

*Exhibit No.:*  
*Issues: Iatan 2 Advanced Coal Credits*  
*Crossroads*  
*Capacity Planning*  
*Witness: Cary G. Featherstone*  
*Sponsoring Party: MoPSC Staff*  
*Type of Exhibit: Rebuttal Testimony*  
*Case No.: ER-2012-0175*  
*Date Testimony Prepared: September 12, 2012*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**REBUTTAL TESTIMONY**

**OF**

**CARY G. FEATHERSTONE**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY  
GREAT PLAINS ENERGY, INC.**

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

*Jefferson City, Missouri*  
*September 12, 2012*

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

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1 Crossroads and the annual cost of the transmission of electricity from Crossroads to GMO's  
2 MPS rate district:

3 **Iatan 2 Advanced Coal Credit**

4 Melissa K. Hardesty—KCPL and GMO's Senior Director of Taxes

5 Salvatore P. Montalbano—Partner PricewaterhouseCoopers, LLP, Consultant

6 **Crossroads Energy Center**

7 Tim M. Rush- KCPL and GMO's Director of Regulatory Affairs

8 WM. Edward Blunk- KCPL and GMO's Supply Planning Manager

9 Burton L. Crawford- KCPL and GMO's Director, Energy Resource Management

10 Melissa Hardesty- KCPL and GMO's Senior Director of Taxes

11 Darrin R. Ives- KCPL and GMO's Senior Director- Regulatory Affairs

12 Specifically, Ms. Hardesty (page 9) proposes to allocate the entire Iatan 2 Advanced Coal  
13 Credit to KCPL, ignoring the fact that a portion of these coal credits rightfully belong to GMO  
14 for its participation in the Iatan 2 coal-fired generating unit. Mr. Montalbano has been engaged  
15 by KCPL on behalf of itself and GMO in an attempt to justify their improper actions regarding  
16 the coal credits using specific tax restrictions of the Internal Revenue Code to keep significant  
17 tax benefits from GMO and its customers.

18 With respect to the Crossroads, despite the Commission's following finding 275 at  
19 page 96 and conclusion 28 at page 99 of its May 4, 2011, Report and Order (Order) in GMO's  
20 2010 rate case—Case No. ER-2010-0356—where the treatment of Crossroads was contested:

21 275. Considering the depressed market as exhibited by the sale  
22 of similar turbines to Ameren, and the valuation of these assets reported to  
23 the SEC by GPE, the Commission finds that \$61.8 million is an accurate  
24 reflection of the fair market value of Crossroads as required by the affiliate  
25 transaction rule as of July 14, 2008.

1                   28.     The Commission rejects Staff's adjustment to disallow the  
2     recovery of the entirety of Crossroads in the Company's cost of service  
3     and instead recover the cost of the —phantom turbines. The Commission  
4     concludes, however, that GMO is requesting the Commission value these  
5     turbines based on that overly high valuation (net book value) and that  
6     Crossroads includes significantly higher transmission costs it will incur  
7     over the life of Crossroads. The Commission concludes that Crossroads  
8     should be included in rate base at a value of \$61.8 million based on the  
9     average installed dollar per kilowatt basis AmerenUE paid for the  
10    combustion turbines at Raccoon Creek and Goose Creek.

11    In this case GMO has included Crossroads in MPS' rate base again based on the 2002 original  
12    purchase price made by Aquila Merchant, a wholly-owned affiliate of GMO (then called  
13    Aquila). The Crossroads plant was completed in 2002 by Aquila Merchant to operate in the  
14    non-regulated power markets. In this case, GMO proposes a value for Crossroads as of March  
15    31, 2012, net of accumulated depreciation of \$91.2 million. This is compared to the level  
16    supported by Staff consistent with the findings of the Commission in the 2010 rate case of \$53.3  
17    million.

18           The differences between GMO and Staff's position regarding Crossroads plant and  
19    depreciation reserve amounts are:

	<u>Staff</u>	<u>GMO</u>
Plant in Service including transmission plant	\$62.3 million	\$132.7 million
Less: Depreciation Reserve	<u>9.0 million</u>	<u>41.4 million</u>
Net Crossroads Plant	\$53.3 million	\$91.2 million

25           [source: Data Request 27 and Data Request 152]

26           Also with respect to Crossroads, despite the Commission in GMO's 2010 rate case  
27    rejecting in finding 247 and conclusion 29 on pages 87 and 99, respectively, of its Order, the  
28    inclusion in MPS's cost of service of the costs of transmitting electricity from Crossroads in

1 Clarksdale, Mississippi, to the MPS rate district that includes Sedalia and the greater Kansas City  
2 metropolitan area in Missouri as follows:

3                   247. It is not just and reasonable to require ratepayers to pay for the  
4 added transmission costs of electricity generated so far away in a transmission  
5 constricted location. Thus, the Commission will exclude the excessive  
6 transmission costs from recovery in rates.

