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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

FILE NO. ER-2010-0356

*Jefferson City, Missouri
December 2010*

****Denotes Highly Confidential Information****

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LENA M. MANTLE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. ER-2010-0356

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena M. Mantle who prepared a portion of the Staff Cost of Service Report ("COS Report") filed on November 17, 2010, in this case?

A. Yes, I prepared the "Capacity Requirements for the Territory Formerly Known as MPS" and "Allocation of Iatan 3 Capacity Between MPS and L&P" sections of the report (pages 94 through 103).

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to: 1) refute KCP&L Greater Missouri Operations Company's ("GMO") inclusion of its book values of four 75 megawatt ("MW") Combustion Turbines ("CTs") at a site called Crossroads Energy Center ("Crossroads") near Clarksdale, Mississippi, and that site in its rate base; and 2) describe the best way to allocate the rate base impacts of Iatan 2 between MPS and L&P (GMO's operations in and about Kansas City and St. Joseph, respectively) and show how the analysis conducted by GMO witness Burton Crawford is improper.

1 | **Crossroads Energy Center**

2 | Q. Why does Staff oppose including the value on GMO's books for MPS of
3 | GMO's Crossroads in MPS's rate base?

4 | A. Staff does not oppose including the book value of the Crossroads in MPS's
5 | rate base because Crossroads is far away in Mississippi and has more capacity than MPS
6 | needs in the short term. Instead, Staff opposes including the book value of Crossroads in
7 | MPS's rate base because GMO should have prudently addressed its capacity needs for MPS
8 | by replacing the power it was getting from the Aries purchased power agreement ("PPA")
9 | when it expired on May 31, 2005, with the five CTs its analysis showed to be the least cost
10 | alternative. Instead GMO, then known as Aquila, Inc., relied on Crossroads, at that time its
11 | merchant plant, for capacity and energy through short-term purchased power agreements and
12 | later, after being acquired by Great Plains Energy, as a non-merchant GMO resource.
13 | Aquila's (n/k/a GMO) decision not to build the five CTs for MPS that its analysis showed
14 | were the least cost alternative and to instead only build 3 CTs and enter into PPA's was short-
15 | sighted and based on placing Aquila's short-term financial considerations over the long-run
16 | financial interests of its MPS customers.

17 | While Staff's position continues to be that "steel in the ground" is preferable to relying
18 | on short-term PPAs and Crossroads is "steel in the ground," Staff, in its COS Report, on page
19 | 109, shows that including Crossroads in rate base for MPS would increase rates more than
20 | including Staff's Prudent CTs 4 and 5.

21 | Q. Is there any scenario where Staff would include a value for Crossroads in
22 | GMO's rate base?

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1 A. Yes. Staff would consider including the value of Crossroads in GMO's rate
2 base at a "distressed" price similar to how Union Electric Company d/b/a Ameren Missouri
3 (Ameren Missouri) acquired Aquila, Inc.'s Raccoon Creek and Goose Creek generating units
4 as described in Staff witness Cary G. Featherstone's direct testimony in this case.

5 Q. Has Staff included Raccoon Creek and Goose Creek generating units in
6 Ameren Missouri's rate base at the price at which Ameren Missouri acquired them?

7 A. Yes, it has. Prior to acquiring the units, Ameren Missouri met with Staff on
8 October 3, 2005, to discuss its possible acquisition of these generating units. Ameren
9 Missouri shared its analysis of the risks and benefits of acquiring the extra capacity. Even
10 though it did not immediately need the capacity of either the Raccoon Creek or the Goose
11 Creek units, Ameren realized that Aquila was selling the units at a distressed price and that it
12 would be missing an opportunity to acquire inexpensive generation for its Missouri rate
13 payers. Ameren Missouri purchased both the Raccoon Creek and the Goose Creek units from
14 Aquila at a distressed price and, even though Ameren Missouri did not immediately need the
15 capacity, Staff has included Ameren Missouri's costs of acquiring these generating units in
16 Ameren Missouri's rate base in rate cases after Ameren Missouri acquired them.

17 **Allocation of Iatan 2 Between MPS and L&P**

18 Q. What is the most appropriate way to allocate the rate base and fuel and
19 operating costs of Iatan 2 between MPS and L&P?

