

GMO-248

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

CURT WELLS

KANSAS CITY POWER & LIGHT COMPANY (KCP&L)

FILE NO. ER-2010-0356

*Jefferson City, Missouri
November 2010*

Staff Exhibit No. GMO-248
Date 1/18/11 Reporter LMB
File No. ER-2010-0356

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TABLE OF CONTENTS
DIRECT TESTIMONY
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EXECUTIVE SUMMARY..... 2
ENGINEERING REVIEWS..... 2
IN-SERVICE DETERMINATION 3
JURISDICTIONAL ALLOCATIONS 3
NORMALIZATION AND ANNUALIZATION ADJUSTMENTS TO REVENUE..... 3
FUEL AND PURCHASED POWER 4
CAPACITY REQUIREMENTS..... 5
IATAN 2 CAPACITY ALLOCATION 6
OTHER EXPENSES..... 6
FUEL ADJUSTMENT CHARGE..... 8
AREAS OF RESPONSIBILITY 9

1
2
3
4
5
6
7
8
9
10
11
12

DIRECT TESTIMONY

OF

CURT WELLS

KANSAS CITY POWER & LIGHT COMPANY (KCPL)

FILE NO. ER-2010-0356

13 Q. Please state your name and business address.

14 A. My name is Curt Wells and my business address is Missouri Public Service
15 Commission, P. O. Box 360, Jefferson City, Missouri, 65102.

16 Q. What is your present position with the Missouri Public Service Commission
17 (Commission)?

18 A. I am a Regulatory Economist in the Energy Department of the Utility
19 Operations Division.

20 Q. Please review your educational background and work experience.

21 A. I have a Bachelor's degree in Economics from Duke University, a Master's
22 degree in Economics from The Pennsylvania State University, and a Master's degree in
23 Applied Economics from Southern Methodist University. I have been employed by the
24 Missouri Public Service Commission since February, 2006. Prior to joining the Commission,
25 I completed a career in the U.S. Air Force, which included assignments as an aircraft
26 navigator, and later in the Purchasing/Contracting area as Contract Negotiator and
27 Administrator, Installation Purchasing Department Chief, Contracting Policy Manager,
28 Director of the Air Force warranty center, and Program Manager responsible for developing
29 and awarding technical support contracts.

Q. Have you filed testimony in prior cases before the Commission?

Direct Testimony of
Curt Wells

1 A. Yes. My previous testimony is listed in Schedule CW-1.

2 Q. With reference to File No. ER-2010-0356, have you participated in the
3 Commission Staff's (Staff) review of KCP&L Greater Missouri Operations Company (GMO
4 or Company) concerning its request for a rate increase in this proceeding?

5 A. Yes, I have, with the assistance of, and reliance on, other members of the Staff
6 in the areas listed below.

7 **EXECUTIVE SUMMARY**

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

9 A. The purpose of my direct testimony is to sponsor the Staff recommendations
10 originating from the Utility Operations Division of the Staff and to provide an overview of the
11 Staff's positions in the areas of engineering reviews, in-service determination, jurisdictional
12 allocations, normalizations and annualizations of rate revenue, fuel and purchased power,
13 GMO capacity requirements, Iatan 2 cost allocations, certain other expenses, and a fuel
14 adjustment charge. The sections of Staff's Report relating to these issues were prepared by
15 Staff members in the Utility Operations Division and are based on their work and analysis.

16 **ENGINEERING REVIEWS**

17 Q. What engineering reviews have been performed?

18 A. Staff performed engineering reviews of the addition of a scrubber on Jeffery
19 Energy Center unit 2 and a Selective Catalytic Reduction (SCR) project on Sibley unit 3. The
20 reviews consisted of discussing relevant change orders and supporting documentation with
21 Company personnel to understand the reason for each change. Staff had no engineering
22 concerns with either. More detail is provided in the Rate Base section of the Cost of Service
23 Report.

1 **IN-SERVICE DETERMINATION**

2 Q. What in-service determinations has Staff made?

3 A. Sibley unit 3 was determined to be in-service in GMO's previous rate case
4 (ER-2009-0090). Staff has determined that the Jeffery unit 2 scrubber has met all required
5 criteria and is "fully operational and used for service." Support for this determination is
6 covered in the Rate Base section of the Cost of Service Report.

