

EXHIBIT

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Case No.: ER-2014-0370

DIRECT TESTIMONY

OF

LENA M. MANTLE

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Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2014-0370

**

**

Denotes Highly Confidential Information that has been redacted

April 16, 2015

OPC Exhibit No. 309-NP
Date 6-15-15 Reporter AT
File No. ER-2014-0370

NP

**16BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power &)
Light Company's Request for Authority to)
Implement a General Rate Increase for)
Electric Service.)

Case No. ER-2014-0370

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena Mantle, of lawful age and being first duly sworn, deposes and states:


1. My name is Lena Mantle. I am a Senior Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 16th day of April 2015.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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DIRECT TESTIMONY

OF

LENA M. MANTLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

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

2 A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson City,
3 Missouri 65102. I am a Senior Analyst for the Office of the Public Counsel ("OPC").

4 **Q. PLEASE DESCRIBE YOUR EXPERIENCE AND YOUR QUALIFICATIONS.**

5 A. I have been employed by OPC in my current position since August 2014. Prior to working
6 for the OPC, I worked for the Staff of the Missouri Public Service Commission ("Staff")
7 from August 1983 until I retired in December 2012. During the time that I was employed at
8 the Missouri Public Service Commission ("Commission"), I worked as an Economist,
9 Engineer, Engineering Supervisor and Manager of the Energy Department.

10 Attached as Schedule LMM-1 is a brief summary of my experience and a list of the
11 Commission cases in which I filed testimony, Commission rulemakings in which I
12 participated, and Staff reports to which I contributed. I am a Registered Professional
13 Engineer in the State of Missouri.

14 **SUMMARY AND RECOMMENDATIONS**

15 **Q. PLEASE PROVIDE A SUMMARY THIS TESTIMONY.**

16 A. In this case, Case No. ER-2014-0370, Kansas City Power & Light Company ("KCPL") has
17 requested that the Commission allow it to recover fuel costs above what is in permanent
18 rates and return any savings in fuel costs to its customers through a fuel adjustment clause

1 (“FAC”). This testimony provides the Commission the history of FACs in Missouri and
2 the reason why KPCL does not have an FAC while the other electric utilities in Missouri
3 have one.

4 This testimony explains how the request by KPCL for an FAC in this rate case is in
5 violation of a stipulation that KCPL and OPC, among other parties, entered into in 2005
6 and, therefore, should not be approved by the Commission. This testimony also shows that
7 KCPL did not meet the minimum filing requirements for requesting the establishment of an
8 FAC found in 4 CSR 240-3.161(2).

9 If the Commission determines that KCPL has not violated the stipulation, this
10 testimony provides the criteria which the Commission previously has applied to electric
11 utilities that have requested to establish FACs and proposes the criteria for the Commission
12 to consider in its determination of whether or not it should allow KCPL an FAC in this
13 case, Case No. ER-2014-0370. This testimony then explains how KCPL should not be
14 granted an FAC because it does not meet these criteria.

15 The testimony concludes with OPC’s recommendations regarding modifications to
16 the proposed FAC should the Commission allow KCPL to establish an FAC.

17 **Q. WOULD YOU PLEASE SUMMARIZE OPC’S RECOMMENDATIONS IN THIS**
18 **TESTIMONY?**

19 **A.** OPC makes the following recommendations:

1 1. Commission not grant KCPL an FAC because KCPL's request is in direct
2 violation with the *Stipulation and Agreement*¹ filed in Case No. EO-2005-0329, more
3 commonly known as the KCPL Regulatory Plan;

4 2. If the Commission determines that KCPL has not violated the Regulatory Plan, the
5 Commission should balance the following three criteria in determining whether or not to
6 grant KCPL an FAC:

7 A. An FAC should be granted to an electric utility only if it is necessary
8 to provide a utility with a sufficient opportunity to earn a fair return on
9 equity, which is measured by the following standards:

10 i. Past and expected changes in the costs and revenues proposed to
11 be included in the FAC are substantial enough to have a material
12 impact upon revenue requirement and the financial performance
13 of the electric utility between rate cases;

14 ii. Changes in the costs and revenues included are beyond the control
15 of management, where utility management has little influence over
16 experienced revenue or cost levels; and

17 iii. The costs and revenues included are volatile in amount, causing
18 significant swings in income and cash flows if not tracked.

19 B. An FAC should be granted to an electric utility only if the proposed
20 FAC is not harmful to ratepayers, which is measured by the following
21 standards:

22 iv. It does not shift an inappropriate amount of risk regarding the
23 electric utility's fuel and purchased power costs, including
24 transportation, to the customers; and

25 v. It does not create significant swings in the bills of the customers.

26 C. An FAC should be in the public interest.

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¹ Parties to this agreement were KCPL; Staff; OPC; Missouri Department of Natural Resources; Praxair, Inc.; Missouri Industrial Energy Consumers; Ford Motor Company; Aquila, Inc.; the Empire District

- 1 3. If the Commission determines that KCPL has not violated the KCPL Regulatory
2 Plan, the Commission should not grant KCPL an FAC because it has not met the criteria
3 for an FAC; and
- 4 4. If the Commission grants KCPL an FAC, it should make the following
5 modifications to the FAC proposed by KCPL:
- 6 A. KCPL's FAC should include a mechanism that requires KCPL to
7 absorb 50 percent of any cost increases/revenue decreases and allows
8 it to retain 50 percent of any cost savings/revenue increases;
9
- 10 B. The costs and revenues that are to be included in the FAC should be
11 approved by the Commission and explicitly identified along with the
12 FERC account and the resource code in which KCPL will record the
13 actual cost/revenue;
14
- 15 C. The types of costs/revenues that are included in KCPL's FAC should
16 not change until the next rate case;
17
- 18 D. The FAC should include no costs or revenues that KCPL is not
19 currently incurring or receiving and has not documented that it expects
20 to incur/receive before its next rate case other than insurance
21 recoveries, subrogation recoveries and settlement proceeds related to
22 costs and revenues included in the FAC;
23
- 24 E. The FAC tariff sheets should reflect accurately the accounts and
25 cost/revenue descriptions that are approved by the Commission;
26
- 27 F. KCPL's SO2 amortization should not be included in its FAC;
28
- 29 G. FAC costs and revenues should be allocated in the accumulation
30 period's actual net energy cost in a manner consistent with the
31 allocation methodology utilized to set permanent rates in this case; and
32
- 33 H. The recovery periods should be changed to October through
34 September and April through March with the corresponding
35 accumulation periods changed to January through June and July
36 through December respectively.

1 **HISTORY OF THE FUEL ADJUSTMENT CLAUSE**

2 **Q. WOULD YOU GIVE A BRIEF HISTORY OF THE FUEL ADJUSTMENT**
3 **CLAUSE IN MISSOURI?**

4 A. In 1979 the Missouri Supreme Court decided *Utility Consumer Council of Missouri, Inc. v.*
5 *P.S.C.*,² concluding that FAC surcharges were unlawful because they allowed rates to go
6 into effect without considering all relevant factors. The Court warned that “to permit such
7 a clause would lead to the erosion of the statutorily-mandated fixed rate system.” The
8 Court further explained, “If the legislature wishes to approve automatic adjustment clauses,
9 it can of course do so by amendment of the statutes and set up appropriate statutory checks,
10 safeguards, and mechanisms for public participation.”

11 **Q. HOW WERE FUEL COSTS HANDLED IN RATE CASES AFTER THIS**
12 **SUPREME COURT DECISION AND PRIOR TO THE PASSAGE OF SB 179³**
13 **WHICH ALLOWS THE COMMISSION TO GRANT AN FAC?**

14 A. During this time, electric utility fuel and purchased power costs were estimated through
15 fuel modeling and included in the determination of the electric utility’s revenue
16 requirement in general rate proceedings. In rate cases, this provided an incentive to the
17 electric utility to strive to include an accurate fuel cost estimate in revenue requirement so
18 that rates were set adequate to cover its fuel costs. Between rate cases, it provided
19 incentive to the utility to control fuel costs and, if the electric utility managed its activities
20 in a manner that allowed it to serve its customers reliably at a cost lower than what was
21 included in its revenue requirement in the last rate case, the savings were retained by the

² *State ex rel. Utility Consumers Council, Inc. v. P.S.C.*, 585 S.W.2d 41(MO. 1979).

1 electric utility. If costs were greater than the costs included in the revenue requirement, the
2 electric utility absorbed the increased costs. When the electric utility believed that it could
3 no longer absorb the increased costs, it asked the Commission for an increase in its rates.

4 **Q. WHEN DID THIS CHANGE?**

5 A. Senate Bill 179, which allows the electric utility to request an FAC, and the Commission to
6 grant or deny an FAC, was passed during the 2005 Session of the General Assembly and
7 became effective January 1, 2006. It authorizes investor-owned electric utilities to file
8 applications with the Commission requesting authority to make periodic rate adjustments
9 outside of general rate proceedings for their prudently-incurred fuel and purchased power
10 costs, including transportation.

11 After the enactment of SB 179, OPC worked diligently with Staff and other
12 stakeholders, including representatives from the electric utilities, to draft proposed rules for
13 the Commission's consideration to implement SB 179. The draft rule development process
14 included stakeholder meetings and compromise on the proposed wording of the draft rules.

15 In June 2006, the Commission submitted proposed rules to the Secretary of State which
16 were published in the July 17, 2006, Missouri Register. The Commission held seven public
17 hearings on its proposed rules in August and September of 2006. It issued its *Final Order*
18 *of Rulemaking* effective September 21, 2006. The rules became effective January 30, 2007.

19 **Q. WERE YOU INVOLVED IN THE STAKEHOLDER PROCESS THAT DRAFTED**
20 **FAC RULES FOR THE COMMISSION'S CONSIDERATION?**

³ Section 386.266, RSMo. 2010 Cum. Supp.

1 A. I attended and participated in all of the stakeholder meetings and some of the public
2 hearings. I was the Staff “scribe” at the meetings recording the compromise language that
3 the stakeholders developed. I also participated in drafting language for the stakeholders’
4 consideration in this process.

5 **Q. IN GENERAL, WHAT IS THE IMPACT OF THE COMMISSION GRANTING AN**
6 **FAC?**

7 A. An FAC removes the historical incentive to estimate accurately fuel costs in rate cases. No
8 longer is it crucial to have an accurate estimate of the cost of fuel, purchased power and
9 transportation in permanent rates because any difference between what is included in
10 permanent rates and what actually occurs is recovered through the FAC. In addition,
11 electric utilities with an FAC have little incentive, between rate cases, to reduce fuel and
12 purchased power costs since the utility is no longer able to retain all the savings that accrue
13 due to effective management of fuel and purchased power pricing. It also reduces the
14 incentive for the electric utility to reduce fuel and purchased power costs because virtually
15 all cost risk is borne by the ratepayer. The electric utility has the ability to recover any
16 increase in cost, and other parties – in an after-the-fact prudence review – have to prove the
17 utility acted imprudently.

18 In times of increasing fuel costs, the actual return on equity for an electric utility
19 with an FAC is higher than it would have been without an FAC because it can increase
20 revenues to recover costs between rate cases. In times of decreasing fuel costs, the electric
21 utility’s actual return on equity for an electric utility with an FAC is lower than it would
22 have been without an FAC because it must pass cost savings to customers.

