

EXHIBIT

Exhibit No.:
Issue(s): Fuel Adjustment Clause
Witness: Ryan Kind
Type of Exhibit: Rebuttal
Sponsoring Party: Public Counsel
Case Number: ER-2010-0356
Date Testimony Prepared: December 17, 2010

REBUTTAL TESTIMONY

OF

RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Case No. ER-2010-0356

December 17, 2010

~~MAES~~ ^{OPC} Exhibit No. 403
Date 2/17/11 Reporter ala
File No. ER-2010-0356

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
KCP&L Greater Missouri Operations)
Company for Approval to Make Certain)
Changes in its Charges for Electric Service)

ER-2010-0356

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 a 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.
3. I hereby swear and affirm that my statements contained in the attached affidavit are true and correct to the best of my knowledge and belief.


Ryan Kind

Subscribed and sworn to me this 17th day of December 2010.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037


Jerene A. Buckman
Notary Public

My commission expires August 23, 2013.

REBUTTAL TESTIMONY
OF
RYAN KIND
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2010-0356

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Ryan Kind, Chief Energy Economist, Office of the Public Counsel, P.O. Box 2230,
3 Jefferson City, Missouri 65102.

4 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

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

10 My previous work experience includes several years of employment with the Missouri
11 Division of Transportation as a Financial Analyst. My responsibilities at the Division of
12 Transportation included preparing transportation rate proposals and testimony for rate
13 cases involving various segments of the trucking industry. I have been employed as an
14 economist at the Office of the Public Counsel (Public Counsel or OPC) since 1991.

15 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?**

Rebuttal Testimony of
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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, water,
3 electric, and telephone cases.

4 **Q. HAVE YOU PROVIDED COMMENTS OR TESTIMONY TO OTHER REGULATORY OR**
5 **LEGISLATIVE BODIES ON THE SUBJECT OF ELECTRIC UTILITY REGULATION AND**
6 **RESTRUCTURING?**

7 A. Yes, I have provided comments and testimony to the Federal Energy Regulatory
8 Commission (FERC), the Missouri House of Representatives Utility Regulation
9 Committee, the Missouri Senate's Commerce & Environment Committee and the
10 Missouri Legislature's Joint Interim Committee on Telecommunications and Energy.

11 **Q. HAVE YOU BEEN A MEMBER OF, OR PARTICIPANT IN, ANY WORK GROUPS,**
12 **COMMITTEES, OR OTHER GROUPS THAT HAVE ADDRESSED ELECTRIC UTILITY**
13 **REGULATION AND POLICY ISSUES?**

14 A. Yes. I am currently a member of the Missouri Department of Natural Resources
15 Weatherization Policy Advisory Committee, the National Association of State Consumer
16 Advocates (NASUCA) Electric Committee, and the Stakeholder Steering Committee
17 (SSC) of the Eastern Interconnection Planning Collaborative (EIPC). I have served as the
18 public consumer group representative to the Midwest ISO's (MISO's) Advisory
19 Committee and as the small customer representative on both the NERC Operating
20 Committee and the NERC Standards Authorization Committee. During the early 1990s, I
21 served as a Staff Liaison to the Energy and Transportation Task Force of the President's
22 Council on Sustainable Development.

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I. INTRODUCTION

Q. PLEASE IDENTIFY THE ISSUES THAT YOU WILL BE ADDRESSING IN YOUR TESTIMONY.

A. The issues that are addressed in this testimony include:

- Public Counsel’s response to the information KCP&L Greater Missouri Operations Company (GMO or Company) provided pursuant to the FAC filing requirements in 4 CSR 240-3.161(3)(S) regarding “a complete explanation of forecasted environmental investments”;
- OPC’s proposal to modify certain elements (sharing percentage and inclusion of revenues from sale of RECs) of GMO’s FAC; and
- Public Counsel’s position on the GMO proposal to continue utilizing a Fuel Adjustment Clause FAC).

II. FORECASTED ENVIRONMENTAL INVESTMENTS

Q. WHICH GMO WITNESS HAS FILED DIRECT TESTIMONY TO SUPPORT THE INFORMATION REQUIRED TO COMPLY WITH 4 CSR 240-3.161(3)(S) REGARDING “A COMPLETE EXPLANATION OF FORECASTED ENVIRONMENTAL INVESTMENTS”?

