery of purchased power  
22 can be included in an FAC. In more recent Ameren Missouri Case No. ER-2014-  
23 0258, the Commission did consider this issue and concluded that wholesale  
24 transmission charges incurred to deliver power from Ameren Missouri's own  
25 generation to its load may not be included in Ameren Missouri's FAC.

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1 Q MR. RUSH ALSO ARGUES THAT THE SPP TRANSMISSION CHARGES ARE  
2 NECESSARY TO SERVE RETAIL LOAD AND MAKE OFF-SYSTEM SALES  
3 (RUSH REBUTTAL AT 11). IS THIS A REASON TO ALLOW THE INCLUSION OF  
4 WHOLESALE TRANSMISSION CHARGES INCURRED TO DELIVER  
5 PURCHASED POWER IN KCPL'S PROPOSED FAC?

6 A No. As I discussed above in response to Mr. Carlson's rebuttal testimony, the  
7 transmission charges incurred must be for the delivery of purchased power. It is not  
8 enough that they are closely tied to serving retail load and making off-system sales.  
9 As noted above in response to Mr. Carlson, there are several other costs closely tied  
10 with serving retail load and making off-system sales that are not includable in an FAC.

11 Q MR. RUSH ALSO REQUESTS THAT THE COMMISSION GRANT KCPL A  
12 TRANSMISSION TRACKER IF EITHER THE COMMISSION DOES NOT GRANT  
13 KCPL AN FAC OR DOES NOT ALLOW THE INCLUSION OF ALL WHOLESALE  
14 TRANSMISSION CHARGES IN THAT FAC (RUSH REBUTTAL AT 11). HOW DO  
15 YOU RESPOND?

16 A As I discuss above in response to Mr. Carlson, KCPL has not reasonably  
17 demonstrated that the nature of its wholesale transmission charges justifies granting  
18 a rate tracker for them. The Commission should not grant KCPL such a rate tracker  
19 in this proceeding.

1 Q MR. RUSH ARGUES THAT THE RECENT TRANSITION TO THE SPP  
2 INTEGRATED MARKETPLACE IMPACTS THE SUITABILITY OF THE  
3 BASE-INTERMEDIATE-PEAK ("BIP") ALLOCATION METHOD UTILIZED BY  
4 STAFF BECAUSE THE COMPANY NO LONGER PROVIDES ITS OWN  
5 GENERATION TO MEET ITS LOAD REQUIREMENTS (RUSH REBUTTAL AT  
6 46-47). HOW DO YOU RESPOND?

7 A As I discussed above in response to Mr. Carlson, KCPL in its testimony and exhibits  
8 in this proceeding is mischaracterizing its participation in the SPP Integrated  
9 Marketplace. As I noted above, KCPL clears all of its generation and load in the SPP  
10 Integrated Marketplace. However, this does not mean KCPL sells all of its generated  
11 MWh as off-system sales to SPP and supplies its load obligation entirely with  
12 purchased power from SPP. In fact, as I have discussed, KCPL's own reporting to  
13 FERC shows that only a limited portion of its total generated MWh is sold as  
14 off-system sales to SPP and only a very small portion of its retail load MWh is  
15 supplied by power purchases from SPP. KCPL continues to rely on its own  
16 generation facilities to serve its load and uses the SPP Integrated Marketplace to  
17 supplement that generation with purchased power when it is economic to do so and  
18 to reduce its net fuel cost to serve its load by making off-system sales when it is  
19 economic to do so. The SPP Integrated Marketplace serves the exact same function  
20 as the bilateral wholesale market formerly did alone. It just does so in a much more  
21 efficient form through gross clearing of generation and load.

1 **IV. RESPONSE TO REBUTTAL TESTIMONY**  
2 **OF KCPL WITNESSES BLUNK AND OVERCAST**

3 Q IN HIS REBUTTAL TESTIMONY, KCPL WITNESS BLUNK ARGUES THAT IT  
4 WOULD BE UNFAIR AND INCONSISTENT TO DIVORCE THE SAVINGS FROM  
5 SPP PARTICIPATION FROM THE COSTS OF SUCH PARTICIPATION BY  
6 EXCLUDING SOME OR ALL OF KCPL'S SPP WHOLESALE TRANSMISSION  
7 CHARGES AND SPP SCHEDULE 1-A CHARGES FROM KCPLS'S PROPOSED  
8 FAC (BLUNK REBUTTAL AT 12-18). KCPL WITNESS OVERCAST ALSO MAKES  
9 A SIMILAR ARGUMENT IN HIS REBUTTAL TESTIMONY (OVERCAST  
10 REBUTTAL AT 37). HOW DO YOU RESPOND?

11 A As I indicated above in response to KCPL witnesses Carlson and Rush, it is not  
12 enough for the costs in question to be closely associated with the cost to serve load  
13 and off-system sales revenues and there are several other costs that KCPL incurs  
14 that are closely related to the cost to serve load and off-system sales revenues that  
15 are not includable in an FAC.

16 **V. RESPONSE TO REBUTTAL TESTIMONY**  
17 **OF STAFF WITNESS SARAH KLIETHERMES**

18 Q IN HER REBUTTAL TESTIMONY, STAFF WITNESS SARAH KLIETHERMES  
19 ARGUES THAT KCPL'S NET FUEL COST IS NOT RELEVANT TO THE COST TO  
20 SUPPLY A CUSTOMER WITH A KWH OF ENERGY (KLIETHERMES REBUTTAL  
21 AT 4). HOW DO YOU RESPOND?

22 A Staff witness Kliethermes is incorrect with respect to her conclusion that KCPL's net  
23 fuel cost is not relevant to the cost to supply a customer with a kWh of energy. The  
24 per kWh SPP market price for energy at the location of KCPL's load is the cost KCPL  
25 could avoid by not serving a kWh of load and instead selling that kWh into the SPP

1 Integrated Marketplace. However, it is not the cost to provide that kWh to its load.  
2 KCPL's fuel cost to provide a kWh to its load has been, and continues to be, its net  
3 fuel cost divided by its total kWh of load.

#### 4 V. CONCLUSIONS AND RECOMMENDATIONS

5 Q PLEASE SUMMARIZE YOUR SURREBUTTAL CONCLUSIONS AND  
6 RECOMMENDATIONS.

7 A I continue to recommend that the Commission deny KCPL's proposal to include in its  
8 proposed FAC: (i) NERC, FERC and SPP administration charges and (ii) wholesale  
9 transmission charges incurred by KCPL for reasons other than the transmission of  
10 purchased power. As I discussed at length in my rebuttal testimony and further  
11 discuss herein, these costs are neither, fuel costs, purchased power costs nor  
12 transportation costs incurred to deliver fuel or purchased power. As such, they may  
13 not be recovered through an FAC since Section 386.266.1, RSMo (Supp. 2011) only  
14 permits the inclusion of fuel, purchased power and transportation costs incurred for  
15 the delivery of fuel or purchased power in an FAC. Furthermore, KCPL has not  
16 reasonably demonstrated that these costs meet the requirements that should be met  
17 to justify granting KCPL a transmission tracker as proposed by KCPL witness Rush  
18 as an alternative to inclusion in KCPL's proposed FAC.

19 In addition, as I discussed in my rebuttal testimony and further expand upon  
20 herein, contrary to the testimony of KCPL's witnesses, KCPL continues to rely on its  
21 own generation facilities supplemented by very limited market purchases from the  
22 wholesale market to meet its load obligations.

23 Finally, I conclude that Staff witness Sarah Kliethermes is incorrect with  
24 respect to her conclusion that KCPL's net fuel cost is not relevant to the cost to

