

FILED  
January 18, 2013  
Data Center  
Missouri Public  
Service Commission

Exhibit No.:  
Issue: Fuel, Purchased Power, Crossroads Energy  
Center, Ralph Green, AECI Allocation, Off-  
system Sales Margins  
Witness: Burton L. Crawford  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: KCP&L Greater Missouri Operations Company  
Case No.: ER-2012-0175  
Date Testimony Prepared: September 12, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

**REBUTTAL TESTIMONY**

**OF**

**BURTON L. CRAWFORD**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
September 2012**

\*\*\* [REDACTED] \*\*\* Designates "Highly Confidential" Information  
Has Been Removed.  
Certain Schedules Attached To This Testimony Designated ("HC")  
Have Been Removed  
Pursuant To 4 CSR 240-2.135.

GMO Exhibit No. 111 NP  
Date 10-29-12 Reporter KBE  
File No. ER-2012-0175

**REBUTTAL TESTIMONY**

**OF**

**BURTON L. CRAWFORD**

**Case No. ER-2012-0175**

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

2 A: My name is Burton L. Crawford. My business address is 1200 Main, Kansas City,  
3 Missouri, 64105.

4 **Q: Are you the same Burton L. Crawford who prefiled Direct Testimony in this**  
5 **matter?**

6 A: Yes.

7 **Q: What is the purpose of your testimony?**

8 A: The purpose of my testimony is to rebut issues related to the fuel and purchased power  
9 costs, off-system sales, Crossroads Energy Center, and the allocation of Ralph Green and  
10 the firm purchased capacity costs in the Commission Staff's ("Staff") direct case filing.

11 **CROSSROADS ENERGY CENTER**

12 **Q: What value has Staff placed on Crossroads in their cost of service?**

13 A: Staff has included Crossroads in GMO's rate base at a net value of approximately \$38.3  
14 million. This equates to about \$128/kW of installed capacity.

15 **Q: What value would GMO place on Crossroads?**

16 A: As of March 31, 2012 GMO values Crossroads at a net value of approximately \$82.7  
17 million. This equates to about \$276/kW of installed capacity.

1 **Q: Why is there a difference between Staff and GMO's valuation for this plant?**

2 A: Staff has included Crossroads at a valuation based on the Commission's Order in GMO's  
3 last general rate proceeding, Case No. ER-2010-0356. GMO's valuation reflects the cost  
4 of the facility as recorded on its books and records.

5 **Q: What other indication does the Company have concerning the fair market value of**  
6 **the Crossroads facility?**

7 A: In order to determine the fair market value for financial statement reporting in accordance  
8 with Statement of Financial Accounting Standard ("SFAS") 141, Business Combinations,  
9 Great Plains Energy Incorporated ("GPE") retained the services of  
10 PricewaterhouseCoopers ("PwC"). In PwC's November 3, 2008 report to GPE, PwC's  
11 fair value estimate for Crossroads was **\*\*[REDACTED]\*\***. This is above the  
12 approximately \$117 million net book value that GMO recorded on its books as a result of  
13 the Aquila acquisition.

14 **Q: During the acquisition process, did GPE estimate a lower value on Crossroads?**

15 A: Yes. As described in Staff's Cost of Service Report at page 78, the GPE and Aquila joint  
16 proxy statement filed with the U.S. Securities and Exchange Commission on May 8, 2007  
17 stated that a "preliminary internal analysis" indicated a fair estimate for the value of the  
18 plant was approximately \$51.6 million. This equates to about \$172/kW installed.

19 **Q: Why was the joint proxy statement's preliminary estimate lower than what was**  
20 **subsequently recorded on the Company's books?**

21 A: At the time the estimate was prepared, there was a significant amount of uncertainty  
22 about the ultimate disposition of the Crossroads facility. As such, the estimate was based  
23 on dismantling the plant and selling it as scrap. Uncertainty surrounding this asset was

1 reflected in the proxy statement at page 175 (quoted in the Staff Report at page 79) that  
2 the adjusted value could “be materially affected by changes in fair value prior to closing  
3 of the merger.” On page 168 the joint proxy statement advised: “Final determinations of  
4 fair value may differ materially from those presented herein.”

5 **Q: Why was the addition of the Crossroads Energy Center a prudent choice for GMO?**

6 A: In March 2007, GMO issued an RFP for supply resources. The RFP was very broad,  
7 seeking renewable resources, conventional peaking, base load, and intermediate capacity  
8 and energy. In addition, the RFP requested a variety of proposal types including equity  
9 participation, EPC (engineering, procurement and construction), generating equipment  
10 only and PPAs (purchased power agreements).