20 A. The most appropriate way to allocate the rate base and fuel and operating cost
21 impacts of Iatan 2 between MPS and L&P would be based on independent resource planning
22 processes for L&P and MPS. However, since the merger of Aquila, Inc. and St. Joseph Light

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1 and Power Company ("SJLP") in 2001, GMO has conducted its resource planning company-
2 wide, and not separately for L&P and MPS.

3 Q. How did GMO allocate the rate base and fuel and operating cost impacts of
4 Iatan 2 between MPS and L&P?

5 A. In his direct testimony, GMO witness Burton L. Crawford, on page 11, at lines
6 4 through 16, describes how GMO used an allocation factor based on the annual average and
7 peak loads for L&P and MPS. This resulted in the allocation of 41 MW to L&P and 112 MW
8 to MPS, i.e., allocation factors of 0.2680 (41 divided by 153) and 0.7320 (112 divided by 153)
9 for allocating the rate base impacts and fuel and operating cost of Iatan 2 to L&P and MPS,
10 respectively.

11 Q. How does GMO's proposal to allocate the rate base and fuel and operating
12 costs of Iatan 2 differ from the allocation Staff recommends?

13 A. Staff recommends that Iatan 2 rate base and fuel and operating cost be
14 allocated based on L&P "owning" 100 MW and MPS "owning" 53 MW. Allocating all 153
15 MW to SJLP could be justified because GMO has rights to Iatan 2 through its acquisition of
16 SJLP. In addition, SJLP, prior to being acquired by Aquila, recognized the benefits of
17 acquiring base load capacity as shown by how much of Iatan 1 it acquired. However, Staff
18 conservatively is relying on the expiration of a 100 MW base load PPA that SJLP (L&P)
19 entered into before it merged with Aquila for allocating 100 MW to L&P and 53 MW to
20 MPS.

21 In addition, Staff's recommendation is a permanent allocation of Iatan 2 between MPS
22 and L&P; whereas GMO's allocation methodology could result in a "floating" of the
23 allocation of Iatan 2 between MPS and L&P.

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1 Q. What are Staff's concerns regarding GMO's proposed allocation of the rate
2 base and fuel and operating cost impacts of Iatan 2?

3 A. Staff has several concerns.

- 4 1) If the rate base and fuel and operating cost impacts of Iatan 2 are allocated as
5 recommended by GMO, Mr. Crawford's Schedule BLC2010-5 shows that L&P
6 will ** _____ ** while the 112 MW
7 allocated to MPS gives it ** _____
8 _____ **;
9
- 10 2) GMO's allocation of the rate base and fuel and operating cost impacts of Iatan 2
11 will exacerbate the rate differential between L&P and MPS. While GMO
12 expresses a desire to completely merge the rate schedules of L&P and MPS, it
13 has not told Staff how it intends to do so;
14
- 15 3) GMO gives no deference to the history of MPS and L&P when allocating Iatan
16 2;
17
- 18 4) The allocation of the rate base and fuel and operating cost impacts of Iatan 2
19 would result in L&P being allocated more fuel costs from MPS's less efficient
20 CT units; and
21
- 22 5) The allocation of the rate base and fuel and operating cost impacts of Iatan 2
23 could change in every rate case.
24

25 Q. Why would GMO's allocation of the rate base and fuel and operating cost
26 impacts of Iatan 2 ** _____

27 _____ **?

28 A. Before Aquila and SJLP merged, SJLP entered into a very inexpensive long-
29 term contract for 100 MW of base load energy and capacity from the Nebraska Public Power
30 District ("NPPD"). This base load PPA, along with SJLP's ownership piece of Iatan 2 and its
31 Lake Road coal plant, resulted in SJLP being heavily weighted with base load energy. This is
32 one of the reasons that L&P's rates now are so much lower than MPS's rates. However, the
33 NPPD contract ends on May 31, 2011. If the Commission adopts GMO's recommendation,
34 SJLP's capacity will drop 59 MW (100 MW minus 41 MW) before next summer.

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1 In the meantime, since the expiration of its Aries PPA, GMO entered into another
2 long-term base load contract for MPS with NPPD and has been adding CT capacity to meet
3 MPS's needs. In addition, if the Commission adopts GMO's recommendation, MPS's
4 capacity will increase 112 MW.

5 Staff's recommendation of 53 MW to MPS would give MPS some additional base
6 load capacity and would replace L&P's NPPD's base load PPA with an equivalent amount of
7 base load capacity that it owns.

8 Q. How does GMO's allocation of the rate base and fuel and operating cost
9 impacts of Iatan 2 exacerbate the differential between L&P and MPS rates?