7 **JURISDICTIONAL ALLOCATIONS**

8 Q. What is Staff doing when it makes "jurisdictional allocations"?

9 A. With jurisdictional allocations Staff is allocating costs to jurisdictions that
10 benefit from the costs, where the costs are not specifically identifiable to any particular
11 jurisdiction. Because allocation of some of these costs is more rationally based on demand
12 and others are more rationally allocated on the basis of energy, different processes are used to
13 allocate demand-related and energy-related costs to the applicable jurisdictions. For GMO
14 those jurisdictions are: FERC and state (regulatory authorities), and wholesale and retail
15 (customer type). To rationally allocate certain costs that GMO incurs across these
16 jurisdictions, it is necessary to allocate those costs appropriately to those jurisdictions.
17 Development and application of these factors are more fully explained in the Jurisdictional
18 Allocations Section of the Cost of Service Report

19 **NORMALIZATION AND ANNUALIZATION ADJUSTMENTS TO REVENUE**

20 Q. Why is test year rate revenue adjusted?

21 A. The goal of a general rate case is to set rates based on the utility's ongoing cost
22 of service. Since a historical test year is used as the starting point for estimating that ongoing
23 cost of service, the Missouri test year rate revenues of the utility are adjusted to annualize and

Direct Testimony of
Curt Wells

1 weather normalize them to better estimate the revenue that the utility would have collected
2 during the test year on an annual, normal-weather basis, based on information "known and
3 measurable" at the end of the update period. Missouri retail rate revenues and kilowatt-hour
4 (kWh) usage are used to determine the difference between revenues that would be collected
5 with current rates and revenues that should be collected--revenue increase (or decrease)--that
6 results from this case, as well as the new rates. The two major categories of adjustments are
7 normalizations and annualizations.

8 Because new rates will be in effect until changed at some future date and a test year
9 may have events during it that affect test year revenues differently from the events of a
10 "normal" year, normalization adjustments are made to test year revenues to make the test year
11 revenues better represent revenues of a "normal" year. For example, each year has different
12 weather, but weather of multiple years can be averaged over time to determine a "normal"
13 weather year. Weather normalization adjustments to test year revenues are made to adjust the
14 weather impacts during the test year to better match the weather impacts on revenues during a
15 "normal weather year" Annualizations are adjustments that re-state test year results as if
16 conditions known at the end of the update period had existed throughout the entire test year.
17 An example of a revenue annualization is adjusting revenue for a rate change during the test
18 year. These adjustments are covered in the Rate Revenue section of the Cost of Service
19 Report's Income Statement.

20 **FUEL AND PURCHASED POWER**

21 Q. How did the Staff determine GMO's fuel and purchased power costs for cost
22 of service purposes?

Direct Testimony of
Curt Wells

1 A. Staff used the RealTime ® production cost model to perform an hour-by-hour
2 chronological simulation of GMO's generation and power purchases. Staff used the model to
3 determine GMO's annual variable cost of fuel and net purchased power energy costs and fuel
4 consumption necessary to economically match GMO's load within the operating constraints
5 of GMO's resources available to match that load.

6 Staff estimated the variable fuel and purchased power expense for GMO for the
7 updated test year ending June 30, 2010 with and without Iatan 2; and using estimated
8 December 31, 2010 fuel costs with Iatan 2.

9 Q. How were fuel and purchased power allocated between MPS and L&P?

10 A. Staff used a balancing methodology to allocate fuel and purchased power costs
11 between MPS and L&P. Staff developed this methodology in Case No. ER-2009-0090,
12 GMO's last rate case, using normalized hourly loads and the hourly output of the the
13 RealTime® production cost model (based on those hourly loads). That methodology was
14 included in that case in the Commission-approved Non-Unanimous Stipulation and
15 Agreement as the methodology for allocating fuel costs to MPS and L&P. This method
16 equitably distributes off-system sales revenue as well as fuel and purchased power expenses
17 between MPS and L&P.

18 These adjustments are covered in the Fuel and Purchased Power section of the Cost of
19 Service Report's Income Statement.

20 **CAPACITY REQUIREMENTS**

21 Q. What is Staff's position on capacity requirements for MPS?

22 A. GMO's South Harper site was designed to accommodate up to six 105 MW
23 combustion turbines (CTs). It is Staff's position that GMO (then known as Aquila, Inc.)