7                   29. In addition to the valuation, the Commission concludes that  
8 but for the location of Crossroads customers would not have to pay the  
9 excessive cost of transmission. Therefore, transmission costs from the  
10 Crossroads facility, including any related to OSS shall be disallowed from  
11 expenses in rates and therefore also not recoverable through GMO's fuel  
12 adjustment clause (—FAC).

13 GMO once again proposes that those transmission costs be included in determining the revenue  
14 requirement for MPS.

15                   Further, although when asked in that case to clarify its Order in its 2012 rate case on the  
16 issue of accumulated deferred income taxes associated with Crossroads, the Commission found  
17 its Order which said, "The accumulated deferred taxes associated with Crossroads should be  
18 applied as an offset to MPS's rate base," was clear, GMO in this case is requesting the  
19 Commission also revisit that issue.

20                   GMO witness Tim M. Rush addresses Crossroads at pages 7-9 of his direct testimony.  
21 GMO witness WM. Edward Blunk addresses natural gas transportation costs at pages 25-30 of  
22 his direct testimony and GMO witness Burton L. Crawford addresses transmission costs to  
23 transport electricity from Crossroads to GMO's MPS rate district at pages 11-14 of his direct  
24 testimony. Both Messrs. Blunk and Crawford are attempting to refute the Commission's  
25 decision in GMO's last rate case to not include Crossroads transmission costs in determining the  
26 revenue requirement for MPS. GMO witness Melissa K. Hardesty addresses the Commission's

1 decision relating to deferred income taxes generated by the Crossroads facility at pages 4 of her  
2 direct testimony.

3 Q. Are you the only Staff witness for the Crossroads issue?

4 A. No. Staff witness Lena Mantle, the Commission's Manager of Energy Unit of the  
5 Tariff, Safety, Economic, and Engineering Analysis Department, Regulatory Review Division, is  
6 also testifying in rebuttal on this matter.

7 **EXECUTIVE SUMMARY**

8 Q. Would you please summarize your rebuttal testimony?

9 A. Yes. I explain and recommend the following:

- 10 • The Commission should reject KCPL's and GMO's requested treatment of  
11 not allocating the Iatan 2 Advanced Coal Credits to GMO as presented in  
12 the direct testimonies of Melissa K. Hardesty and Salvatore P. Montalbano  
13
- 14 • The Commission should accept the recommendations made by Staff for  
15 the Iatan 2 Advanced Coal Credits found at page 202-203 of Staff's Cost  
16 of Service Report for the GMO rate case  
17
- 18 • The Commission should reject GMO's valuation of its Crossroads Energy  
19 Center for purposes of including it in rate base for MPS  
20
- 21 • The Commission should value GMO's Crossroads Energy Center for  
22 purposes of including it in rate base for MPS by relying on the value the  
23 Commission determined for it in GMO's last rate case—Case No. ER-  
24 2010-0356—Staff has presented such a value in its direct filing  
25
- 26 • The Commission should reject GMO's level of costs related to Crossroads  
27 Energy Center including transmission costs

28 **IATAN 2 ADVANCED COAL CREDIT**

29 Q. Please summarize KCPL's position regarding the Qualifying Advanced Coal  
30 Project Credit for the Iatan 2 Generating Unit.

1           A.     In her direct testimony (at page 9), KCPL witness Hardesty indicates that she  
2 believes no portion of the Iatan 2 Qualifying Advanced Coal Project Credit (Coal Credit) for the  
3 Iatan 2 Generating Unit (Iatan 2) should be allocated to GMO. She refers to Mr. Montalbano for  
4 discussion of this position. In Mr. Montalbano's direct testimony, he indicates no allocation of  
5 these credits should be made to GMO because such action may constitute a tax normalization  
6 violation- either directly or indirectly.

7           Q.     Why are you referring to KCPL's position, and referring to the witnesses as  
8 KCPL witnesses, rather than GMO's position and GMO witnesses?

9           A.     As discussed later in this testimony, KCPL is the only voice who can represent  
10 GMO, since all managerial decision-making relating to GMO is in the hands of KCPL – GMO  
11 has no employees of its own, but is managed by KCPL employees. From Staff's perspective,  
12 this coal credits issue is a prudency issue, related to the decision-making of KCPL (and its  
13 parent, Great Plains Energy, Inc.) on excluding GMO from the benefits of these credits.  
14 Therefore, although the Company witnesses may have ostensibly filed testimony in this case on  
15 behalf of GMO, they are actually espousing the position of KCPL. Simply, KCPL has been  
16 unable to put its self-interest aside and represent GMO in this matter or is unwilling to do. In  
17 any event, GMO has had no representation of GMO and its customers' interest relating to the  
18 Coal Credits matter.