1 **Q. HAS THE COMMISSION GRANTED THE OTHER INVESTOR-OWNED**
2 **ELECTRIC UTILITIES FUEL ADJUSTMENT CLAUSES?**

3 A. Yes. On July 3, 2006, two electric companies, Union Electric Company d/b/a AmerenUE
4 (“AmerenUE”) and Aquila, Inc. (“Aquila”) filed general rate increase cases (Case Nos. ER-
5 2007-0002 and ER-2007-0004 respectively), both of which included requests for an FAC.
6 In its May 17, 2007, *Report and Order* in Case No. ER-2007-0004, the Commission
7 granted Aquila an FAC, effective July 5, 2007. Less than a week later, on May 22, 2007,
8 the Commission denied AmerenUE’s request for an FAC. However, in AmerenUE’s next
9 rate case, Case No. ER-2008-0318, the Commission granted AmerenUE an FAC, effective
10 March 1, 2009. The Empire District Electric Company (“Empire”) requested and received
11 an FAC in Case No. ER-2008-0093, effective August 23, 2008. All three of these utilities⁴
12 continue to have FACs.

13 **Q. AS STAFF, DID YOU PARTICIPATE IN ANY OF THESE CASES WITH**
14 **RESPECT TO THE FAC?**

15 A. Yes, I participated in all of the cases in which the electric utilities requested establishment
16 and continuation of their FACs. I was the Staff FAC witness in many of the cases. As
17 Manager of the Energy Department, I participated in the determination of Staff’s position
18 regarding the FAC in all of the cases in which electric utilities requested establishment or
19 continuation of an FAC. Since my retirement from the Commission Staff, I have continued
20 as an FAC witness as a Senior Analyst for OPC.

⁴ Aquila, Inc. was subsequently acquired by Great Plains Energy Incorporated and is now known as KCP&L – Greater Missouri Operations Company. AmerenUE is now doing business as Ameren Missouri.

1 **Q. WHY DOES KCPL NOT HAVE AN FAC?**

2 A. At the time the Missouri Legislature was considering SB 179, KCPL was negotiating a
3 regulatory plan that would address the timeliness of the recovery of the costs and financial
4 considerations of KCPL's investment in Iatan 2 and other investments. The parties⁵
5 negotiated and reached an agreement and filed a *Stipulation and Agreement* in Case No.
6 EO-2005-0329, which the Commission approved on July 28, 2005.⁶ In this *Stipulation and*
7 *Agreement*, KCPL agreed, among other items, that prior to June 1, 2015, KCPL will not
8 seek to utilize any mechanism authorized in SB 179.⁷

9 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS OF KCPL'S REGULATORY**
10 **PLAN FOR STAFF?**

11 A. Yes, I did. I also attended most of the numerous informal meetings held prior to the
12 development of the Regulatory Plan in which many of the issues involved in KCPL's
13 proposed investment in Iatan 2 and other investments were discussed. I also participated in
14 the negotiations of the Regulatory Plan on behalf of Staff.

15 **IN REQUESTING AN FAC KCPL IS VIOLATING ITS REGULATORY PLAN**

16 **Q. HOW IS KCPL VIOLATING ITS REGULATORY PLAN BY ASKING FOR AN**
17 **FAC?**

⁵ Parties to this agreement were Staff; OPC; Missouri Department of Natural Resources; Praxair, Inc.; Missouri Industrial Energy Consumers; Ford Motor Company; Aquila, Inc.; the Empire District Electric Company; Missouri Joint Municipal Electric Utility Commission; Jackson County, Missouri; City of Kansas City, Missouri; and KCPL.

⁶ EFIS item 185.

⁷ EFIS item 1, page 7.

1 A. As stated above, in its regulatory plan, KCPL agreed that it would not *seek* an FAC prior to
2 June 1, 2015. KCPL filed this case, Case No. ER-2014-0370, on October 30, 2014 seeking
3 an FAC – eight (8) months prior to June 1, 2015. KPCL’s Regulatory Plan was extensive
4 and contained many provisions regarding, not just Iatan 2 plant investment, but also
5 provisions regarding future rate case structure, customer service standards, and demand-
6 side programs among many other components. As stated in the *Stipulation and*
7 *Agreement*,⁸ the provisions of the agreement were interdependent. SB 179 was not law at
8 the time of the negotiations, so no one knew if an FAC would become a legal possibility.
9 The inclusion of this provision that would keep KCPL from requesting an FAC until June
10 1, 2015 was a risk that KCPL chose to take in exchange for other aspects of the Regulatory
11 Plan. And likewise, the inclusion of this provision, effective for the entire period
12 negotiated, was an integral part of the other parties’ decisions to agree to KCPL’s
13 Regulatory Plan. Now, almost ten years after the agreement was signed, and after many of
14 the provisions regarding cost recovery have been met, KCPL is asking the Commission to
15 allow it to violate the *Stipulation and Agreement* and deprive the parties of the full benefit
16 of its bargain.

17 **Q. WHAT IS OPC’S RECOMMENDATION REGARDING THE TIMING OF KCPL’S**
18 **REQUEST FOR AN FAC?**

19 A. Because KCPL requested an FAC prior to June 1, 2015, the Commission should reject
20 KCPL’s request for an establishment of an FAC in this case and defer the matter until the
21 next general rate proceeding filed by KCPL.

⁸ Page 53

1 **KCPL HAS NOT MET THE MINIMUM FILING REQUIREMENTS FOR**
2 **ESTABLISHMENT OF AN FAC**

3 **Q. DID KCPL MEET THE FAC MINIMUM FILING REQUIREMENTS FOR THE**
4 **ESTABLISHMENT OF AN FAC FOUND IN 4 CSR 240-3.161(2)?**

5 A. No. KCPL did not provide *complete explanations* of the costs and revenues that KCPL is
6 requesting be included in its FAC as required by 4 CSR 240-3.161(2)(H) and (I).⁹

7 **Q. WHAT ARE THE REQUIREMENTS OF 4 CSR 240-3.161(2)(H) AND (I)?**

8 A. Section (2) of 4 CSR 240-3.161 provides the supporting information that the electric utility
9 is required to file when it files to establish a rate adjustment mechanism ("RAM"). A
10 RAM is defined as either an FAC or an interim energy charge. Specifically, subsections
11 (H) and (I) are as follows:

12 (H) A complete explanation of all the costs that shall be considered for
13 recovery under the proposed RAM and the specific account used for each
14 cost item on the electric utility's books and records;

15
16 (I) A complete explanation of all the revenues that shall be considered in
17 the determination of the amount eligible for recovery under the proposed
18 RAM and the specific account where each such revenue item is recorded
19 on the electric utility's books and records;

20 **Q. WHY IS IT IMPORTANT FOR THE COMMISSION TO HAVE A COMPLETE**
21 **EXPLANATION OF THE COSTS AND REVENUES KCPL IS REQUESTING BE**
22 **INCLUDED IN ITS FAC?**

23 A. This detail is necessary for the Commission to make informed decisions regarding whether
24 KCPL should be allowed an FAC and, if so, what costs and revenues should be included.

⁹ The fact that OPC does not mention a minimum filing requirement does not mean that OPC has made a determination that the minimum filing requirements were met.

1 **Q. CAN YOU GIVE AN EXAMPLE OF THE CONFUSION CREATED WHEN A**
2 **COMPLETE EXPLANATION IS NOT PROVIDED?**

3 A. Yes. In his direct testimony, Tim M. Rush provided, to meet this requirement, explanations
4 of the costs and revenues that KCPL is requesting be included in its FAC in his Schedule
5 TMR-2. However, these explanations are very limited. For example, Mr. Rush describes
6 the costs in Account 501300 as "NL Additives" and explains that "NL" stands for Native
7 Load.

8 **Q. HOW DO YOU KNOW THAT THIS IS A LIMITED EXPLANATION?**

9 A. The exemplar tariff sheets provided in Mr. Rush's testimony provide that Federal Energy
10 Regulatory Commission ("FERC") Account 501¹⁰ costs including "consumable costs
11 related to Air Quality Control Systems (AQCS) operation, such as ammonia, lime,
12 limestone, powder activated carbon, propane, sodium bicarbonate, sulfur, trona, urea, or
13 other consumables which perform similar functions" be included in KCPL's proposed
14 FAC.

15 **Q. DO MR. RUSH'S EXPLANATION AND THE EXEMPLAR TARIFF SHEETS**
16 **TOGETHER GIVE A COMPLETE EXPLANATION?**

17 A. No, they do not. KCPL's responses to Staff's data request 384 and OPC's data request
18 8003 shows that these consumables are recorded in Account 501300 and give the resource
19 codes that KCPL records these cost in. However, in his list of consumables used by KPCL

¹⁰ KCPL adds three digit subaccounts to the FERC accounts. For example, costs recorded in KCPL account 501300 are in FERC account 501 and KCPL adds a subaccount number of 300. Therefore all KCPL accounts with 501XXX are recorded in FERC account 501. In addition, KPCL may also use four digit

1 generation plants, KCPL witness Wm. Edward Blunk does not include all of the additives
2 included in the FAC exemplar tariff sheet.

3 **Q. WHAT CONSUMABLES WOULD THE COMMISSION BE ALLOWING IN**
4 **KCPL'S FAC IF IT APPROVED THE FAC PROPOSED BY KCPL?**

5 A. I do not know, and neither would the Commission. This is an example of the problem of
6 not having a complete explanation of the costs and revenues to be included in KCPL's
7 proposed FAC.

8 **CRITERIA TO BE USED IN ESTABLISHMENT OF FACS**

9 **Q. IF THE COMMISSION DETERMINES THAT KCPL IS NOT VIOLATING ITS**
10 **REGULATORY PLAN, WHAT CRITERIA IS OPC RECOMMENDING THAT**
11 **THE COMMISSION UTILIZE TO DETERMINE IF IT SHOULD ALLOW KCPL**
12 **AN FAC?**

13 A. OPC recommends that the Commission balance the following three criteria:

14 A. An FAC should be granted to an electric utility only if it is necessary
15 to provide the utility with a sufficient opportunity to earn a fair return
16 on equity, which is measured by the following standards:

- 17
18 i. Past and expected changes in the costs and revenues proposed to
19 be included in the FAC are substantial enough to have a material
20 impact upon revenue requirement and the financial performance
21 of the electric utility between rate cases;
22
23 ii. Changes in the costs and revenues included are beyond the control
24 of management, where utility management has little influence over
25 experienced revenue or cost levels; and
26

resource codes and/or departments within each six digit KCPL accounts to further identify costs and revenues.