10 A. Because of the high fixed capital cost of Iatan 2, including it in the rate base of
11 GMO results in a large increase in rates. With GMO's allocation of 112 MW to MPS, it
12 allocates approximately 80% of the increase in rate base net of fuel savings to MPS and
13 approximately 20% to L&P. However, the normalized annual energy for MPS and L&P is,
14 respectively, 74% and 26% of GMO's total normalized annual energy. The normalized peaks
15 for MPS and L&P are 76% and 24% of the GMO total normalized annual peak. This
16 indicates that MPS customers' rates, all else being equal, will go up more than L&P
17 customers' rates due to the percentage of the rate base and fuel and operating cost impacts of
18 Iatan 2 allocated to MPS by GMO being higher than MPS's percentage of normalized annual
19 energy and peak.

20 Q. Wouldn't a higher allocation of the rate base and fuel and operating cost
21 impacts of Iatan 2 to L&P result in a larger rate increase for L&P customers?

22 A. Yes, it would, and it is Staff's position that it should. If L&P was a stand-
23 alone utility, it would have to replace the 100 MW of the NPPD contract. No one can know

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1 | what L&P would have done if it had not merged with Aquila. It is Staff's position, given
2 | L&P's high base load capacity position in the recent past, that it would have acquired as much
3 | of Iatan 2 as it possibly could. This would have resulted in a dramatic increase in L&P's rates
4 | in the short-run for the trade off of less expensive energy and lower rates over the long term.
5 | Even if L&P only replaced 50 MW of the NPPD contract with capacity from Iatan 2, it would
6 | have to acquire another 50 MW of capacity. This would likely result in a higher increase in
7 | L&P rates than the current request by GMO.

8 | Q. You state that GMO gives no deference to the history of MPS and L&P when
9 | allocating the rate base and fuel and operating cost impacts of Iatan 2. Why is that a concern?

10 | A. GMO treats MPS and L&P as separate for rate making purposes. While GMO
11 | has told Staff that it would like to merge the rates of MPS and L&P, it has not proposed any
12 | method for doing so. GMO could be working toward the merging of the MPS and L&P rates,
13 | even though the costs of MPS and L&P are different. It could be proposing changes to make
14 | the rate designs of MPS and L&P similar. GMO has not. Instead GMO proposes a
15 | methodology to further intensify the differences.

16 | However, GMO does not treat MPS and L&P separately when it comes to allocating
17 | this much desired base load capacity. GMO did not take into consideration that L&P was
18 | losing a 100 MW base load PPA. It did not take into consideration that, absent a larger
19 | amount of Iatan 2, ** _____

20 | _____ **.

21 | Q. How would GMO's allocation of the rate base and fuel and operating cost
22 | impacts of Iatan 2 result in L&P being allocated more fuel costs from MPS's less efficient CT
23 | units?

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1 A. The current fuel allocation method is an after-the-fact allocation of fuel costs
2 based on the ownership of the units and the demand of MP and L&P each hour.¹ The less
3 expensive units are allocated to serve the loads of MPS (Aquila) or L&P (SJLP) based on
4 ownership of the units before Aquila and SJLP merged, leaving the more costly generation to
5 serve the other. GMO's proposed allocation of Iatan 2 would not only allocate the rate base
6 impacts of Iatan 2 between MPS and L&P, it would also result in the majority of the low cost
7 power from Iatan 2 being allocated to MPS. ** _____
8 _____

9 _____ **

10 Q. Lastly, why might the allocation of the rate base and fuel and operating cost
11 impacts of Iatan 2 change in every case if the Commission adopted GMO's proposal?

12 A. Since GMO's allocation of Iatan 2 is based on the load factors of MPS and
13 L&P, then the allocation of the rate base and fuel and operating cost impacts of Iatan 2 could
14 change in the next case because load factors change. It is not clear from Mr. Crawford's
15 testimony if GMO is proposing the allocation to change from case to case. Staff opposes a
16 "floating" of the rate base and fuel and operating cost of Iatan 2 on MPS and L&P.
17 Customer's rates should be based on the costs of the assets being used to serve them and
18 allocation of costs as great as the cost of Iatan 2 should not shift from rate case to rate case.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes, it does.

¹ For a more detailed description, see Staff witness Erin Maloney's description of the Allocation of Fuel and Purchased Power Costs, pages 85 through 86, of Staff's COS Report filed on November 17, 2010.