19           Q.     What are the Iatan 2 coal credits?

20           A.     These coal credits were authorized by Congress in August 2005 to stimulate the  
21 building of coal generation using cleaner emission standards. The generating units had to meet  
22 specified emission criteria that were evaluated by the Department of Energy (DOE) and had to  
23 be approved by both the DOE and the Internal Revenue Service (IRS). The Coal Credits were



1 treated like investment tax credits (ITC). The maximum amount authorized for each coal project  
2 was \$125 million.

3 Q. Did KCPL apply for these coal credits?

4 A. Yes. KCPL applied for these coal credits for Iatan 2. KCPL, without the  
5 knowledge of and to the exclusion of all of the other Iatan 2 partners, applied for these coal  
6 credits (what can be referred to as tax benefits) in 2006, and after initially being rejected, applied  
7 again in 2007. On April 28, 2008, KCPL was notified that the Iatan 2 Project was given a full  
8 amount \$125 million. None of the other Iatan 2 partners were initially granted any portion of the  
9 coal credits.

10 After an arbitration process, where an order of the Arbitration Panel was issued  
11 December 30, 2009 in favor of allocating a share of the coal credits to one of the other owners—  
12 The Empire District Electric Company (“Empire”)—Empire received a proportionate share of  
13 these coal credits. On August 19, 2010, Empire was authorized its 12% share of the coal credits.  
14 However, GMO, also an Iatan 2 partner, was excluded from participating in this process by its  
15 owner, Great Plains Energy, Inc. (Great Plains Energy) and its affiliate, KCPL.

16 For a more detailed discussion of these coal credits, *see* the Staff’s COS Report starting at  
17 page 201.

18 Q. Does Mr. Montalbano address any of the history of GMO being precluded from  
19 applying for these coal credits?

20 A. No. Nowhere in his direct testimony, nor in the direct testimony of Ms. Hardesty,  
21 is the subject of GMO not being able to receive the benefit of these coal credits addressed.  
22 Neither of these KCPL witnesses address the fact that GMO and its customers were not allowed  
23 by those who represented it to seek its proportionate share of these coal credits—benefits that

1 | GMO had every right to expect since they were required to pay for all the upgrades to Iatan 1  
2 | and all the construction costs of Iatan 2 that qualified for the coal credits.

3 | Q. How do the upgrades to Iatan 1 affect the Iatan 2 coal credits?

4 | A. Without a commitment by the joint owners of Iatan 1 to spend hundreds of  
5 | millions of dollars for emission upgrades, Iatan 2 would have never been built. Installing an  
6 | SCR and other costly environmental equipment at Iatan 1 permitted the opportunity to build  
7 | Iatan 2. Thus, Empire and GMO had to make substantial investment in Iatan 1 just to be able to  
8 | have the opportunity to participate in Iatan 2. Along with the costs of Iatan 1 upgrades, both  
9 | Empire and GMO, in addition to the other Iatan 2 owners, paid significant costs for this unit to  
10 | have the latest technology to meet the new and more stringent environmental rules. This  
11 | equipment provided the opportunity to meet the emission standards that qualified for the  
12 | coal credits—credits that KCPL selfishly intended to keep for itself to the exclusion of all  
13 | other owners.

14 | Q. Mr. Montalbano states at page 3 of his direct testimony that his purpose “... is to  
15 | support GMO’s [KCP&L’s] tax calculations in its rate filings as it relates to the potential  
16 | imputation of advanced coal investment tax credits...” Has Staff imputed the coal credits in  
17 | this case?

18 | A. No. While Staff has reduced the amount of coal credits assigned to KCPL, it has  
19 | not included these coal credits as a reduction to GMO’s tax expense in GMO’s rate case filing—  
20 | Case No. ER-2012-0175.

21 | Q. Mr. Montalbano indicates at page 3 that he addresses two potential issues. What  
22 | are these issues?

1           A.     Mr. Montalbano discusses what he refers to as “...propriety under the federal  
2 tax normalization rules of including an adjustment for imputed ITCs” in GMO rates and  
3 secondly he addresses the potential impact of the coal credits if KCPL and GMO merge. Neither  
4 of these two identified situations exist at present. As indicated above, Staff has not imputed the  
5 coal credits to GMO and, to Staff’s knowledge, KCPL and GMO are not planning on merging  
6 any time soon.