- 1 iii. The costs and revenues included are volatile in amount, causing
2 significant swings in income and cash flows if not tracked.
3
4 B. An FAC should be granted to an electric utility only if the proposed
5 FAC is not harmful to ratepayers, which is measured by the following
6 standards:
7
8 iv. It does not shift an inappropriate amount of risk regarding the
9 electric utility's fuel and purchased power costs, including
10 transportation, to the customers; and
11
12 v. It does not create significant swings in the bills of the customers.
13
14 C. An FAC should be in the public interest.
15

16 **Q. WOULD YOU SUMMARIZE THE CRITERIA USED IN PAST CASES WHERE**
17 **FACS WERE ESTABLISHED FOR MISSOURI ELECTRIC UTILITIES?**

18 A. In its May 17, 2007, *Report and Order*¹¹ in the Aquila rate case, Case No. ER-2007-0004,
19 the Commission stated that the statute did not provide specific guidance on when a fuel
20 adjustment clause should be approved.¹² Therefore, based on the testimony provided in
21 Case No. ER-2007-0047, it found the following criteria reasonable:

- 22 ... a cost adjustment mechanism should only be used for utility costs that
23 meet the following three qualifications:
24
25 1. They represent a significant portion of a utility's costs;
26
27 2. they fluctuate significantly; and
28
29 3. the costs are outside the utility's control.
30

¹¹ EFIS item 363, page 21.

¹² Also stated in *Commission Report and Order* in Case No. ER-2008-0318, EFIS item 589, page 59.

1 In its May 22, 2007, *Report and Order*¹³ in Case No. ER-2007-0002, the case in which the
2 Commission did not allow AmerenUE to establish an FAC, the Commission applied the
3 following similar criteria:

4 ... a cost or revenue change should be tracked and recovered through a
5 fuel adjustment clause only if that cost or revenue change is:

- 6
- 7 1. Substantial enough to have a material impact upon revenue
8 requirements and the financial performance of the business between rate
9 cases;
- 10
- 11 2. beyond the control of management, where utility management has
12 little influence over experienced revenue or cost levels; and
- 13
- 14 3. volatile in amount, causing significant swings in income and cash
15 flows if not tracked.
- 16

17 The Commission used these same three criteria in its *Report and Order*¹⁴ regarding the
18 establishment of an FAC for Empire in Case No. ER-2008-0093. These three criteria were
19 used by the Commission again when the Commission granted AmerenUE an FAC in Case
20 No. ER-2008-0318.¹⁵ In its *Report and Order*¹⁶ in the AmerenUE case, Case No. ER-2008-
21 0318, the Commission summarized these criteria as follows:

22 Section 386.266.4(1) RSMo (Supp. 2008) requires that any fuel
23 adjustment charge approved by the Commission must be “reasonably
24 designed to provide the utility with a sufficient opportunity to earn a fair
25 return on equity”. While that statutory requirement specifically applies to
26 the design of a fuel adjustment clause rather than the need to implement
27 such a clause, it also states a good standard by which the Commission can
28 measure the need for such a clause. In a sense, the need to provide a utility
29 with a sufficient opportunity to earn a fair return on equity is just a
30 summation of the end goal of the previously described three-part test.

¹³ EFIS item 905, page 21.

¹⁴ EFIS item 295, page 37.

¹⁵ EFIS item 589, page 69.

¹⁶ EFIS item 589, page 64.

1 Q. DID YOU FIND ANY CRITERIA REGARDING THE IMPACT OF AN FAC ON
2 THE ELECTRIC UTILITY'S CUSTOMERS IN THESE ORDERS?

3 A. No, I did not. The criteria relied on in the past for establishment of FACs only considered
4 the electric utility, its costs, and its ability to earn a return.

5 Q. SHOULD THERE BE CRITERIA REGARDING THE IMPACT OF AN FAC ON
6 THE CUSTOMERS?

7 A. Yes, there should be. My counsel advises me that case law provides that it is the purpose
8 of the Commission to protect ratepayers.¹⁷ OPC recognizes the importance to customers of
9 having a healthy electric utility. However, in light of the case law that states that it is the
10 role of the Commission to protect the ratepayers, OPC recommends that the Commission
11 also consider the impact that an FAC would have on the electric utility's customers when
12 determining whether or not to grant an FAC. If it only considers the impact on the electric
13 utility, the Commission will overlook impermissibly the impact of granting an FAC on the
14 customer.

¹⁷ The primary purpose of the Commission is to serve and protect ratepayers. State ex rel. Capital City Water Co. v. P.S.C., 850 SW2d 903 (Mo. App. W.D. 1993); The protection given the utility "is merely incidental." State ex rel. Electric Co. of Missouri v. Atkinson, 204 S.W. 897 (Mo. 1918); The Commission's purpose is to protect the consumer against the natural monopoly of the public utility, generally the sole provider of a public necessity. May Dep't Stores Co. v. Union Electric Light & Power Co., 107 S.W.2d 41, 48 (Mo. 1937); The "dominant thought and purpose" of the Commission "is the protection of the public . . . the protection given the utility is merely incidental," State ex rel. Crown Coach Co. v. P.S.C., 179 S.W.2d 123, 126 (Mo. 1944); The question of a just and reasonable rate cannot be determined in a factual vacuum, but must be shown to be just and reasonable by the facts showing its effect on the company and the customer. State ex rel. Val Sewage Co. v. P.S.C., 515 S.W.2d 845 (Mo. App. 1974); In 1934 the Supreme Court of the State of Missouri concluded that the "whole purpose" of public utility regulation in Missouri is to protect the public. State ex rel. City of St. Louis v. P.S.C., 73 S.W.2d 393 (Mo. 1934).

1 **Q. WHAT ARE THE CRITERIA THAT THE COMMISSION SHOULD USE TO**
2 **DETERMINE IF IT SHOULD GRANT KCPL AN FAC?**

3 **A.** OPC recommends that the Commission balance the following three criteria:

4 1. An FAC should be granted to an electric utility only if it is necessary
5 to provide the utility with a sufficient opportunity to earn a fair return on
6 equity which is measured by the following standards:

7
8 i. Past and expected changes in the costs and revenues proposed to
9 be included in the FAC are substantial enough to have a material
10 impact upon revenue requirement and the financial performance
11 of the electric utility between rate cases;

12
13 ii. Changes in the costs and revenues included are beyond the control
14 of management, where utility management has little influence over
15 experienced revenue or cost levels; and

16
17 iii. The costs and revenues included are volatile in amount, causing
18 significant swings in income and cash flows if not tracked.

19
20 2. An FAC should be granted to an electric utility only if the proposed
21 FAC is not harmful to ratepayers, which is measured by the following
22 standards:

23
24 i. It does not shift an inappropriate amount of risk regarding the
25 electric utility's fuel and purchased power costs, including
26 transportation, to the customers; and

27
28 ii. It does not create significant swings in the bills of the customers.

29
30 3. An FAC should only be approved if it is in the public interest.
31

32 **Q. WHY SHOULD THE EMPHASIS OF THE STANDARDS IN THE FIRST**
33 **CRITERION BE CHANGED FROM "COSTS AND REVENUES" TO "CHANGES**
34 **IN THE COSTS AND REVENUES"?**

1 A. It is the magnitude of changes in the costs and revenues that impact the earnings of the
2 electric utility. A steady cost or revenue, regardless of its magnitude, does not affect the
3 earnings.

4 **KCPL DOES NOT MEET THE CRITERIA TO BE GRANTED AN FAC**

5 **Q. DOES KPCL'S FILING AND PROPOSED FAC MEET THE CRITERIA TO BE**
6 **GRANTED AN FAC?**

7 A. No, it does not. For this reason, if the Commission finds that KPCL has not violated the
8 Regulatory Plan agreement, OPC recommends that the Commission deny KCPL's request
9 for an FAC.

10 **Q. HAS KCPL SHOWN THAT AN FAC IS NECESSARY TO PROVIDE IT A**
11 **SUFFICIENT OPPORTUNITY TO EARN A FAIR RETURN ON EQUITY?**

12 A. It has not. First, no KCPL witness provided testimony as to what its return on equity
13 ("ROE") would have been had KCPL had an FAC over the last five years. OPC agrees
14 that, all other things being equal, the presence of an FAC would have resulted in a higher
15 ROE for KCPL because it would have had additional revenue during that time period.
16 However, the criterion is not whether or not changes in the costs and revenues in the FAC
17 would have an impact on ROE, but whether or not these changes would have a "material"
18 impact. KPCL could have earned a higher ROE if it had any of the numerous special
19 ratemaking treatments that KCPL is requesting in this case. It is also true that KCPL would
20 have had a higher ROE since the last rate case if rates had been set higher or its costs had
21 been lower.

1 Secondly, KCPL has not identified the specific costs and revenues that it is
2 proposing be included in its FAC. It has provided the Commission limited descriptions --
3 not the complete explanations required by Commission rule 4 CSR 240-3.161. From data
4 request responses and its own direct testimony, it has shown that its proposal may include
5 costs that are constant¹⁸ and costs that KCPL does not incur.¹⁹ FACs in Missouri are
6 designed to recover the difference between costs included in permanent rates and the actual
7 costs incurred. Fixed costs do not change rapidly, so they will not change ROE. In the
8 same way, changes in costs that KCPL does not incur cannot affect its ROE.

9 **Q. IS THE LIST OF COSTS AND REVENUES IN THE DIRECT TESTIMONY OF**
10 **KCPL WITNESS TIM M. RUSH²⁰ A COMPLETE LIST OF THE COSTS AND**
11 **REVENUES KPCL IS REQUESTING BE INCLUDED IN ITS FAC?**

12 A. It is hard to tell. The list of costs and revenues that KCPL is proposing be included in direct
13 testimony of KCPL witness Tim M. Rush is different from what is in the exemplar tariff
14 sheets provided by KCPL. In addition, KCPL's response to data requests regarding the
15 costs and revenues to be included in the FAC is different from both the testimony and the
16 proposed tariff sheets. A table of the costs and revenues identified in testimony, data
17 requests and the exemplar tariff sheets is attached to this testimony as Schedule LMM-2.

¹⁸ For example, KPCL's response to data requests regarding what charges would be included in its FAC includes gas reservation fees which KPCL witness Wm. Edward Blunk states on page 9 of his direct testimony are fixed costs.

¹⁹ For example, the exemplar tariff sheets include costs related to Air Quality Control system operation in FERC account 501. KCPL witness Wm. Edward Blunk, in his direct testimony, describes fuel additives and adders included in the price of fuel. His list does not include all of the additives provided for in the FAC exemplar tariff sheet.

²⁰ Schedule TMR-2

1 Some of the costs and revenues identified by the three sources are the same. Some sources
2 have the same account number but different descriptions of the cost or revenue. Some have
3 costs or revenues that are not identified in the other sources. It is unclear exactly what costs
4 KCPL is requesting be included in its FAC.

5 **Q. WHY IS IT NECESSARY TO IDENTIFY THE SPECIFIC COSTS AND**
6 **REVENUES THAT KCPL IS PROPOSING BE INCLUDED IN ITS FAC TO MEET**
7 **THIS CRITERION?**

8 **A.** Without an identification of all the costs and revenues that KPCL is requesting be included
9 in its FAC, there is no way to know if past and expected changes in the costs and revenues
10 proposed to be included in the FAC are substantial enough to have a material impact upon
11 revenue requirement and the financial performance of the electric utility between rate
12 cases. It also helps ensure that only cost types authorized by the Commission are included
13 in the FAC.