11 GMO received several responses to this RFP representing a range of options from  
12 non-affiliated entities as well as self-build options. The self-build options included base  
13 load, intermediate, and base load capacity alternatives. After screening the options,  
14 GMO conducted a 20-year analysis to determine a preferred resource plan. This analysis  
15 concluded that the Crossroads Energy Center would result in the lowest 20-year net  
16 present value of revenue requirement (NPVRR). The results of this analysis and  
17 selection of the preferred plan were presented to the Staff in October 2007. The  
18 presentation is included with this testimony as Schedule BLC2010-9 (HC).

19 **Q: Did GMO receive any non-affiliated offers for long-term capacity and energy  
20 similar to the Crossroads facility?**

21 A: Yes. GMO received an offer for four GE 7EA combustion turbines (CT), the same  
22 number of GE 7EA CTs as installed at Crossroads.

1 **Q: How did the installed cost from the non-affiliated offer compare to the Crossroads**  
2 **offer?**

3 A: The offer from the non-affiliated party was **\*\*[REDACTED]\*\*** excluding the cost for land,  
4 water, transmission interconnection, step-up transformer, and several other items. The  
5 Crossroads offer was for \$383/kW which included all costs.

6 **Q: Did GMO consider and document the cost of having GMO as the regulated**  
7 **electrical corporation provide the goods or services for itself?**

8 A: Yes. The engineering group of GMO submitted bids to the RFP for self-building a  
9 variety of generating plant options, including one similar to Crossroads.

10 **Q: Did GMO consider self-build options using market surplus equipment?**

11 A: Yes. A vendor offered surplus equipment. Self-building with this equipment was  
12 considered. It was determined that the surplus equipment did not offer a significant price  
13 difference over the new equipment from the manufacturer.

14 **Q: How did the cost of Crossroads compare to the self-build options?**

15 A: Crossroads was determined to be a lower cost option than self-building. The cost of the  
16 self-build option came in at \$637 per kW installed cost for four GE 7EA CTs while the  
17 offer price for Crossroads was \$383 per kW.

18 **Q: Please summarize the various value estimates for the capacity discussed above.**

19 A: The following table summarizes the various capacity valuations discussed above.

<b>Time Period</b>	<b>Alternative</b>	<b>Cost per kW</b>	<b>Notes</b>
March 2007	GMO Self Build	\$637	
March 2007	3 <sup>rd</sup> Party Build	** [REDACTED] **	Did not include land, water, transmission interconnection, step-up transformer, other
Nov. 2008	PwC Crossroads Fair Value	\$403	
March 2007	Crossroads Net Book	\$383	
Dec. 2010	MPSC Crossroads Value	\$206	Based on Illinois turbine sales
May 2007	GPE/Aquila Joint Proxy Statement	\$172	Based on scrap value (\$51.6 million)

1 **Q: What observations would you make concerning this information?**

2 A: At the time GMO was looking to add capacity to its system, the cost of Crossroads at net  
3 book value was less than the available alternatives. Despite this fact, the Commission  
4 decided that the plant value was closer to scrap value.

5 **Q: Has the Crossroads facility provided value to GMO customers?**

6 A: Absolutely. The facility provides firm capacity to GMO and has been used many times  
7 during the hot summer of 2012 to meet customer peak demands. For 2012, the plant has  
8 run 45 days and has had a 100% starting reliability record (through 8/31/12). During the  
9 month of July, Crossroads set an all-time generation record.

10 **Q: Do you agree with Staff's assertion that if GMO had built generation in or near the  
11 GMO service area, it would incur no transmission cost?**

12 A: Yes, but such a claim oversimplifies and mischaracterizes the Crossroads decision.

13 **Q: Do you agree that Staff's view provides a reasonable basis on which to exclude the  
14 cost of transmission for the Crossroads facility from the Company's cost of service?**

15 A: No. While the cost of electric transmission for Crossroads is currently higher than it  
16 would be if the plant were located in the GMO area, these costs were included in the  
17 evaluation of the facility when determining that Crossroads was the lowest cost plan for

1 GMO. In addition, the cost of transmission needs to be considered in the context of the  
2 total cost to provide service from the facility. As pointed out in my Direct Testimony at  
3 pages 11-14, the cost of firm gas transportation is significantly less than it would have  
4 been had the plant been built in the GMO service area. It would not be reasonable for  
5 GMO's retail customers to enjoy the benefits of lower firm gas transportation costs at the  
6 Crossroads location, while at the same time avoid the cost of firm electric transmission  
7 that brings them the less expensive gas.

8 Staff's cost of service in this case reflects the low cost of a distressed asset sale of  
9 combustion turbines in Illinois, the low cost of firm gas transportation for turbines at  
10 Crossroads, and no electric transmission costs for Crossroads. So effectively this is like  
11 having used turbines from Illinois, located in the GMO service area, enjoying the benefits  
12 of firm gas transportation at the Crossroads location. Such a facility can't exist.

