

Exhibit No. 3602
Issue: Revenue Requirement - Capacity
Witness: Robert Janssen
Sponsoring Party: Dogwood Energy, LLC
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2010-0356

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
KCP&L Greater Missouri)
Operations Company for Approval) Case No. ER-2010-0356
to Make Certain Changes to its Charges)
for Electric Service.)

SURREBUTTAL TESTIMONY – REVENUE REQUIREMENT

OF ROBERT JANSSEN ON BEHALF OF

DOGWOOD ENERGY, LLC

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January 12, 2011

Dogwood Exhibit No. 3602
Date 2-15-11 Reporter TUC
File No. ER-2010-0356

STATE OF MISSOURI)
) SS.
COUNTY OF ST. LOUIS)

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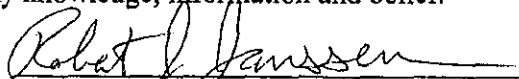
AFFIDAVIT OF ROBERT JANSSEN

COMES NOW Robert Janssen, of lawful age, sound of mind and being first duly sworn, deposes and states:

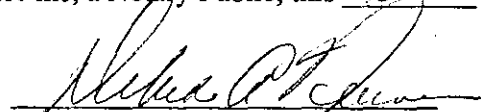
1: My name is Robert Janssen; I am Senior Vice President for Kelson Energy, Inc., the corporate parent of Dogwood Energy, LLC, and President and General Manager of Dogwood Energy, LLC.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony in the above-referenced case.

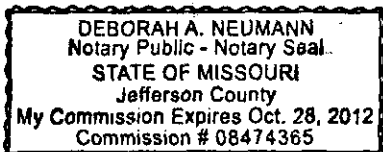
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge, information and belief.


Robert Janssen

SUBSCRIBED AND SWORN to before me, a Notary Public, this 10th day
of January, 2010.


Notary Public

My Commission Expires:
(SEAL)



SURREBUTTAL TESTIMONY OF
ROBERT JANSSEN ON BEHALF OF
DOGWOOD ENERGY, LLC

1 **I. QUALIFICATIONS**

2 **Q. Please state your name and title.**

3 A. My name is Robert Janssen. I am Senior Vice President for Kelson Energy Inc.
4 ("Kelson") and President and General Manager of Dogwood Energy, LLC.

5 **Q. Did you provide rebuttal testimony in this proceeding?**

6 A. Yes.

7 **II. PURPOSE AND SUMMARY OF TESTIMONY**

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to respond to the rebuttal testimony submitted by
10 GMO witness Wm. Edward Blunk regarding purported natural gas prices and
11 supply and transport reliability relative to Crossroads.

12 **Q. Please summarize your testimony.**

13 A. I disagree with Mr. Blunk's conclusions that natural gas prices will be lower at
14 Crossroads than South Harper and that Crossroads improves GMO's generation
15 fleet by increasing the reliability of gas supply and transport. There is no reason
16 to believe that firm gas transportation capacity could not be obtained from either
17 the Southern Star or Panhandle Eastern supply areas for existing or new gas-fired
18 generating facilities in the Kansas City area. Mr. Blunk's conclusions in his

1 rebuttal testimony are fundamentally flawed because they rely on the premise of
2 continued south-to-north constraints on pipelines feeding the Kansas City region.
3 I support the Staff's conclusion that the price of natural gas delivered to
4 Crossroads would be higher than the price of natural gas delivered to the area in
5 which South Harper and Dogwood are located. Disparity in natural gas prices
6 legitimately remains one of the reasons for the Commission to conclude that
7 Crossroads should not be included in GMO's rate base.

8 **III. GMO WITNESS BLUNK'S TESTIMONY**

9 **Q. What are Mr. Blunk's assertions?**

10 A. Mr. Blunk testifies that natural gas shipped to Crossroads costs less than natural
11 gas shipped to South Harper based on 2010 figures, including fixed charges¹, that
12 the pipelines do not (and implicitly will not in the future) have capacity to serve
13 South Harper², that Crossroads allows GMO to "cherry-pick" and choose to
14 generate electricity from the region with the cheapest natural gas based on short-
15 term pricing disparities³, and that Crossroads allows GMO to have access to
16 natural gas from regions subject to different demand levels due to different
17 weather patterns⁴. He summarizes his testimony as follows: "Crossroads offers
18 the Company the opportunity to 'cherry-pick' between pricing regions.

¹ Blunk Rebuttal at p. 2

² Ibid. at p. 4

³ Ibid. at p. 5

⁴ Ibid. at p. 6

1 Crossroads adds supply and transportation diversity, thereby increasing system
2 reliability.”⁵

3 **IV. DOGWOOD RESPONSE**

4 **Q. What is your response to Mr. Blunk’s testimony?**

5 A. I do not believe that Crossroads offers GMO the benefits described by Mr. Blunk
6 to the degree that he asserts. Mr. Blunk’s testimony is fundamentally flawed due
7 to his reliance on the misconception that natural gas to be supplied to any
8 additional South Harper units would have to come from a backhaul on the
9 Panhandle pipeline and would be priced at what are typically higher Chicago
10 Citygate prices. This is simply not true. As long as capital is available and
11 customers like GMO will commit to taking service, pipeline companies can and
12 will build new facilities to provide firm transportation when there is a need and
13 the economics justify it. That is the fundamental nature of their business model.