14 **Q. MR. RUSH PROVIDES A CHART IN HIS DIRECT TESTIMONY²¹**
15 **PURPORTING TO SHOW THAT OFF-SYSTEM SALES REVENUE HAVE**
16 **CHANGED ACROSS TIME. DOES THIS MEET THE CRITERION LISTED**
17 **ABOVE?**

18 **A.** No, it does not. While OPC does not have any reason to believe that this chart is not
19 accurate, this chart should not be used to determine whether or not KCPL should have an
20 FAC for at least three reasons. First, and most importantly, § 386.266 RSMo. does not

²¹ Pages 10 and 11.

1 provide for an off-system sales adjustment mechanism. Section 386.266.1 RSMo. expressly
2 provides for an “interim energy charge or periodic rate adjustments outside of general rate
3 proceedings to reflect increases and decreases in its prudently incurred fuel and purchased-
4 power costs, including transportation.” The fact that the FACs previously authorized by
5 this Commission have provided for off-system sales revenues to flow through those FACs
6 in order to offset increases in fuel costs with additional revenues does not make it
7 appropriate to consider fluctuations in off-system sales revenues in an analysis of whether
8 or not an FAC is needed.

9 Secondly, Mr. Rush’s chart shows gross off-system sales revenue; it does not take
10 into account the cost to KCPL to make these off-system sales. The critical information is
11 the off-system sales margin. If the reduction in off-system sales is due to a reduction in the
12 amount of energy sold, there should also be a reduction in the costs to make the sales.

13 Finally, the off-system sales shown in this chart include firm off-system sales,
14 including sales to municipal customers. The revenues from these contracts would not be
15 included in the FAC proposed by KCPL and the costs to provide service to these customers
16 would be excluded from the FAC when the allocation factor is applied.

17 **Q. WHAT WAS KPCL’S OFF-SYSTEM SALES MARGIN FOR THE TIME PERIOD**
18 **SHOWN IN MR. RUSH’S GRAPH?**

19 **A.** I have requested this information from KPCL in a data request and just received a response.
20 The response includes numerous spreadsheets that will take time to review. However,
21 KCPL’s response to Staff data request 437 shows that the KCPL fuel model estimated
22 normalized off-system sales revenue for 2014 of ** ** million, and the cost to make

1 those sales of ** ** million resulting in a margin of ** ** million²² in 2014. This
2 is significantly different from the magnitude shown in the Off-System Sales chart shown in
3 Mr. Rush's testimony that ranges from \$159 million to \$244 million a year.

4 **Q. SHOULD THE COMMISSION USE THE CHART SHOWING FUEL,**
5 **PURCHASED POWER AND NET FUEL COSTS ON PAGE 11 OF MR. RUSH'S**
6 **DIRECT TESTIMONY IN DETERMINING WHETHER OR NOT KCPL SHOULD**
7 **BE GRANTED AN FAC?**

8 **A.** No, it should not. The Commission should be cautious about using this graph to make its
9 determination. The costs shown in this graph are more than the fuel and purchased power
10 costs to meet native load. Fuel and purchased power costs to make off-system sales also
11 are included. Therefore, it is not representative of the costs to provide energy to KCPL's
12 retail customers who would be paying the FAC charge.

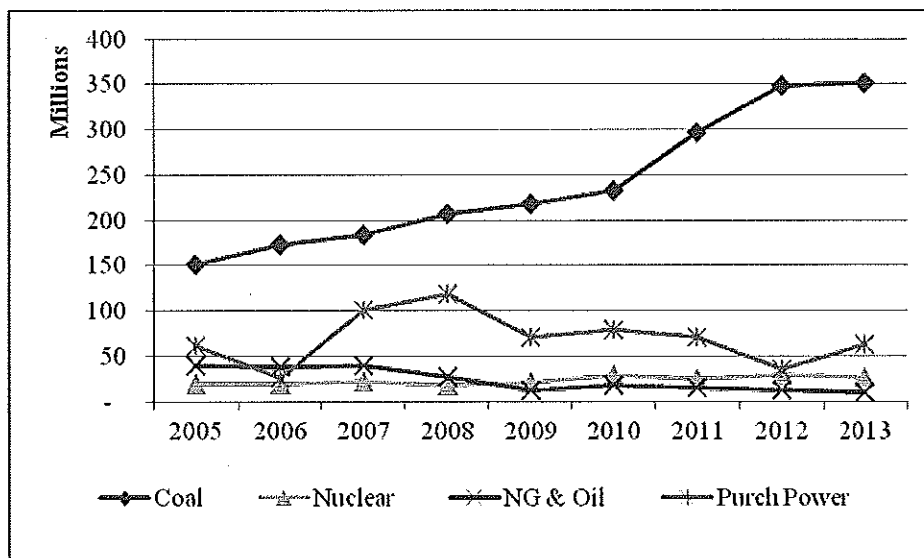
13 In addition, even though this graph is titled "Fuel, PP and Net Fuel Costs," it
14 contains much more than fuel and purchased power costs and gives no information
15 regarding which of the many costs included is driving the changes from year to year. Each
16 data point includes emission allowance amortization, dispatch and control costs, reliability
17 planning costs, transmission costs, Regional Transmission Organization ("RTO") costs and
18 Federal Energy Regulatory Commission ("FERC") and North America Reliability Council
19 ("NERC") fees.

20 To get an understanding of the magnitude and variability of fuel and purchased
21 power costs, I created Graph 1 provided below using the only the fuel and purchased power

²² This includes firm and non-firm off-system sales including sales to municipal customers. KCPL proposes

1 data Mr. Rush used to create his graph. The graph below shows just the costs in the fuel
2 and purchased power accounts that Mr. Rush used in his direct testimony for 2005 through
3 2013.

4 Graph 1
5 KCPL Fuel and Purchase Power Costs



6
7 **Q. DOES THIS GRAPH SHOW THAT THESE COSTS ARE VOLATILE?**

8 **A.** No, it does not. It does show that coal costs increased until 2012 and stayed constant in
9 2013. Important in understanding this rise in coal costs is that Iatan 2 went into service in
10 2012 which resulted in higher coal costs and that, since Iatan 2 went into service in 2012,
11 coal costs have been stable. It also shows little variability in nuclear, natural gas and oil
12 (NG & Oil) costs over the entire time horizon. The one cost that has varied the most is the
13 cost of purchased power, and it has been fairly stable since 2009. I want to emphasize
14 again that this is the cost for both native load and off-system sales. The cost to make off-

that revenues and costs from its municipal customers not be included in its FAC.

1 system sales should be the marginal cost, or highest cost energy, which is typically natural
2 gas generation or purchased power. Therefore, the variability in the cost of purchased
3 power shown in the graph may be due to variability of off-system sales, if the power
4 purchased was to make off-system sales. If the variability of purchased power is due to off-
5 system sales, the variability of purchased power should not be used in the determination of
6 whether or not an FAC should be granted to KCPL.

7 **Q. COULD THERE BE OTHER REASONS FOR THE COAL COST TO INCREASE**
8 **AND THEN LEVEL OFF?**

9 A. Yes, there may be. There are a number of different types of costs included in “coal
10 costs.” Schedule LMM-2 shows a listing compiled from different sources. Changes in
11 any of these types of costs would be reflected in the total cost shown in Mr.
12 Rush’s chart. Schedule LMM-3 is KCPL’s response to an OPC data request regarding
13 increases in the “coal” costs. This response provides that much of the increase in
14 “coal” costs was due to increases in coal freight rates. This type of additional
15 information on the various cost types and the reasons for changes in these cost types is
16 needed to determine which of the costs are causing the change in this total “cost of coal”
17 and which costs should be included in an FAC.

18 **Q. ARE THE GRAPHS SHOWN IN SCHEDULES WEB-3 THROUGH WEB-6 OF**
19 **KPCL WITNESS WM. EDWARD BLUNK REPRESENTATIVE OF THE**
20 **VOLATILITY IN FUEL PRICES OF KCPL?**

1 A. No, they are not. These are graphs of the spot market prices for coal, natural gas and oil.
2 Mr. Blunk also provides testimony that KCPL actually purchases very little of the fuel that
3 it uses at spot market prices.

4 **Q. DID KCPL MEET THE STANDARD THAT CHANGES IN THE COSTS AND**
5 **REVENUES INCLUDED ARE BEYOND THE CONTROL OF MANAGEMENT,**
6 **WHERE UTILITY MANAGEMENT HAS LITTLE INFLUENCE OVER**
7 **EXPERIENCED REVENUE OR COST LEVELS?**

8 A. In its direct testimony, KCPL states that it cannot control the market fundamentals for
9 fuel.²³ OPC agrees with that statement. However, while KCPL does not have control over
10 market prices, KCPL does have control over the contract prices that it enters into, the
11 choices of the timing of such purchases, and the maintenance necessary for efficient power
12 generation.

13 **Q. MOVING TO THE SECOND CRITERIA, HAS KCPL SHOWN THAT ITS**
14 **PROPOSED FAC DOES NOT SHIFT AN INAPPROPRIATE AMOUNT OF RISK**
15 **REGARDING ITS ELECTRIC UTILITY'S FUEL AND PURCHASED POWER**
16 **COSTS, INCLUDING TRANSPORTATION, TO ITS CUSTOMERS?**

17 A. No, it has not. In fact, the FAC proposed by KCPL shifts all of the risk of changes in the
18 costs and revenues that it proposes flow through the FAC to its customers. Its proposed
19 FAC leaves none of the risk of fuel and purchased power costs including transportation
20 with KCPL. KCPL seems to ignore the fact that every one of KCPL's residential, small
21 business and commercial and industrial customers are facing the same conditions that

1 KCPL claims – fluctuating and uncertain costs – and an FAC will increase the fluctuation
2 and uncertainty of electric costs for customers.

3 The Commission should not determine whether or not KCPL should be granted an
4 FAC without considering the point of view of the ratepayers. In order to balance the
5 interests of the customers, the Commission should focus on ensuring rate affordability and
6 fairness for consumers. The specific economic considerations KPCL’s customers are
7 currently facing should be balanced with KCPL’s interest in determining whether an FAC
8 should be granted.

9 KCPL has in the recent past received a large number of concessions including
10 regular rate increases, trackers and other rate-making mechanisms, mostly as a part of the
11 Regulatory Plan, which have reduced the risk that KCPL has faced. The customers, on the
12 other hand, have seen ever-increasing electric bills in a rough economic time.

13 Now, at the end of the Regulatory Plan, KPCL is requesting a new regulatory
14 mechanism. Risk from the investors' standpoint decreases with the implementation of each
15 new regulatory mechanism because investors have been given even greater assurance of
16 revenue and cash flow - an assurance that non-regulated businesses cannot offer their
17 investors and a risk that residential customers would be required to absorb.

18 **Q. WOULD THE FAC PROPOSED BY KCPL CREATE SIGNIFICANT SWINGS IN**
19 **THE BILLS OF CUSTOMERS?**

20 **A.** It could. An FAC would create swings in the bills of customers. KCPL’s proposal of
21 shifting all of the cost risk to customers would result in greater swings in the customers’

²³ Direct testimony of Wm. Edward Blunk, page 23

1 bills. In addition, KCPL's request to include costs other than fuel and purchased power
2 costs, including transportation in its FAC, shifts even more risks to the customers and
3 increases the potential for significant swings in the customers' bills.