A. GMO witness Burton Crawford filed direct testimony on this issue where he stated on page 13 that “Currently there are no plans to install any significant equipment such as scrubbers or selective catalytic reduction systems (“SCR”) in the next four years.” Since Mr. Crawford prepared his testimony on June 4, 2010, this statement implies that GMO has “no plans to install any significant equipment such as scrubbers or selective catalytic reduction systems (“SCR”) prior to June 4, 2014.

Q. WHAT IS YOUR RESPONSE TO THIS STATEMENT BY MR. CRAWFORD?

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Ryan Kind

1 A. Mr. Crawford's statement is not consistent with the preferred resource plan that GMO
2 described in its most recent IRP filing in Case No. EE-2009-0237. On page 8 of the
3 Executive Summary (Volume 1) of GMO's IPR filing, the Company stated that:

4 This plan also includes 10% biomass co-firing at Sibley 1 and 2 as well
5 as environmental retrofits by 2015 on the coal generating units at Sibley
6 Station and Lake Road 4-6 that would meet or exceed future BACT
7 requirements.

8 Given Mr. Crawford's statement that GMO has no plans to install any environmental
9 retrofits on the Company's generating plants prior to June 4, 2014; it would not be
10 possible for GMO to have the Sibley Station and Lake Road 4-6 environmental retrofits
11 in service by the start of 2015 as indicated by the IRP filing.

12 **Q. HAS GMO PROVIDED ANY NOTICE TO THE COMMISSION INDICATING THAT THE**
13 **COMPANY HAS DETERMINED THAT ITS PREFERRED RESOURCE PLAN IS NO LONGER**
14 **APPROPRIATE?**

15 A. No. The other Great Plains Energy Incorporated operating subsidiary, KCPL, provided a
16 notice to the Commission on February 3, 2010 pursuant to 4 CSR 240-22.080(10) stating
17 that it had abandoned certain portions of its preferred resource plan, but no similar notice
18 has been provided to the Commission by GMO.

19 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH THE INFORMATION THAT MR. CRAWFORD**
20 **PROVIDED IN HIS TESTIMONY IN AN ATTEMPT TO SATISFY THE REQUIREMENTS OF 4**
21 **CSR 240-3.161(3)(S) REGARDING "A COMPLETE EXPLANATION OF FORECASTED**
22 **ENVIRONMENTAL INVESTMENTS"?**

23

Rebuttal Testimony of
Ryan Kind

1 A. Yes. Mr. Crawford's statement about GMO's forecasted environmental investments was
2 limited to GMO's plans for environmental retrofit investments through mid-2014. I do
3 not believe this is a sufficient time period to satisfy the requirement for a "complete
4 explanation of forecasted environmental investments" when it is common knowledge in
5 the electric utility industry that new federal environmental regulations could require
6 substantial retrofits and or retirements of coal plants in 2015.

7 **Q. WHAT DOES GMO NEED TO DO IN ORDER TO COMPLY WITH THE REQUIREMENTS OF 4**
8 **CSR 240-3.161(3)(S) REGARDING "A COMPLETE EXPLANATION OF FORECASTED**
9 **ENVIRONMENTAL INVESTMENTS"?**

10 A. The Company needs to provide information to resolve the discrepancy between the
11 information provided in an attempt to comply with 4 CSR 240-3.161(3)(S) and the
12 information that it provided to the Commission when it described its preferred resource
13 plan in Case No. EE-2009-0237. In addition, if the Company has possible plans for
14 major environmental investments that would be in service at some point during 2015,
15 then a "complete explanation" of these "forecasted environmental investments" should be
16 provided to the Commission. Alternatively, if GMO has determined that its preferred
17 resource plan described in Case No. EE-2009-0237 is no longer appropriate because it no
18 longer has plans for "environmental retrofits by 2015 on the coal generating units at
19 Sibley Station and Lake Road 4-6 that would meet or exceed future BACT
20 requirements," then it should provide the notice required by 4 CSR 240-22.080(10).

21 **III. APPROPRIATE SHARING PERCENTAGE FOR THE GMO FAC**

22 **Q. WHICH DIRECT TESTIMONY REGARDING THE FAC SHARING PERCENTAGE ARE YOU**
23 **RESPONDING TO IN THIS TESTIMONY?**

Rebuttal Testimony of
Ryan Kind

1 A. I will be responding to the direct testimony filed by GMO witness Tim Rush and to those
2 portions of the Commission Staff's "Revenue Requirement Cost of Service" and "Rate
3 Design and Class Cost of Service" reports. Staff witness John Rogers was responsible
4 for the portions of these Staff reports that pertain to the FAC sharing percentage issue.