14 **Q. Do you have any specific examples of pipelines serving the Kansas City area
15 adding firm transport capacity to meet their customers’ needs?**

16 A. Yes. In response to Dogwood’s expressed interest in obtaining firm transport
17 capacity, Southern Star expanded its facilities in 2009 such that we could enter
18 into a firm, year-round, transportation agreement on that pipeline. Further, we are
19 currently continuing to explore our firm transportation needs, and Southern Star
20 has again proposed to expand its facilities and initiate an open season process

⁵ Ibid. at p. 6

1 [essentially a means of communicating with all potential shippers regarding
2 capacity expansion] if we decide to move ahead and increase our year-round, firm
3 transport capacity from its production / market interface.

4 **Q. Are you aware of any other additional firm, year-round, transport capacity**
5 **that pipelines serving the Kansas City area have currently, or recently had,**
6 **available?**

7 A. Yes. In early 2009, Panhandle Eastern offered Dogwood an opportunity to obtain
8 10,000 mmbtu per day in firm transport on a forward haul from their production
9 area. Kinder Morgan also recently approached Dogwood regarding capacity it
10 had available on its pipeline (Pony Express) sourcing from the Rockies supply
11 region that interconnects with both the Panhandle Eastern and Southern Star
12 pipelines just south of Kansas City.

13 **Q. Mr. Blunk's testimony focuses on the South Harper generating facility, yet**
14 **your experience is with the Dogwood Energy generating facility. Are the two**
15 **facilities similarly situated?**

16 A. Yes. The two facilities are located in reasonably close proximity to each other in
17 comparison to the pipelines that are at issue, with South Harper slightly
18 "upstream" of Dogwood. In addition, my understanding is that both plants are
19 interconnected to both the Southern Star and Panhandle Eastern pipelines. Our
20 natural gas transportation experience at Dogwood should be similar to GMO's
21 situation at South Harper regarding available options on the two pipelines.

1 **Q. Has Dogwood utilized backhaul capacity on Panhandle similar to the service**
2 **discussed by GMO for South Harper?**

3 A. Yes. Dogwood obtained and utilized backhaul capacity on Panhandle from the
4 Rockies Express pipeline receipt point during the winter of 2008/2009. During
5 most of that transportation contract, we actually obtained our gas supplies from
6 the Panhandle supply region to the south through use of the secondary receipt
7 point option in the contract.

8 **Q. Has Dogwood utilized release capacity on Southern Star similar to the**
9 **service discussed by GMO for South Harper?**

10 A. Yes. Dogwood obtains and utilizes release capacity [capacity that another shipper
11 has under a firm contract but offers to others because it does not need it during a
12 specific period] on Southern Star on a routine basis. We use it to supplement our
13 existing firm transport capacity contract as needed to meet our power production
14 requirements, particularly during the summer peak season when demand for the
15 output of the plant is highest.

16 **Q. What is Dogwood's experience regarding availability of firm transportation**
17 **capacity on both Southern Star and Panhandle Eastern?**

18 A. Both of these pipelines do occasionally experience constraints on south-to-north,
19 forward haul gas flow during their peak winter supply period, and long-term, firm
20 transport capacity is generally not available unless other parties' contracts expire
21 and are available for bid. Therefore, firm transport capacity does have value in
22 ensuring the firmness of gas supplies for power plants, particularly during cold

1 winter weather when natural gas use is at its peak. Release capacity has been
2 available during the summer months at both full tariff rates and at a discount
3 when electricity production often reaches its peak. Further, if customers are
4 willing to commit to purchasing enough firm transportation to justify building
5 new or expanding existing pipeline facilities, additional firm transport capacity
6 can be made available.

7 **Q. Do you believe that the price for natural gas supplies for either Dogwood or**
8 **South Harper would necessarily be linked to Chicago Citygate pricing in the**
9 **future?**

10 A. No, I do not.

11 **Q. Does Mr. Blunk draw correct conclusions in his testimony?**

12 A. No. Because Mr. Blunk's testimony generally relies on the premise that natural
13 gas pricing for additional generating units at South Harper would need to be
14 priced at the Chicago Citygate for gas supplies, many of his conclusions are
15 unsound.

16 **Q. Please provide some examples of incorrect conclusions from his testimony.**

17 A. In his first analysis on page 2 of his Rebuttal Testimony, Mr. Blunk reviews
18 actual gas costs at South Harper and Crossroads in 2010, including fixed costs,
19 and asserts that gas costs are higher at South Harper than at Crossroads.
20 However, he focuses on Panhandle costs and related higher Chicago Citygate
21 prices rather than purchases for South Harper transported on Southern Star.