4 **Q. WHAT COSTS IS KPCL PROPOSING TO BE INCLUDED THAT ARE NOT**
5 **FUEL AND PURCHASED POWER COSTS OR TRANSPORTATION COSTS?**

6 A. This is hard to determine since KPCL did not provide a complete explanation of all costs
7 and revenues that it is requesting be included in its FAC. From what it has provided, KCPL
8 is requesting the inclusion of the following costs that are not fuel and purchased power
9 costs or transportation costs: FERC assessment fees, NERC fees, Southwest Power Pool
10 ("SPP") administration fees, and SPP charges related to transmission projects. This is not
11 an exhaustive list and it could be changed if, and when, complete explanations of all the
12 costs and revenues are provided.

13 **Q. SHOULD KCPL HAVE PROVIDED A COMPLETE EXPLANATION OF EACH**
14 **OF THE COSTS AND REVENUES THAT IT IS REQUESTING BE INCLUDED IN**
15 **ITS FAC?**

16 A. Yes, it should have. *Complete explanations* of the costs and revenues that KCPL is
17 requesting be included in its FAC are required by 4 CSR 240-3.161(2)(H) and (I). In
18 response to this minimum filing requirement, KCPL witness Tim M. Rush includes, in his
19 Schedule TMR-2 attached to his direct testimony, a list of costs and revenues that KCPL is
20 requesting be included in its FAC to meet these requirement. These descriptions are
21 reproduced in the previously mentioned Schedule LMM-2. However, the descriptions are
22 short and sometimes cryptic (e.g., Account 565027 Trans OP Trans by Other Demand)

1 falling short of the rule requirement for a *complete* explanation of each cost and revenue
2 that KCPL is requesting be included in its FAC.

3 **Q. DID OPC REQUEST A MORE DETAILED EXPLANATION?**

4 A. Yes, it did in its data requests 8001 and 8002. KCPL's response was to spell out some of
5 the abbreviations and acronyms used in the description provided in Mr. Rush's testimony.
6 For example, the more complete explanation of "Trans OP Trans by Other Demand" was
7 "Transmission Operations-Transmission by Other Demand."

8 **Q. FINALLY, DOES KCPL'S PROPOSED FAC MEET THE CRITERION THAT IT
9 IS IN THE PUBLIC INTEREST?**

10 A. No, it does not. The FAC proposed by KCPL is in the interest of KCPL and its
11 shareholders. However, public interest is much broader than this. KCPL's proposed FAC
12 would impact hundreds of thousands of businesses and residential customers. KCPL's
13 proposed FAC does not take into account the impact on the customers or the economy of
14 KCPL's service territory. Business and residential customers, just like KCPL, are impacted
15 by fluctuating costs, and an FAC increases the variability of their electric costs. Every
16 dollar that goes to KCPL is a dollar that cannot be spent on other goods and services. An
17 FAC is likely to increase the dollars going to KCPL and decrease the dollars available to be
18 spent by its customers for other goods and services. KCPL has not shown that an FAC is
19 vital to maintain its financial integrity. Therefore, given the impact on the customers and
20 the general public, KCPL's request for an FAC is not in the public interest.

21 In addition, the FAC proposed by KCPL is not in the public interest because it is
22 not transparent. KCPL has not provided a comprehensive list of costs and revenues that

1 would be included as shown in Schedule LMM-2. In addition to not giving a
2 comprehensive list, KCPL has not provided a complete explanation of the costs and
3 revenues that it is proposing be included as required by Commission rule. It has included
4 costs that it does not incur. It has included costs that are fixed. It included costs that are
5 not fuel and purchased power costs or transportation costs. All of this can be determined
6 only through many hours of review of testimony and data request responses. This lack of
7 transparency will hamper the prudence review process. KCPL has stated that it does not
8 need any incentive other than the prudency review process to efficiently manage the costs
9 that it is requesting be included in its FAC. But from the perspective of the Commission,²⁴
10 OPC, and the businesses and households that would be assuming all of the fuel costs risk, a
11 prudence review is a weak incentive for efficient management of fuel and purchased power
12 costs.

13 **MODIFICATIONS TO KPCL'S PROPOSED FAC SHOULD THE COMMISSION**
14 **DETERMINE THAT KCPL MET THE ABOVE CRITERIA**

15 **Q. IF THE COMMISSION DETERIMINES THAT AN FAC SHOULD BE**
16 **ESTABLISHED FOR KCPL, SHOULD THE COMMISSION APPROVE THE FAC**
17 **PROPOSED BY KCPL?**

18 **A.** No, it should not. There are several modifications that should be made to the FAC
19 proposed by KCPL.

20 **Q. WHAT MODIFICATIONS DOES OPC RECOMMEND?**

²⁴ Case No. ER-2007-0004, EFIS item 363, *Report and Order*, page 53; Case No. ER-2008-0093, EFIS item 295, *Report and Order*, page 44; Case No. ER-2008-0318, EFIS item 589, *Report and Order*, page 70.

- 1 A. OPC recommends the following modifications to KCPL's proposed FAC:
- 2 A. KCPL's FAC should include a mechanism that requires KCPL to
3 absorb 50 percent of any cost increases/revenue decreases and allows
4 it to retain 50 percent of any cost savings/revenue increases;
- 5
6 B. The costs and revenues that are to be included in the FAC should be
7 approved by the Commission and explicitly identified along with the
8 FERC account and the resource code in which KCPL will record the
9 actual cost/revenue;
- 10
11 C. The types of costs/revenues that are included in KCPL's FAC should
12 not change until the next rate case;
- 13
14 D. The FAC should include no costs or revenues that KCPL is not
15 currently incurring or receiving and has not documented that it expects
16 to incur/receive before its next rate case other than insurance
17 recoveries, subrogation recoveries and settlement proceeds related to
18 costs and revenues included in the FAC;
- 19
20 E. The FAC tariff sheets should reflect accurately the accounts and
21 cost/revenue descriptions that are approved by the Commission;
- 22
23 F. KCPL's SO2 amortization should not be included in its FAC;
- 24
25 G. FAC costs and revenues should be allocated in the accumulation
26 period's actual net energy cost in a manner consistent with the
27 allocation methodology utilized to set permanent rates in this case; and
28
- 29 H. The recovery periods should be changed to October through
30 September and April through March with the corresponding
31 accumulation periods changed to January through June and July
32 through December respectively.
33
- 34 **Q. DOES KPCL INCLUDE ANY SHARING OF THE CHANGES IN FAC COSTS
35 AND REVENUES IN ITS PROPOSED FAC?**
- 36 A. No, it does not. KCPL proposes that 100% of changes in the costs and revenues that it is
37 proposing flow through its FAC be billed to customers.

1 | **Q. WHAT IS THE IMPACT OF NOT HAVING A MECHANISM THAT REQUIRES**
2 | **KCPL TO ABSORB SOME OF THE INCREASE IN COSTS AND THAT ALLOWS**
3 | **KCPL TO RECOVER A PORTION OF SAVINGS?**

4 | A. One hundred percent of the risk of fluctuating costs and revenues is placed on the
5 | customers and customers have virtually no way to manage this risk. Customers do not
6 | purchase fuel for the generating plants. Customers do not maintain the power plants.
7 | Customers do not manage emission allowances. The customer's only way to manage their
8 | risk is to use less electricity.

9 | In addition, there is no incentive for KCPL to achieve cost savings. KCPL has no
10 | incentive to search for the lowest price fuel. There is no incentive for KCPL to achieve
11 | higher off-system sales margins. There is no incentive for KCPL to work within SPP to
12 | keep transmission costs low. There is no incentive for KCPL to manage its emission
13 | allowances. There is no incentive for KCPL to keep its generating plants running
14 | efficiently.

15 | **Q. WHAT MECHANISM DOES OPC RECOMMEND BE INCLUDED IN KCPL'S**
16 | **FAC IF THE COMMISSION ALLOWS AN FAC FOR KCPL?**

17 | A. OPC recommends a 50/50 sharing of the changes in FAC costs and revenues. KCPL
18 | should absorb 50 percent of increases in costs and decreases in revenues from what is set in
19 | permanent rates and retain 50 percent of decreases in costs and increases in revenues.

20 | **Q. DOES THIS MEAN THAT KCPL WOULD RECOVER ONLY FIFTY PERCENT**
21 | **OF ITS FUEL COSTS?**

1 A. No, it does not. KCPL would be guaranteed to recover 100 percent of its fuel costs that are
2 included in permanent rates. It would also bill its customers for 50 percent of any increases
3 in costs. If costs decrease, KCPL may recover more than 100 percent of its fuel costs as
4 Empire has done. This mechanism would not only balance the risk more appropriately than
5 KCPL's proposal but would also provide KCPL an incentive – the more cost efficiencies
6 that KCPL can achieve, the higher its potential recovery and the higher its ROE.

7 **Q. OPC'S SECOND RECOMMENDATION IS THAT THE COSTS AND REVENUES**
8 **THAT ARE TO BE INCLUDED IN THE FAC SHOULD BE APPROVED BY THE**
9 **COMMISSION AND EXPLICITLY IDENTIFIED ALONG WITH THE FERC**
10 **ACCOUNT AND THE RESOURCE CODE THAT KCPL WILL USE TO RECORD**
11 **THE ACTUAL COST/REVENUE. WHY IS THIS IMPORTANT?**

12 A. The Commission has been given the authority to grant, or not grant, an FAC for each
13 electric utility. An FAC is a significant deviation from the statutory prohibition against
14 single issue ratemaking. It is not a "right" for the electric utilities – it is discretionary. The
15 exercise of discretion requires comprehensive scrutiny by the Commission since the result
16 of granting an FAC is that the risk of changes in fuel and purchased power costs moves
17 from the electric utility to its customers.

18 The Commission's rule 4 CSR 240-20.090 **Electric Utility Fuel and Purchased**
19 **Power Cost Recovery Mechanisms** provides the following guidelines with respect to the
20 determination of which costs the Commission should allow in an FAC:

21 In determining which **cost components** to include in [an FAC], the
22 commission will consider, but is not limited to only considering, the
23 magnitude of the costs, the ability of the utility to manage the costs, the
24 volatility of the cost component and the incentive provided to the utility as

1 a result of the inclusion or exclusion of the **cost component**. The
2 commission may, in its discretion, determine what portion of prudently
3 incurred fuel and purchased power costs may be recovered in [an FAC]
4 and what portion shall be recovered in base rates. (Emphasis added)
5

6 It is clear that it is the Commission's role to determine what cost components should be in
7 an FAC. If it approves a generic "everything in FERC account 555," any cost component
8 (or type) that KCPL records in that account can then be included in the FAC. New cost
9 types that may or may not be fuel and purchased power costs and have not been reviewed
10 and approved by the Commission can flow through the FAC just because KCPL recorded
11 the cost in FERC account 555. This clouds the transparency of the FAC and severely limits
12 prudence audits.

13 **Q. WHY SHOULD THE TYPES OF COSTS/REVENUES THAT ARE INCLUDED IN**
14 **KCPL'S FAC REMAIN THE SAME UNTIL THE NEXT RATE CASE?**

15 **A.** Section 386.266 RSMo. gives the Commission the authority to modify an FAC – not the
16 electric utility. Allowing new costs and revenues to flow through an FAC is a modification
17 to the FAC that the Commission approved. KCPL should not be allowed to include any
18 new cost/revenue types in its FAC between rate cases because, as the Commission rule sets
19 out, it is the Commission that should make the determination as to what costs should flow
20 through the FAC, not the electric utility.