5 **Q. PLEASE DESCRIBE THE POSITION ON THIS ISSUE THAT HAS BEEN EXPRESSED BY MR.**
6 **RUSH IN HIS DIRECT TESTIMONY.**

7 A. The proposed tariff sheets attached (see Revised Sheet No. 25 in Schedule TMR2019 – 3)
8 to the testimony of Mr. Rush contain the same 95:5 sharing percentage that is in the
9 currently effective GMO FAC tariffs. The testimony of Mr. Rush does not directly
10 address retaining the 95:5 sharing percentage but he did provide testimony regarding the
11 rebasing of base energy costs that is relevant to this issue. At line 10 on page 6 of his
12 testimony, Mr. Rush states "the Company is not proposing to re-base the FAC."

13 **Q. WHY DO YOU BELIEVE THAT GMO'S PROPOSAL TO NOT RE-BASE THE FAC IS**
14 **RELEVANT TO THE SHARING PERCENTAGE ISSUE?**

15 A. I believe it is relevant because there is only one plausible explanation for GMO's
16 decision to propose not re-basing the FAC in this case. The current rate case will have
17 substantial rate impacts on GMO's ratepayers because GMO is seeking to place its new
18 investment in a portion of the new Iatan 2 plant into rate base in this case. The inclusion
19 of this plant along with other cost increases have prompted the Company to request a rate
20 increase of approximately 15% in this case. If GMO had also re-based its FAC, then the
21 impact on GMO's rates would have been considerably higher. Apparently, the Company
22 has decided to sacrifice some of the earnings that would flow to the Company through the
23 FAC in order to make it appear to customers that there is only a rate increase of
24 approximately 15% that is occurring at this time.

Rebuttal Testimony of
Ryan Kind

1 Unfortunately, customers will eventually bear 95% of the brunt of the increased level of
2 cost that would have been part of this rate case if GMO had re-based its FAC in this case.
3 The reason that customers will eventually bear 95% of this additional cost and not 100%
4 is the absorption of 5% of the difference between base fuel costs and actual fuel costs by
5 GMO due to the 95:5 sharing mechanism.

6 GMO's decision to absorb 5% of this cost differential by not re-basing its FAC illustrates
7 a couple of important issues. First, it shows that the adverse impact on GMO's earnings
8 that results from not re-basing due to the need for GMO to share 5% of a larger
9 difference between base costs and actual costs is not enough to incent the company to re-
10 base its FAC in this case. Second, it shows that the Company places some value on not
11 giving its customers the true picture of the higher percentage increase in rates that
12 customers will ultimately be required to bear for the level of GMO costs at the time of
13 this rate case. One must wonder why the Company would be concerned about any
14 substantial public relations damage from re-basing, given that GMO has a monopoly on
15 the provision of electric service within the footprint of its service territory.

16 **Q. DO YOU BELIEVE THAT GMO'S DECISION TO NOT PROPOSE RE-BASING IN THIS CASE**
17 **SHOULD BE TAKEN INTO ACCOUNT IN DETERMINING THE PROPER SHARING**
18 **PERCENTAGE FOR THE COMPANY'S FAC?**

19 A. Absolutely. Since the Company does not appear to be concerned about the loss of
20 earnings that will occur when it needs to absorb 5% of a larger difference between the
21 base FAC rate and its actual costs over and above that rate, the sharing percentage will
22 obviously need to be considerably higher than 5% to get the Company's attention and
23 incent it hold down fuel and purchased power costs and maximize the value of its off-
24 system sales (OSS) margins.

1 **Q. LET'S TURN NOW TO THE STAFF'S TESTIMONY REGARDING THE APPROPRIATE LEVEL**
2 **OF SHARING PERCENTAGES FOR THE FAC. PLEASE DESCRIBE THE STAFF'S**
3 **PROPOSAL ON THIS ISSUE.**

4 A. In the Commission Staff's "Revenue Requirement Cost of Service" and "Rate Design and
5 Class Cost of Service" reports, Staff witness John Rogers recommends that the sharing
6 percentage be changed in this case from 95:5 to 75:25. This change would give GMO a
7 more meaningful incentive to hold down fuel and purchased power costs and maximize
8 the value of its OSS margins since the Company would be required to absorb 25% of the
9 difference between the base FAC rate and its actual costs instead of the current 5%
10 amount that is absorbed by GMO.