22 **Q. Do you have any other concerns with this part of Mr. Blunk's testimony?**

1 A. Yes. In addition, he appears to state that he includes the fixed costs of
2 transportation in this analysis, which may not be appropriate. The numbers he
3 provides are protected as highly confidential, so I cannot review them to comment
4 in detail. However, a review of the public information included in GMO's EIA
5 923 forms for Crossroads and South Harper reveal the following regarding
6 delivered gas prices.

7
8
9

Table 1:

GMO EIA Form 923 Data – First Nine Months of 2010

Location / Pipeline	Quantity (mmbtu)	Price (\$/mmbtu)
South Harper	604,849	4.65
South Harper / Southern Star	354,518	4.35
South Harper / Panhandle Eastern	250,331	5.08
Crossroads	297,031	4.84

10 This data shows that based on delivered gas prices as reported to the U.S Energy
11 Information Administration (EIA) by GMO, South Harper's average delivered gas
12 prices were lower than Crossroads' during the first nine months of 2010. Further,
13 the delivered prices for gas supplies shipped on the Southern Star pipeline for
14 South Harper were nearly \$0.50 per mmbtu lower than Crossroads' delivered gas
15 prices during the summer period.

16 **Q. Are other conclusions in Mr. Blunk's testimony incorrect?**

1 A. Yes. There are several more examples of erroneous assertions in his Rebuttal
2 Testimony, as follows:

3 Regarding GMO's ability to "cherry-pick" gas supply region pricing if it has
4 Crossroads in its fleet, at page 5 Mr. Blunk also relies on a comparison of
5 Crossroad's gas pricing to Chicago Citygate and Trunkline East Louisiana
6 pricing, rather than lower price alternatives that would be available in the area of
7 South Harper and Dogwood.

8 Similarly, at page 6 his system reliability argument relies on the assertion that
9 there is no assurance that natural gas could be transported to South Harper during
10 summer months without firm transportation. This is not accurate, as discussed
11 above.

12 **Q. Do you have any further concerns with Mr. Blunk's testimony?**

13 A. Yes. While I have not attempted to document each and every concern I have with
14 Mr. Blunk's testimony here, I will raise one final issue. On pages 5-6 of his
15 Rebuttal Testimony, Mr. Blunk contends that Crossroads is valuable because of
16 gas supply diversity pricing. I believe that this argument is misleading as
17 presented due to the additional costs and reduced reliability of electric
18 transmission required to deliver power from the Crossroads plant in Mississippi in
19 the Entergy region of SERC all the way back to GMO in the SPP region. I have a
20 particular issue with this argument because Mr. Blunk includes the fixed costs of

1 natural gas transport in his earlier arguments as referenced above, but elects to
2 ignore the fixed costs of electric transmission when he analyzes the economic
3 potential for “cherry-picking”. After all, the product that GMO’s customers are
4 paying for is electricity, not natural gas. Purchasing natural gas at a discount at a
5 power plant distant from GMO’s customers is irrelevant if it cannot also be
6 delivered as electricity to GMO’s customers at a discount in comparison to locally
7 produced power. The costs and reliability issues regarding the additional
8 transmission service required on the Entergy system to deliver such power have
9 been addressed elsewhere in prepared testimony in detail, and I will not get into
10 these issues further here. However, if the fixed costs of electric transmission were
11 included in evaluating the costs of delivering Crossroad’s energy to GMO’s
12 system, and not just the costs of natural gas supplies that Mr. Blunk considers, we
13 would most likely find that “cherry-picking” of gas supplies would not be
14 beneficial when viewed from the perspective of delivered electricity costs.

15 **V. SUMMARY AND CONCLUSIONS**

16 **Q. Please summarize your testimony and conclusions.**

17 A. There is no reason to believe that firm gas transportation capacity could not be
18 made available from either the Southern Star or Panhandle Eastern supply areas
19 for existing or new gas-fired generating facilities in the Kansas City area. Mr.
20 Blunk’s conclusions in his Rebuttal Testimony are fundamentally flawed because

1 they rely on the premise of south-to-north constraints continuing indefinitely on
2 pipelines feeding the Kansas City region. I support the Staff's conclusion that the
3 price of natural gas delivered to Crossroads would be higher than the price of
4 natural gas delivered to the area in which South Harper and Dogwood are located.
5 As I testified on rebuttal, the price of natural gas in the region in which
6 Crossroads is located was from \$0.25 to \$0.50 per mmbtu higher during the
7 summer of 2010.⁶ Hence, disparity in natural gas prices legitimately remains one
8 of the reasons for the Commission to conclude that Crossroads should not be
9 included in GMO's rate base.

10 **Q. Do you hold the opinions you express in this testimony to a reasonable degree**
11 **of certainty as an expert regarding electrical power generation and**
12 **transmission markets and facilities?**

13 A. Yes.

14 **Q. Does this conclude your surrebuttal testimony?**

15 A. Yes.

⁶ Janssen Rebuttal at p. 11