21 **Q. WHY SHOULD THE FAC NOT INCLUDE ANY COSTS OR REVENUES THAT**
22 **KCPL IS NOT CURRENTLY INCURRING/RECORDING AND HAS NO**
23 **REASONABLE EXPECTATION IT WILL INCUR/RECORD BEFORE ITS NEXT**
24 **RATE CASE?**

1 A. Including a cost or revenue that KCPL does not incur/record, because KCPL may
2 incur/record it, clouds the transparency of the FAC and unnecessarily complicates the FAC.
3 If KPCL begins incurring a fuel or purchased power cost that is not in the FAC approved
4 by the Commission and changes in that cost are of the magnitude that it would materially
5 impact KCPL's ROE, KCPL can file another general rate increase case and ask to have the
6 cost included in its FAC. If it is not large enough to file a rate case to recover, then KCPL
7 can ask that it be included in its FAC in its next general rate increase case.

8 **Q. WHY ARE INSURANCE RECOVERIES, SUBROGATION RECOVERIES AND**
9 **SETTLEMENT PROCEEDS RELATED TO COSTS AND REVENUES INCLUDED**
10 **IN THE FAC AN EXCEPTION?**

11 A. These would be revenues typically related to an unexpected incident or accident. If
12 circumstance occurs where there are insurance recoveries, subrogation recoveries or
13 settlement proceeds related to costs and revenues included in the FAC, it is very likely that
14 at some point in time, prior to the receipt of the recovery or settlement, that there were
15 increased costs or reduced revenues due to that circumstance that have been included in the
16 fuel adjustment rates (FARs) paid by the customers. Therefore, it is important to include
17 FAC-related insurance recoveries, subrogation recoveries and settlement proceeds related
18 to costs and revenues in the FAC.

19 **Q. THE NEXT RECOMMENDATION REGARDING CHANGES TO KCPL'S**
20 **PROPOSED FAC IS THAT THE FAC TARIFF SHEETS ACCURATELY**
21 **REFLECT THE ACCOUNTS AND COST/REVENUE DESCRIPTIONS THAT**
22 **ARE ALLOWED IN THE FAC. DO THE EXEMPLAR TARIFF SHEETS**

1 **PROVIDED BY KCPL ACCURATELY REFLECT THE ACCOUNTS AND**
2 **COST/REVENUES THAT IT IS PROPOSING BE INCLUDED IN ITS FAC?**

3 A. No, they do not. A review of the attached Schedule LMM-2 shows the differences between
4 what KCPL is proposing be included in its FAC and the exemplar tariff sheet language.
5 The accounts listed in the exemplar tariff sheets are mostly the three digit FERC accounts.
6 For the fuel FERC accounts,²⁵ specific subsets of costs are recorded in the exemplar tariff
7 sheets but the sub-accounts and resource codes for these costs are not included on the
8 exemplar tariff sheets. For other FERC accounts, such as FERC accounts 555 and 447, the
9 exemplar tariff sheets include a list of costs but also include the phrases “other
10 miscellaneous” charges/revenues and “including, but not limited to.” Including this type
11 of language in the FAC tariff sheets would open the FAC to any new costs and revenues
12 that KCPL records in these FERC accounts.

13 **Q. WHY SHOULD THE SO₂ EMISSION ALLOWANCES AMMORTIZATION**
14 **NOT BE INCLUDED IN THE FAC?**

15 A. In past rate cases and in the Regulatory Plan, the parties agreed to amortize certain revenues
16 from the sale of SO₂ allowances over a set number of years resulting in a fixed revenue
17 amount to offset costs. Because it is a fixed amount and it is included in permanent rates, it
18 should not be included in the FAC.

²⁵ FERC Account 501 – Coal Costs, FERC Account 518 – Nuclear Costs, and FERC Account 547 – Other Fuel Costs.

1 | **Q. WHY SHOULD FAC COSTS AND REVENUES BE ALLOCATED IN THE FAC IN**
2 | **A MANNER CONSISTENT WITH THE JURIDITIONAL ALLOCATION**
3 | **METHODOLOGY UTILIZED TO SET PERMANENT RATES IN THIS CASE?**

4 | A. KCPL provides service in three jurisdictions²⁶ and different allocation factors are used to
5 | allocate different costs to these jurisdictions based on cost causation. Some costs may be
6 | allocated based on an energy allocation factor, others on a demand allocation factor and
7 | others on a customer allocation factor. An energy allocator for KCPL's Missouri retail
8 | customers is calculated as the normalized Missouri retail energy usage divided by the total
9 | company normalized energy. A demand allocator allocates costs based on the Missouri
10 | peak demand as a fraction of the total company demand.

11 | Just as it is important that the FAC base factor be based on the costs and revenues
12 | that are included in revenue requirement, it is important that actual net energy costs
13 | ("ANEC") used to calculate the fuel adjustment rates ("FARs") between rate cases preserve
14 | these different allocations. The FAC proposed by KCPL would result in all actual costs
15 | and revenues being allocated using an energy allocation factor regardless of the allocation
16 | factors used to set permanent rates. The table below shows an example of the impact that
17 | using a demand allocation factor for revenue requirement and the ANEC that would be
18 | calculated for that cost, with no increase in the cost in an accumulation period, given
19 | KCPL's proposed FAC and the demand allocation factor in the FAC as proposed by OPC.

20 |
21 |
²⁶ Missouri, Kansas and wholesale

Allocation Factor		Cost In FAC Base (allocated by demand)	Amount in FAC ANEC		Amount Billed in FAC	
Energy	Demand		KCPL Proposal	OPC Proposal	KCPL Proposal	OPC Proposal
0.5	0.6	\$600,000	\$500,000	\$600,000	\$100,000	\$0
0.6	0.5	\$500,000	\$600,000	\$500,000	(\$100,000)	\$0

1
 2 In this example, a \$1,000,000 cost was allocated to Missouri revenue requirement based on
 3 a demand allocation factor and that is the amount used to determine the FAC base cost. If
 4 the energy allocation factor is lower than the demand allocation factor (shown in the first
 5 line in the table), KCPL's proposal would result in an amount being billed to the customers
 6 in the FAC for that cost even if there was no increase in the cost simply due to the fact that
 7 the cost was allocated in the revenue requirement based on demand but allocated in the
 8 ANEC based on energy. The result is that KCPL would recover the cost as if it was
 9 allocated based on the energy allocation factor.

10 If the energy allocation factor was greater than the demand allocation factor, as
 11 shown in the second line in the table, the FAR would be negative resulting in the
 12 customers' bills being lower but KCPL not recovering the revenue requirement set in the
 13 rate case.

14 **Q. WHY IS OPC RECOMMENDING THE RECOVERY PERIODS BE CHANGED**
 15 **TO OCTOBER THROUGH SEPTEMBER AND APRIL THROUGH MARCH**
 16 **WITH THE CORRESPONDING ACCUMULATION PERIODS CHANGED TO**
 17 **JANUARY THROUGH JUNE AND JULY THROUGH DECEMBER**
 18 **RESPECTIVELY?**

1 A. KCPL's proposed FAC would result in customer's rates changing four times a year.
2 Permanent rates already change two times a year. They go up in the June billing month to
3 reflect the higher cost of service in the cooling months and down in the October billing
4 month to reflect the lower cost to provide service in the non-cooling months. KCPL is
5 proposing that the FARs be changed in January and July. With KCPL's proposal,
6 customers would see a change in the FARs in January. Then permanent rates increase in
7 June. Then, just one month later, customers would see another change in the rates since the
8 FARs would change in July. If the FAR change in July was an increase, under KCPL's
9 proposal, customers would see an increase in rates two months in a row. Then the
10 permanent rates would decrease in October resulting in four rate changes during the year.

11 The change in recovery periods as proposed by OPC will result in KCPL's
12 customers only seeing changes in rates three times a year. There would be a change in the
13 FAR in April when customers are on the lower permanent rates. The customers would see
14 an increase in rates in the June billing period when permanent rates increase. Customers
15 would next see a change in rates in their October bills. This change would be a
16 combination of the lower permanent rates and the change in the FAR, which may either
17 increase or decrease.

18 **Q. WOULD THE ADOPTION OF OPC'S RECOMMENDATIONS RESULT IN**
19 **KCPL'S FAC BEING DIFFERENT FROM THE FAC'S OF THE OTHER**
20 **MISSOURI ELECTRIC UTILITIES?**

1 A. Yes, it would. There have been lessons learned since the establishment of the FAC of the
2 other electric utilities. These recommendations are intended to reduce the number of
3 lessons to be learned with KCPL's FAC.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes, it does.

Education and Work Experience Background for

Lena M. Mantle, P.E.

I received a Bachelor of Science Degree in Industrial Engineering from the University of Missouri, at Columbia, in May, 1983. I joined the Research and Planning Department of the Missouri Public Service Commission in August, 1983 and worked under the direct supervision of Dr. Michael Proctor. I became the Supervisor of the Engineering Analysis Section of the Energy Department in August, 2001. In July, 2005, I was named the Manager of the Energy Department. The Energy Department was renamed the Energy Unit in August, 2011. I am a registered Professional Engineer in the State of Missouri.

In my work at the Commission from May 1983 through August 2001, I worked in many areas of electric utility regulation. Initially I worked on electric utility class cost-of-service analysis and fuel modeling. As a member of the Research and Planning Department, I participated in the development of a leading-edge methodology for weather normalizing hourly class energy for rate design cases. I took the lead in developing personal computer programming of this methodology and applying this methodology to weather-normalize electric usage in numerous electric rate cases. I was also instrumental in the development of the Missouri Public Service Commission electronic filing and information system.

My responsibilities as the Supervisor of the Engineering Analysis section considerably broadened my work scope. I remained the lead Staff member on weather normalization in electric cases but also supervised the engineers in a wide variety of engineering analysis including electric utility fuel and purchased power expense estimation for rate cases, generation plant construction audits, review of territorial agreements, and resolution of customer complaints. As the Manager of the Energy Unit, I oversaw the activities of the Engineering Analysis section, the electric and natural gas utility tariff filings, the Commission's natural gas safety staff, fuel adjustment clause filings, resource planning compliance review and the class cost-of-service and rate design for natural gas and electric utilities.

I retired from the Commission Staff on December 31, 2012.

I began working at the Office of the Public Counsel as a Senior Analyst in August 2014. As a Senior Analyst, I provide assistance to the Public Counsel on electric cases.

Lists of the Missouri Public Service Commission rules in which I participated in the development of or revision to, Missouri Public Service Commission Staff reports that I contributed to and Cases that I provided testimony in follow.