11 **Q. DOES PUBLIC COUNSEL SUPPORT THE 75:25 SHARING PROPOSED BY STAFF**
12 **WITNESS JOHN ROGERS?**

13 A. Yes. Public Counsel supports the Staff's FAC sharing proposal. I have submitted
14 testimony in other cases recommending sharing proposals substantially higher than the
15 5% sharing that is currently in effect for GMO so that a utility will have sufficient "skin
16 in the game" to incent it to pay close attention to controlling fuel and purchased power
17 costs and maximizing OSS margins. GMO's approach to re-basing in this case clearly
18 indicates the need for it to have a more meaningful sharing percentage to ensure that its
19 interests are aligned with the interests of ratepayers.

20 **IV. RENEWABLE ENERGY CREDIT REVENUES IN THE GMO FAC**

21 **Q. DOES THE REVISED FAC TARIFF ATTACHED TO THE DIRECT TESTIMONY OF GMO**
22 **WITNESS TIM RUSH INCLUDE PROVISIONS FOR THE PASS THROUGH OF REVENUES**
23 **FROM THE SALE OF RENEWABLE ENERGY CREDITS (RECs)?**

Rebuttal Testimony of
Ryan Kind

1 A. No. There is no such provision in GMO's proposed FAC tariffs. I have attached a copy of
2 the FAC tariffs that are currently in effect for the Empire District Electric Company (see
3 Attachment A) to show how these revenues are treated in the FAC tariffs of another
4 regulated Missouri electric utility. Both Empire and GMO have the ability to sell RECs
5 from their wind farms. GMO receives a portion of the output from the Grey County Wind
6 Farm in Kansas. Customers should receive the benefit of the sale of RECs made outside
7 of a test year when a utility has an approved FAC just as customers receive the benefit
8 from OSS margins that are earned outside of a test year for Missouri utilities that have an
9 approved FAC.

10 **IV. OPC RECOMMENDATION ON CONTINUATION OF THE GMO FAC**

11 **Q. DOES PUBLIC COUNSEL SUPPORT THE CONTINUATION OF GMO'S FAC?**

12 A. Yes, so long as all of the concerns that I have raised in this testimony have been
13 addressed. Public Counsel's recommendation of continuing the GMO FAC are based on
14 the circumstances faced by GMO at this point in time and upon the environment in which
15 it is operating at this point in time.

16 **Q. PLEASE SUMMARIZE THOSE CONCERNS THAT MUST BE ADDRESSED FOR PUBLIC**
17 **COUNSEL TO BE ABLE TO SUPPORT CONTINUATION OF THE GMO FAC IN THIS CASE.**

18 A. Those concerns are: (1) inclusion of a meaningful sharing percentage much higher than
19 the current 5% sharing level that GMO is exposed to in its current FAC tariff, (2)
20 resolution of all the issues pertaining to GMO's forecasted investments in environmental
21 compliance at its generating facilities that are identified in this testimony and (3) revision
22 of GMO's FAC tariff as proposed in this testimony to include revenues from the sales of
23 RECs as an offset to fuel costs.

Rebuttal Testimony of
Ryan Kind

1

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2

A. Yes.

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17e

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

For ALL TERRITORY

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC
For service in Accumulation Periods after September 10, 2010; and for service in that portion of Accumulation
Period 5 on and after September 10, 2010.

APPLICATION

FUEL ADJUSTMENT CLAUSE

The average price per kWh of electricity generated or purchased will be adjusted subject to application of the FAC, and approved by the Public Service Commission. The price will reflect 95 percent of the accumulation period costs either above or below base costs specified below for:

1. Fuel and AQCS consumables consumed in Company electric generating plants;
2. Purchased energy (excluding demand);
3. Off-system sales revenue;
4. Emission allowance costs and revenues; and
5. Renewable energy credit revenues.

It will also include:

6. An adjustment for the prior recovery period's over/under recovery of FAC Costs;
7. Interest at a rate equal to the Company's short-term interest rate will be applied to the average monthly deferred electric energy costs and will be accumulated during the accumulation period. Deferred electric energy cost shall be determined monthly. The monthly deferred amount may be negative or positive during the accumulation period.

The formula and components are displayed below.

$$FAC = \{[(F + P + E - O - R - B) * J] * 0.95\} + C + I$$

Where:

F = Actual total cost of fuel - FERC Accounts 501 & 547, and AQCS consumables - FERC Account 506.2.