1 | should have built five 105 MW CTs at the South Harper site, rather than the three it actually
2 | built, given the information that was available to GMO through its resource planning process
3 | at the time GMO was deciding how it would meet its future capacity needs. Staff has thus
4 | included in its case for MPS the capital costs of two additional 105 megawatts (MW) CTs on
5 | the South Harper site that have not been built. In the Report they are referred to as South
6 | Harper Prudent Turbines 4 and 5. Staff did not include the capital and running costs of
7 | GMO's Crossroads power plant for reasons covered in detail in the Fuel and Purchased Power
8 | section of the Cost of Service Report's Income Statement.

9 | **IATAN 2 CAPACITY ALLOCATION**

10 | Q. How does Staff recommend the capacity of Iatan 2 be allocated between MPS
11 | and L&P?

12 | A. Staff recommends that the allocation of Iatan 2 should be 100 MW to L&P and
13 | 53 MW to MPS. This allocation results in both L&P and MPS receiving some of the Iatan 2
14 | base load capacity, and offsets L&P's 100 MW base load loss due to the expiration of the
15 | Nebraska Public Power District Purchase Power Agreement ending in May 2011.

16 | Support for this recommendation is provided in the Fuel and Purchased Power section
17 | of the Cost of Service Report's Income Statement.

18 | **OTHER EXPENSES**

19 | Q. What other expenses and matters did Operations Staff examine?

20 | A. Operations Staff examined demand-side cost recovery and prudence, the
21 | Company's low-income programs, and a transmission expenses and revenues tracker. Staff's
22 | findings and recommendations for these programs and the use of a transmission expense and

Direct Testimony of
Curt Wells

1 revenues tracker are provided in greater detail in the Expenses section of the Cost of Service
2 Report's Income Statement.

3 Q. What are Staff's conclusions regarding GMO's cost recovery for its demand-
4 side management programs?

5 A. Since its acquisition by Great Plains Energy, Inc., demand-side programs
6 consistent with the demand-side programs of Kansas City Power & Light Company (KCPL)
7 have been successfully implemented in the GMO service territory. Current accounting
8 treatment of GMO's demand-side programs' costs should be continued until the Commission
9 has rules in effect to implement the "Missouri Energy Efficiency Investment Act" (MEEIA).

10 Q. Did GMO's demand-side management account contain any evidence of
11 imprudence?

12 A. Staff discovered no evidence of imprudence regarding the level of costs
13 charged to the demand-side programs.

14 Q. What low-income programs has Staff reviewed?

15 A. GMO initiated an Economic Relief Pilot Program (ERPP) in September 2009
16 which provides a fixed credit to make the electric bill more affordable to low-income
17 customers. Fifty percent of the costs of the program are deferred until this present case. Staff
18 recommends the continuation of the ERPP program for the life of the pilot program, but
19 strongly recommends that the company acquire an independent third party evaluator of the
20 program. Until this task is accomplished, the Staff recommends not allowing the company to
21 recover the deferred portion of the cost of the program.

22 Staff also reviewed the Company's low-income weatherization program and
23 recommends that it continue its current funding as currently allocated between the

Direct Testimony of
Curt Wells

1 weatherization agencies. These funds have been underutilized due to a focus by the agencies
2 doing the weatherization on using American Recovery and Reinvestment Act (ARRA) time-
3 sensitive funding. Staff recommends that the unutilized low-income weatherization funds be
4 placed in an account with the Missouri State Environmental Improvement and Energy
5 Resources Authority (EIERA). Staff also recommends that GMO change their distribution
6 method for the weatherization funds from monthly direct reimbursement to the weatherization
7 agencies to an annual deposit of the funds to an EIERA account.

8 Q. What is Staff's position on the use of a transmission expenses tracker?

9 A. Staff recommends the Commission authorize GMO to use a transmission
10 expense and revenue tracker. Staff recommends the Company be authorized to use a
11 transmission expense and revenue tracker due to the historical growth in and current high
12 level of the Company's transmission expenses, the uncertainty in the levels of its future
13 transmission expenses and revenues, and because the Company has less control over the level
14 of transmission expenses the SPP assigns to it than the Company has over most of its other
15 expenses.