Missouri Public Service Commission Rules

4 CSR 240-3.130	Filing Requirements and Schedule of Fees for Applications for Approval of Electric Service Territorial Agreements and Petitions for Designation of Electric Service Areas
4 CSR 240-3.135	Filing Requirements and Schedule of Fees Applicable to Applications for Post-Annexation Assignment of Exclusive Service Territories and Determination of Compensation
4 CSR 240-3.161	Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms Filing and Submission Requirements
4 CSR 240-3.162	Electric Utility Environmental Cost Recovery Mechanisms Filing and Submission Requirements
4 CSR 240-3.190	Reporting Requirements for Electric Utilities and Rural Electric Cooperatives
4 CSR 240-14	Utility Promotional Practices
4 CSR 240-18	Safety Standards
4 CSR 240-20.015	Affiliate Transactions
4 CSR 240-20.017	HVAC Services Affiliate Transactions
4 CSR 240-20.090	Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms
4 CSR 240-20.091	Electric Utility Environmental Cost Recovery Mechanisms
4 CSR 240-22	Electric Utility Resource Planning
4 CSR 240-80.015	Affiliate Transactions
4 CSR 240-80.017	HVAC Services Affiliate Transactions

Staff Direct Testimony Reports

ER-2012-0166	Fuel Adjustment Clause
ER-2011-0028	Fuel Adjustment Clause
ER-2010-0356	Resource Planning Issues
ER-2010-0036	Environmental Cost Recovery Mechanism
HR-2009-0092	Fuel Adjustment Rider
ER-2009-0090	Fuel Adjustment Clause, Capacity Requirements
ER-2008-0318	Fuel Adjustment Clause
ER-2008-0093	Fuel Adjustment Clause, Experimental Low-Income Program
ER-2007-0291	DSM Cost Recovery

Office of Public Counsel Case Listing

Case	Filing Type	Issue
ER-2014-0351	Direct, Rebuttal, Surrebuttal	Fuel Adjustment Clause
ER-2014-0258	Direct, Rebuttal, Surrebuttal	Fuel Adjustment Clause
EC-2014-0224	Surrebuttal	Policy, Rate Design

Missouri Public Service Commission Staff Case Listing

Case No.	Filing Type	Issue
ER-2012-0166	Rebuttal, Surrebuttal	Fuel Adjustment Clause
EO-2012-0074	Direct/Rebuttal	Fuel Adjustment Clause Prudence
EO-2011-0390	Rebuttal	Resource Planning Fuel Adjustment Clause
ER-2011-0028	Rebuttal, Surrebuttal	Fuel Adjustment Clause
EU-2012-0027	Rebuttal, Surrebuttal	Fuel Adjustment Clause
ER-2010-0036	Supplemental Direct, Surrebuttal	Fuel Adjustment Clause
ER-2009-0090	Surrebuttal	Capacity Requirements
ER-2008-0318	Surrebuttal	Fuel Adjustment Clause
ER-2008-0093	Rebuttal	Fuel Adjustment Clause Low-Income Program
ER-2007-0004	Direct	Resource Planning
GR-2007-0003	Direct	Energy Efficiency Program Cost Recovery
ER-2007-0002	Direct	Demand-Side Program Cost Recovery
ER-2006-0315	Rebuttal	Demand-Side Programs Low-Income Programs
ER-2006-0315	Supplemental Direct	Energy Forecast
EA-2006-0314	Rebuttal	Jurisdictional Allocation Factor
EA-2006-0309	Rebuttal, Surrebuttal	Resource Planning
ER-2005-0436	Rebuttal, Surrebuttal	Low-Income Programs Energy Efficiency Programs
ER-2005-0436	Direct, Surrebuttal	Resource Planning
EO-2005-0329	Spontaneous	Demand-Side Programs Resource Planning
EO-2005-2063	Spontaneous	Demand-Side Programs Resource Planning
ER-2004-0570	Rebuttal, Surrebuttal	Energy Efficiency Programs Wind Research Program
ER-2004-0570	Direct	Reliability Indices
EF-2003-465	Rebuttal	Resource Planning
ER-2002-424	Direct	Derivation of Normal Weather
EC-2002-1	Direct, Rebuttal	Weather Normalization of Class Sales Weather Normalization of Net System
ER-2001-672	Direct, Rebuttal	Weather Normalization of Class Sales Weather Normalization of Net System

Missouri Public Service Commission Staff Case Listing (cont.)

ER-2001-299	Direct	Weather Normalization of Class Sales Weather Normalization of Net System
EM-2000-369	Direct	Load Research
EM-2000-292	Direct	Load Research
EM-97-575	Direct	Normalization of Net System
ER-97-394, et. al.	Direct, Rebuttal, Surrebuttal	Weather Normalization of Class Sales Weather Normalization of Net System Energy Audit Tariff
EO-94-144	Direct	Weather Normalization of Class Sales Weather Normalization of Net System
ER-97-81	Direct	Weather Normalization of Class Sales Weather Normalization of Net System TES Tariff
ER-95-279	Direct	Normalization of Net System
ET-95-209	Rebuttal, Surrebuttal	New Construction Pilot Program
EO-94-199	Direct	Normalization of Net System
ER-94-163	Direct	Normalization of Net System
ER-93-37	Direct	Weather Normalization of Class Sales Weather Normalization of Net System
EO-91-74, et. al.	Direct	Weather Normalization of Class Sales Weather Normalization of Net System
EO-90-251	Rebuttal	Promotional Practices Variance
ER-90-138	Direct	Weather Normalization of Net System
ER-90-101	Direct, Rebuttal, Surrebuttal	Weather Normalization of Class Sales Weather Normalization of Net System
ER-85-128, et. al.	Direct	Demand-Side Update
ER-84-105	Direct	Demand-Side Update

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Fuel Account 501 Coal

As Provided in Tim Rush Direct Testimony			As provided in Staff DR 384 & OPC DR 8003			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
501000	6000	NL Bit coal and Freight Costs (Variable)	501000	6000	COAL BIT	501		Coal commodity and transportation, accessorial charges, applicable taxes, natural gas costs, alternative fuels (i.e., tires, bio-fuel), fuel quality adjustments fuel hedging costs, fuel adjustments included in commodity and transportation costs, broker commissions, fees and margins, oil costs, propane costs, combustion product disposal revenues and expenses, fuel additives such as side release or freeze conditioning agents and consumable costs related to Air Quality Control Systems (AQCS) operation, such as ammonia, lime, limestone, powder activated carbon, propane, sodium bicarbonate, sulfur, trona, urea, or other consumables which perform similar functions, and insurance recoveries, subrogation recoveries and settlement proceeds for increased fuel expenses in Account 501.
501000	6001	NL Bit Coal Inventory Adj	501000	6001	PHY INV ADJ BIT			
501000	6002	NL Bit Coal Freeze & Dust Treatment						
501000	6005	NL PRB Coal and Freight Costs (Variable)	501000	6005	COAL PRB			
501000	6006	NL PRB Coal Inventory Adj	501000	6006	PHY INV ADJ PRB			
501000	6007	NL PRB Coal Freeze & Dust Treatment						
501000	6016	NL Oil Costs	501000	6016	#2 FUEL OIL			
501000	6017	NL Propane	501000	6017	PROPANE			
501000	6018	NL Oil Inventory Adj	501000	6018	PHY INV ADJ OIL			
501000	6020	NL Gas & Transportation	501000	6020	NATURAL GAS			
501000	6021	NL Gas & Transportation	501000	6021	SSCGP TRANSPORT			
501000	6022	NL Gas & Transportation	501000	6022	MGE TRANSPORT			
501000	6023	NL Gas & Transportation						
501000	6024	NL Gas & Transportation	501000	6025	GAS RESERVATION			
			501000	6026	HEDGING NATURAL GAS			
501000	6027	NL Gas Adjustments						
501000	6030	NL Tire Costs						
501000	6035	NL Biofuels						
			501000	6041	AMMONIA/UREA			
			501000	6094	IND STEAM OIL			
501020		NL Coal and Freight Costs (Variable)	501020	6099	FUEL OTHER			
501030		SFR Coal and Freight Costs	501030	6099	FUEL OTHER			
501300		NL Additives	501300	6040	LIME			
			501300	6041	AMMONIA/UREA			
			501300	6042	PAC			
			501300	6043	PHY INV ADJ LIMESTONE			
			501300	6044	SULFUR			
			501300	6045	LIMESTONE			
501400		NL Residuals Costs	501400	1630	CONTRACTORS MATERIALS			
			501400	1699	CONTRACTORS OTHER MISC EXP			
			501400	6050	BOTTOM ASH			
			501400	6055	FLY ASH			
			501400	6057	FGD BYPRODUCTS			
			501400	6060	SLAG			
			501400	6065	OTHER GEN BYPRODUCTS			
501450		NL Residuals Costs						

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Fuel Accounts 518 Nuclear & 547 Other Fuels

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
			Staff DR 384 & OPC 8003			518		Nuclear fuel commodity and waste disposal expense, oil, and nuclear fuel hedging costs
			518000	4100	WOLF CREEK/JEC OTHER			
			518100	4100	WOLF CREEK/JEC OTHER			
			518201	4100	WOLF CREEK/JEC OTHER			
			Additional in OPC 8003					
518000		NL Nuclear Fuel Expense	518000	6038	NUCLEAR FUEL			
518100		NL Nuclear Pwr Fuel Expense Oil	518100	6016	#2 FUEL OIL			
518201		NL Nuclear Fuel Disposal Cost	518201	6039	NUCLEAR FUEL DISPOSAL			
			Staff DR 384 & OPC DR 8003			547		Natural gas, oil and alternative fuel generation costs related to commodity, transportation, storage, fuel losses, hedging costs for natural gas, oil, and natural gas used to cross-hedge purchased power or sales, fuel additives, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, and broker commissions fees and margins.
547000	6016	NL Oil	547000	6016	#2 FUEL OIL			
547000	6018	NL Oil Adjustments	547000	6018	PHY INV ADJ OIL			
547000	6020	NL Gas Costs & Transportation (Variable)	547000	6020	NATURAL GAS			
547000	6021	NL Gas Costs & Transportation (Variable)	547000	6021	SSCGP TRANSPORT			
547000	6022	NL Gas Costs & Transportation (Variable)	547000	6022	MGE TRANSPORT			
547000	6023	NL Gas Costs & Transportation (Variable)						
547000	6024	NL Gas Costs & Transportation (Variable)	547000	6024	PANHANDLE TRANSPORT			
			547000	6025	GAS RESERVATION			
547000	6026	Hedge Settlements	547000	6026	HEDGING NATURAL GAS			
547000	6027	NL Gas Adjustments	547000	6027	REFUNDS NATURAL GAS			
547020		NL Gas Costs & Transportation (Variable)						
			547027	6021	SSCGP TRANSPORT			
			547027	6025	GAS RESERVATION			
547030		SFR Gas Costs & Transportation (Variable)	547300	6041	AMMONIA/UREA			
			547300	6099	FUEL OTHER			

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Fuel Account 509 Emission Allowances

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
509000		Emission Allowances	Staff DR 384 & OPC 8003			509		Emission allowance costs offset by revenues from the sale of emission allowances including any associated hedging costs, and broker commissions, fees, commodity based services and margins.
509000		Renewable Energy Credits (Sale of RECs)	509000	6070	WIND REC			
			509000	6075	SO2 AMORTIZATION			
			509000	6080	SO2			
			509000	6085	NOX ANNUAL			
			509000	6171	WIND REC SPEARVILLE 2			
			509000	6173	WIND REC CIMMARON			
			Additional in OPC 8003					
			509000	6178	REC SUBSCRIPTION FEE			

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Account 555 Purchased Power Costs