P = Actual total net system input cost of purchased energy - FERC Account 555 (excluding purchase power demand charges).

E = Actual total system net emission allowance cost and revenues - FERC Accounts 509 & 254.103.

O = Actual total system off-system sales revenue.

B = Base cost of fuel and purchased power energy calculated as follows:

- | | |
|---|---------------------------|
| 1. For the months of June through September | B = (NSI kWh * \$0.03182) |
| 2. For all other months | B = (NSI kWh * \$0.02857) |

DATE OF ISSUE August 30, 2010
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE September 10, 2010

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17f

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

For ALL TERRITORY

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC
For service in Accumulation Periods after September 10, 2010; and for service in that portion of Accumulation Period 5 on and after September 10, 2010.

R = Renewable energy credit revenues.

J = Missouri energy ratio calculated as follows:

$$\text{Missouri energy ratio} = \frac{\text{Missouri retail kWh sales}}{\text{Total system kWh sales}}$$

Where Total system kWh sales excludes off-system sales.

C = True-up of over/under recovery of FAC balance from prior recovery period as included in the deferred energy cost balancing account. This factor will reflect any modifications made due to prudence reviews.

I = Interest.

COST ADJUSTMENT FACTOR

The CAF is the result of dividing the FAC by estimated recovery period Missouri net system input (NSI) kWh, rounded to the nearest \$.00000. The CAF shall be adjusted to reflect the differences in line losses that occur at primary and above voltage and secondary voltage by multiplying the average cost at the generator by 1.0502 and 1.0686, respectively. Any CAF authorized by the Commission shall be billed based upon customers' energy usage on and after the authorized effective date of the CAF. The formula and components are displayed below.

$$\text{CAF} = \frac{\text{FAC}}{\text{S}}$$

Where:

S = Forecasted Missouri NSI kWh for the recovery period. Missouri NSI kWh is calculated as:

$$\text{Missouri NSI} = \text{Forecasted NSI} * \frac{\text{Forecasted Missouri retail kWh sales}}{\text{Forecasted total system kWh sales}}$$

Where Forecasted Total System kWh Sales excludes off-system sales

PRUDENCE REVIEW

There shall be a periodic review of fuel and energy costs subject to the FAC and a comparison of the FAC revenue collected. Prudence reviews shall occur no less frequently than at eighteen (18) month intervals.

TRUE-UP OF FAC

After completion of each recovery period, the Company will make a true-up filing in conjunction with an adjustment to its FAC on the first Filing Date that occurs after completion of each recovery period. The true-up adjustment shall be the difference between the revenues billed in the recovery period to the costs authorized for collection in the recovery period, i.e. the true-up adjustment. Any true-up adjustments or refunds shall be reflected in item C above and shall include interest calculated as provided for in item I above.

DATE OF ISSUE August 30, 2010
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE September 10, 2010

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17g

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

For ALL TERRITORY

FUEL ADJUSTMENT CLAUSE
SCHEDULE FAC
For service in Accumulation Periods after September 10, 2010; and for service in that portion of Accumulation
Period 5 on and after September 10, 2010.

ACCUMULATION PERIOD ENDING, (Month, Day, Year)

1.	Total energy cost $[(F + P + E - O - R) - B] * J * 0.95$	\$XX,XXX,XXX
2.	Base energy cost (B)	\$XX,XXX,XXX
3.	Missouri energy ratio (J)	X.XXXX
4.	Fuel cost recovery $[(F + P + E - O - R) - B] * J * 0.95$	\$XXX,XXX
5.	Adj for over/under recovery for the recovery period ending 00-00-0000 (C)	\$X
6.	Interest (I)	\$XX,XXX
7.	Fuel Adjustment Clause (FAC)	\$XXX,XXX
8.	Forecasted Missouri NSI for the recovery period (S)	X,XXX,XXX,XXX
9.	Cost Adjustment Factor (CAF) to be applied to bills beginning 00-00-0000	\$(X.XXXXX) / kWh
10.	CAF - Primary and above (Line 9 x Primary Expansion Factor)	\$(X.XXXXX) / kWh
11.	CAF - Secondary (Line 9 x Secondary Expansion Factor)	\$(X.XXXXX) / kWh

Primary Expansion Factor = 1.0502
Secondary Expansion Factor = 1.0686

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