13 The following table compares the annual revenue requirement for (a) Crossroads  
14 based on the Company's valuation of the plant as of March 31, 2012, (b) Crossroads  
15 based on Staff's hypothetical case as of March 31, 2012, (c) Crossroads if located in  
16 Illinois (Goose Creek/Raccoon Creek), and (d) the estimated cost if a 300 MW facility  
17 had been built in the GMO service area, based on GMO's evaluation of capacity  
18 additions at the time Crossroads was being evaluated.

19

1

Cost Component	Crossroads – GMO Case	Crossroads – Staff Case	Goose Creek/Raccoon Creek	300 MW Plant at a GMO Site
Plant (inc. depreciation)	\$14.9	\$6.5	\$6.5	\$28.5
Electric Transmission	\$5.2	\$0	\$9.7	\$0
Firm Gas Transportation	\$0.352	\$0.353	\$8.8 - \$9.1	\$4.6 - \$10.2
Annual Revenue Requirement	\$20.5	\$6.9	\$25.0 – 25.3	\$33.1 - \$38.7

2

The electric transmission costs for Crossroads are based on the actual cost of transmission service for the facility. The electric transmission costs for Goose Creek/Raccoon Creek are based on the MISO tariff rate for electric transmission service from Illinois. The Crossroads firm gas transportation costs are based on the actual cost of gas transportation for the facility. The firm gas transportation costs for Goose Creek/Raccoon Creek and the 300 MW plant at a GMO site are based on the estimated cost of firm gas transportation to those facilities. Support for these gas costs can be found in the testimony of Company witness Mr. Wm. Edward Blunk.

3

4

5

6

7

8

9

10 **Q: Do you have any observations about these costs?**

11

A: Yes. They show that Crossroads was the cheapest, realistic option. If the company were to have purchased Goose Creek/Raccoon Creek for regulated service in Missouri at the price they were sold for, the current annual revenue requirement would have been \$25.0-\$25.3 million per year. If the company were to have built a new plant in the GMO service area to avoid electric transmission charges, the current annual revenue requirement would have been \$33.1-\$38.7 million per year. Both of these options would be more expensive than what GMO has requested for Crossroads cost recovery.

12

13

14

15

16

17





1 energy that was sourced from a purchase. The intent of these purchases is to serve native  
2 load. The energy is not purchased with the intent to sell it back to the wholesale market.  
3 Since GMO has little excess energy to sell, the losses on the purchases for resale exceed  
4 the off-system sales margins made from GMO owned resources.

5 **Q: Does KCP&L experience similar transactions?**

6 A: Yes. Many of these Purchases for Resale transactions occur at a loss for KCP&L as well.  
7 However, since KCP&L has the ability to make significantly more off-system sales than  
8 GMO, the losses on these transactions for KCP&L are not as apparent as they are for  
9 GMO.

10 **FUEL AND PURCHASED POWER**

11 **Q: Does the Company have any issues with Staff's fuel and purchased power modeling**  
12 **in this case?**

13 A: Yes. There are potential issues related to treatment of border customers and the Western  
14 Area Power Administration (WAPA). Staff and GMO have been in discussions to  
15 address these issues and anticipate having them resolved prior to the true-up modeling  
16 efforts in this case.

17 **CAPACITY ALLOCATION**

18 **Q: Does the Company have any issues with Staff's capacity allocation between MPS**  
19 **and L&P in this case?**

20 A: Yes. Staff proposed to assign the Ralph Green generating facility to L&P. This  
21 assignment is unnecessary.

1 **Q: Why has Staff proposed to assign what has historically been an MPS facility to**  
2 **L&P?**

3 A: Per Staff's cost of service report at page 126, this reassignment "will minimize the rate  
4 impact on GMO's customers in its L&P rate district of the assignment of capacity and  
5 energy, while making up for GMO's shortfall in capacity for L&P that results by  
6 following the practice of relying on the historical ownership of capacity..."

7 **Q: Why does the Company believe this is unnecessary?**

8 A: During 2012, GMO was an estimated 61 MW short of meeting its reserve obligations.  
9 As such, GMO entered into a 61 MW capacity contract. Based on the historical  
10 assignment of generating resources between MPS and L&P, L&P was 61 MW short of  
11 meeting its share of reserve obligations. Since L&P was short, the Company assigned the  
12 61 MW capacity purchase to L&P.

13 The revenue requirement for Ralph Green is greater than the cost of the 61 MW contract.  
14 As such, the assignment of Ralph Green to L&P increases L&P's revenue requirement  
15 more than it would be based on the historical assignment to MPS. Therefore, assigning  
16 the 61 MW contract to L&P minimizes the rate impact on L&P while meeting their share  
17 of the reserve obligation.

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

19 A: Yes, it does.



**SCHEDULE BLC-9**  
**THIS DOCUMENT CONTAINS**  
**HIGHLY CONFIDENTIAL**  
**INFORMATION NOT AVAILABLE**  
**TO THE PUBLIC**