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
555000		NL Purchased Power-Energy			Staff DR 180.1	555		The following costs or revenues reflected in FERC Account Number 555: purchased power costs, capacity charges for capacity purchases less than 12 months in duration, energy charges from capacity purchases of any duration, insurance recoveries, and subrogation recoveries for purchased power expenses, hedging costs including broker commissions, fees and margins, charges and credits related to the SPP Integrated Marketplace including, energy, make whole and out of merit payments and distributions, Over collected losses payments and distributions, TCR and ARR settlements, virtual energy costs, revenues and related fees where the virtual energy transaction is a hedge in support of physical operations related to a generating resource or load, load/export charges, ancillary services including non-performance and distribution payments and charges and other miscellaneous SPP Integrated Marke charges including but not limited to uplift charges or credits.
555021		NL Purchased Power-Energy	555		SPP Energy Imbalance Service			
555005		Purchased Power-Capacity (Short-term ONLY)			SPP Financially Settled Loss			
555030		SFR Purchased Power-Energy			SPP Revenue Neutrality Uplift			
555031		SFR Purchased Power-Energy			SPP RNU Charge Adjustment			
					Day Ahead Regulation Down			
					Day Ahead Regulation Down Distribution			
					Day Ahead Regulation Up			
					Day Ahead Regulation Up Distribution			
					Day Ahead Spinning Reserves			
					Day Ahead Spinning Reserves Distribution			
					Day Ahead Supplemental Reserves			
					Day Ahead Supplemental Reserves Distribution			
					Real Time Contingency Reserve Deployment Failure			
					Real Time Contingency Reserve Deployment Failure Dist			
					Real Time Regulation Down			
					Real Time Regulation Down Distribution			
					Real Time Regulation Non-Performance			
					Real Time Regulation Non-Performance Distribution			
					Real Time Regulation Up			
					Real Time Regulation Up Distribution			
					Real Time Spinning Reserves			
					Real Time Spinning Reserves Distribution			
					Real Time Supplemental Reserves			
					Real Time Supplemental Reserves Distribution			
					Day Ahead Asset Energy			
					Day Ahead Non-Asset Energy			
					Day Ahead Virtual Energy			
					Real Time Asset Energy			
					Real Time Non-Asset Energy			
					Real Time Virtual Energy			
					Day Ahead Grandfathered Agmt Carve Out Dist Daily Amt			
					Day Ahead Grandfathered Agmt Carve Out Dist Mnthly Amt			
					Day Ahead Grandfathered Agreement Carve Out Distribution Yrly Amt			
					Day Ahead Make Whole Payment Distribution			
					Day Ahead Over Collected Losses Distribution			
					Day Ahead Virtual Energy Transaction Fee			
					Miscellaneous Amount			
					Real Time Make Whole Payment Distribution			
					Real Time Over Collected Losses Distribution			
					Real Time Reserve Sharing Group Distribution			
					Real Time Revenue Neutrality Uplift Distribution			
					OPC DR 8003			
			555000		No description provided			
			555005		No description provided			
			555030		No description provided			

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Transmission Costs Accounts 561, 565, 575, & 928

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
556		Not mentioned	Staff DR 180.1			556		Not mentioned
			556		SPP Over-Schedule 556 SPP UD 556 SPP Under-Schedule 556			
			OPC DR 8003					
			Not mentioned					
561400 561800		Trans OP LD Dispatch Control&Dispatch Trans OP LD Dispatch ReliabilityPlanning RTO	Staff DR 180.1			561.4		RTO, FERC and NERC Fees
			561		Sched Syst Cont & Dispatch Whsl SPP AdminSchSCDisp Retail561400 SPP AdminSchSCDisp Whsl 561400 SPP AdminRelPl&SdDev Whsl 561800 SPP AdminRelPl&SdDv Retail561800	561.8		
			OPC DR 8003					
			561400	1299	OFFICE EXPENSE OTHER			
			561400	1390	RTO CHARGES/FEEES			
			561400	1399	OTHER OUTSIDE SERVICES			
			561400	4200	ACCOUNTING & CIS USE ONLY			
			561800	1390	RTO CHARGES/FEEES			
			561800	4200	ACCOUNTING & CIS USE ONLY			
			565000 565020 565027 565030		Trans OP Trans of Elec by Others Trans OP Trans Res Load CHG Trans OP Trans by Other Demand SFR Transmission	Staff DR 180.1		
565		Miscellaneous SPP Charges SPP BPF Regional NITS Retail SPP BPF Zonal NITS Retail SPP Sched 2 Reactive Charge Transmission TO SPP Schd11BprResidentLoadChg TO SPP Schd11BpzResidentLoadChg SPP BPF Regional PTP Whsl SPP BPF Zonal PTP Whsl						
OPC DR 8003								
565000	4200	ACCOUNTING & CIS USE ONLY						
565020	1390	RTO CHARGES/FEEES						
565020	4200	ACCOUNTING & CIS USE ONLY						
565030	4200	ACCOUNTING & CIS USE ONLY						
575000		Trans OP MKT MON&COMP SER RTO				Staff DR 180.1		
			575		SPP AdminFacMonComp Retail575700 SPP AdminFacMonComp Whsl 575700			
			OPC DR 8003					
			575700	1390	RTO CHARGES/FEEES			
			575700	4200	ACCOUNTING & CIS USE ONLY			
928000	Dept 415	Regulatory Commission Expense (FERC Assessment)	Staff DR 180.1			928		RTO, FERC, and NERC fees recorded in account 928
			928		SPP FERC 12 Fees Retail 928003 SPP FERC 12 Fees Whsl 928003			
			OPC DR 8003					
			928000	Dept 415	REGULATORY ASSESSMENT-FERC			

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Account 447 Revenues From Off-System Sales

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets		
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description
447002		Bulk Power Sales			Staff DR 180.1	447		All revenues from off-system sales. This includes charges and credits related to the SPP integrated Marketplace including, energy, make whole and out of merit payments and distributions, Over collected losses payments and distributions, TCR and ARR settlements, virtual energy costs, revenues and related fees where the virtual energy transaction is a hedge in support of physical operations related to a generating resource or load, generation/export charges, ancillary services including non- performance and distribution payments and charges and other miscellaneous SPP Integrated Market charges including, but not limited to, uplift charges or credits.
447012		Wholesale Sales Capacity (Short-term ONLY)	447		SPP Energy Imbalance Service			
447030		SFR Off-System Sales			SPP Financially Settled Loss			
					SPP RNU Charge Adjustment			
					TO SPP FsLossAmtToSchd			
					TO SPP SpLossAmtCredit			
					TO SPP Adj_FS_LOSS_ADJ			
					TO SPP AdjSP_LOSS_ADJ			
					Auction Revenue Rights Funding			
					Auction Revenue Rights Yearly Closeout			
					Transmission Congestion Rights Auction Transaction			
					Transmission Congestion Rights Funding			
					Transmission Congestion Rights Monthly Payback			
					Transmission Congestion Rights Uplift			
					Transmission Congestion Rights Yearly Payback			
					Day Ahead Asset Energy			
					Day Ahead Non-Asset Energy			
					Day Ahead Virtual Energy			
					Real Time Asset Energy			
					Real Time Non-Asset Energy			
					Real Time Virtual Energy			
					Day Ahead Grandfathered Agmt Carve Out Dist Daily Amt			
					Day Ahead Grandfathered Agmt Carve Out Dist Mnthly Amt			
					Day Ahead Grandfathered Agreement Carve Out Distribution Yrly Amt			
					Day Ahead Make Whole Payment			
					Day Ahead Make Whole Payment Distribution			
					Day Ahead Over Collected Losses Distribution			
					Real Time Make Whole Payment			
					Real Time Make Whole Payment Distribution			
					Real Time Out of Merit			
					Real Time Over Collected Losses Distribution			
					Real Time Regulation Deployment Adjustment			
					Real Time Reserve Sharing Group Distribution			
					Real Time Revenue Neutrality Uplift Distribution			
					OPC DR 8003			
			447012		No description provided			
			447030		No description provided			

KCPL's Proposals for Inclusion in Fuel Adjustment Clause: Account 456.1 Transmission Revenues

As Provided in Tim Rush Direct Testimony			As Provided in Data Requests			As Provided in KCPL Exemplar Tariff Sheets			
Account	Resource Code	Description	Account	Resource Code	Description	Account	Resource Code	Description	
456100		Revenue Trans Elect Others	Staff DR 180.1			456.1		All transmission service revenues reflected in FERC Account 456.1	
			456.1	SPP Sched 2 Reactive Revenue					
				TO SPP AdjNfPtpOvrSchPenMultRev					
				TO SPP AdjRequestedUpgradeToRev					
				TO SPP AdjSchd11BprNitsToRev					
				TO SPP AdjSchd11BprPtpToRev					
				TO SPP AdjSchd11BpzPtpToRev					
				TO SPP AdjSchd1ScPtpRev					
				TO SPP AdjSchd2RvRev					
				TO SPP AdjSchd7FirmPtpMultRev					
				TO SPP AdjSchd7FirmPtpSingRev					
				TO SPP AdjSchd8NfPtpRev					
				TO SPP AdjSchd9NitsMultRev					
				TO SPP AdjustmentTo					
				TO SPP Schd11BprNitsToRev					
				TO SPP Schd11BprPtpOvrPenToRev					
				TO SPP Schd11BprPtpToRev					
				TO SPP Schd11BprResidentLoadRev					
				TO SPP Schd11BpzNitsToRev					
				TO SPP Schd11BpzPtpOvrPenToRev					
				TO SPP Schd11BpzPtpToRev					
				TO SPP Schd11BpzResidentLoadRev					
				TO SPP Schd1ScNitsRev					
				TO SPP Schd1ScPtpRev					
				TO SPP Schd7FirmPtpOvrPenAttrRev					
				TO SPP Schd7FirmPtpOvrPenMwmRev					
				TO SPP Schd7FirmPtpRev					
				TO SPP Schd8NfPtpOvrPenAttrRev					
				TO SPP Schd8NfPtpOvrPenMwmRev					
				TO SPP Schd8NfPtpRev					
				TO SPP Schd9NitsRev					
				OPC DR 8003					
				456100					No description provided

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Mantle Lena Interrogatories - OPC_20150327
Date of Response: 04/14/2015

Question:OPC-8018

Please explain in detail the reasons for the increase in coal costs between 2010 and 2011.

Response:

The about 40% increase in the delivered cost of coal from 2010 to 2011 was driven by changes in the commodity cost of coal and coal freight rates. The commodity cost of coal purchased by KCP&L increased about 4% from 2010 to 2011. The change in KCP&L's coal freight rates far exceeded that change in the commodity cost of coal. As discussed in more detail at pages 6-9 of Wm. Edward Blunk's Direct Testimony in Case No. ER-2010-0355, KCP&L's coal freight contracts expired December 31, 2010 and were replaced with contracts using rates instituted pursuant to the railroads' "new coal pricing mechanisms". Those "new coal pricing mechanisms" resulted in an overall coal freight rate increase of about 80% from 2010 to 2011 and accounted for more than 90% of the increase in KCP&L's delivered cost of coal.

Answered by: Ed Blunk, Generation Sales and Services

Attachment: QOPC-8018_Verification.pdf