16 **FUEL ADJUSTMENT CHARGE**

17 Q. What is Staff's recommendation regarding GMO's fuel adjustment clause?

18 A. Staff recommends that the Company's FAC tariff be modified to: 1) change
19 the sharing mechanism from 95%/5% to 75%/25% to provide the Company with a more
20 appropriate incentive to keep its fuel and purchased power costs down, 2) include language
21 that the Base Energy Cost in the FAC be set equal to the Base Energy Cost in the test year
22 total revenue requirement, and 3) delete two FERC accounts now included in the definition of
23 Purchased Power Costs. Staff recommends that the Commission approve, with modifications,

1 the continuation of GMO's FAC. Support for these recommendations is provided in the Fuel
2 Adjustment Clause section of the Cost of Service Report.

3 **AREAS OF RESPONSIBILITY**

4 Q. Would you identify the work performed and Operations Division member who
5 contributed to the Staff's Cost of Service Report?

6 Service Report follows:

7	<u>Issue</u>	<u>Staff Witness</u>
8	Engineering Reviews	
9	Jeffery	David Elliott
10	Sibley	Shawn E. Lange
11	In-service Determination	
12	Jeffery Unit 2 Scrubber	David Elliott
13	Iatan 2 Cost Allocations	Lena M. Mantle
14	Jurisdictional Allocations	Alan J. Bax
15	Normal Weather	Seoungjoun Won
16	Weather Normalization	
17	Sales	Walt Cecil
18	Revenue	Curt Wells
19	Annualization for Rate Change	Curt Wells
20	Days Adjustment	
21	Sales	Walt Cecil
22	Revenue	Curt Wells
23	Large Customer Annualization/ Rate Switching	Curt Wells

Direct Testimony of
Curt Wells

1	Special Contracts and Other Customer Discounts	Curt Wells
2	Fuel and Purchased Power Expense	David Elliott
3	Spot Market Prices	Erin L. Maloney
4	Capacity Contract Prices	David W. Elliott
5	NSI	Walt Cecil
6	Losses	Alan J. Bax;
7	Planned and Forced Outages	David Elliott
8	Fuel and Purchased Power Allocations	Erin L. Maloney
9	Capacity Requirement	Lena M. Mantle
10	Demand Side Management	John A. Rogers
11		Hojong Kang
12	Transmission Tracker	Daniel I. Beck
13	Smart Grid Application	Randy Gross
14	Low-Income Programs	Gay Fred
15		Henry Warren
16	Fuel Adjustment Charge	John A. Rogers
17	Q. Does this conclude your direct testimony?	
18	A. Yes it does.	

CURT WELLS
TESTIMONY/REPORTS FILED
BEFORE
THE MISSOURI PUBLIC SERVICE COMMISSION

<u>Case/File Number</u>	<u>Company</u>	<u>Issue</u>
ER-2006-0314 Direct/ True-up Direct	Kansas City Power & Light Company	Calculation of Normal Weather, Revenue
ER-2006-0315 Direct/Rebuttal	Empire District Electric	Revenue
GR-2006-0387 Direct	ATMOS Energy Corporation	Calculation of Normal Weather
GR-2006-0422 Direct/Rebuttal/ Surrebuttal	Missouri Gas Energy	Calculation of Normal Weather
ER-2007-0002 Direct/Rebuttal	Union Electric d/b/a AmerenUE	Calculation of Normal Weather, Large Customer Annualization
GR-2007-0003 Direct	Union Electric d/b/a AmerenUE	Calculation of Normal Weather
ER-2007-0004 Direct/ Supplemental Direct	Aquila, Inc	Calculation of Normal Weather, Revenue
GR-2007-0208 Direct	Laclede Gas Company	Calculation of Normal Weather
ER-2007-0291 Direct/Rebuttal	Kansas City Power & Light Co.	Calculation of Normal Weather, Large Power Revenue
ER-2008-0093 Direct(Report)/ Surrebuttal True-up Direct	Empire District Electric	Revenue, Rate Design

HR-2008-0300 Direct(Report)	Trigen-Kansas City Energy Corp.	Rate Design
ER-2008-0318 Direct(Report)	Union Electric d/b/a AmerenUE	Revenue
ER-2009-0089 Direct	Kansas City Power & Light Co.	[Coordinator]
ER-2009-0090 Direct(Report)	KCP&L Greater Missouri Operations	Revenue, [Coordinator]
HR-2009-0092 Direct	KCP&L Steam Greater Missouri Operations	[Coordinator]
ER-2010-0036 Direct(Report)	Union Electric d/b/a AmerenUE	Revenue
ER-2010-0130 Direct(Report)	Empire District Electric	Revenue
ER-2010-0355	Kansas City Power & Light	[Coordinator]