7           Q.     What are normalization rules?

8           A.     Tax normalization rules relate to regulated utilities and the timing of when  
9 tax deductions and tax benefits are reflected in rates. In the late 1960s, Congress created  
10 certain restrictions in the tax code that restricted these deductions and benefits from being  
11 “flowed-through” to utility customers any faster than the amount of the cost reflected on the  
12 utilities’ financial statements. The utility industry, and many of its supporters, pressured  
13 Congress to place stringent and inflexible rules within the tax code to protect these  
14 deductions and benefits from being passed on to customers at the time the tax benefits were  
15 available to the companies.

16           Tax normalization essentially allows the utility to enjoy the benefits of tax deductions  
17 and tax credits prior to having to pass (or flow-through) those tax benefits to customers. While  
18 the utility can take the deductions and credits faster on its calculation of income taxes for tax  
19 purposes, customers must wait a substantial period of time before they are permitted to receive  
20 the tax benefits in the calculation of income tax expense for ratemaking purposes.

21           Under flow-through theory, customers receive the tax benefits at the same time as the  
22 utility company—when the company takes the deductions those are also flowed-through to the  
23 customers in determination of rates. Under flow-through, since the deductions for tax purposes

1 are aligned with ratemaking there are no accumulated deferred taxes generated and used as an  
2 offset (reduction) to rate base.

3 Q. Did the Missouri Commission ever flow-through tax benefits to customers?

4 A. Yes. In the 1970s and 1980s, the Commission was regarded as a flow-through  
5 state utility commission. The Commission typically flowed-through all tax timing differences  
6 that were not required to be normalized—what was referred to as the unprotected or unrestricted  
7 tax benefits.

8 Unprotected tax timing differences flowed-through at the time were capitalized interest,  
9 capitalized payroll and capitalized property taxes. These costs were capitalized as part of  
10 construction projects. Utilities could take a tax deduction in the year the capitalized costs were  
11 incurred. Staff, generally in opposition of the utilities, but supported by the Commission,  
12 included these tax deductions in calculation of income tax expense in developing rates in the  
13 year incurred.

14 Q. Were some companies given normalization treatment of all tax  
15 timing differences?

16 A. Generally, utilities with massive construction programs, such as the construction  
17 of nuclear power plants, were authorized to use normalization treatment of tax timing  
18 differences. KCPL and Union Electric Company — both building nuclear power plants — were  
19 allowed normalization treatment of tax benefits. The Commission typically determined to grant  
20 normalization if a company met certain cash flow guidelines. Those companies that had  
21 sufficient cash flow generally received flow-through treatment of their tax benefits.

22 Q. Does Staff still flow-through these tax deductions?

1           A.     No. Most of these unprotected tax deductions were eliminated in the 1986 Tax  
2 Reform Act. As a result, these tax deductions are no longer available.

3           Q.     To what tax timing differences do the tax normalization rules apply?

4           A.     Tax normalization primarily applies to accelerated depreciation and the  
5 investment tax credits (ITC). Both of these types of tax benefits are specifically identified as  
6 having normalization restrictions. While the IRS does not preclude taking either of these  
7 deductions faster than permitted, the rules are in place so that if the deductions are taken faster  
8 than permitted there are severe consequences.

9           The IRS permitted two options for ITC treatment that utilities had to make elections—  
10 option 2 companies (which KCPL elected) took the ITC tax benefit as an amortization over life  
11 of asset with no rate base reduction while option 1 companies reflected a rate base offset  
12 (reduction) throughout the life of the asset. Companies using option 1 had to restore the rate  
13 base as the offsets were reduced over the life of the asset.

14           The penalty for premature pass-through of ITC benefits to customers is such that there  
15 would be loss of the accelerated depreciation and loss of the accumulated deferred tax reserves to  
16 the utility, both of which are used as an offset to rate base. In the case of the ITC, using  
17 deductions not permitted by the IRS results in recapture of the tax benefits— repayment of the  
18 tax deductions taken and loss of amortization remaining for Option 2 companies, or a payment  
19 equal to the amount of un-restored rate base for companies electing Option 1. Consequently,  
20 because the losses were so severe, public utility commissions would not jeopardize the  
21 tax benefits by flowing through ITC benefits to customers faster than what the normalization  
22 rules allow.

1 Q. Is Mr. Montalbano aware of any instances where the IRS has required a recapture  
2 of tax benefits for violation of the normalization rules?

3 A. In a response to a data request, Mr. Montalbano indicated he was not aware of any  
4 time the IRS required such recapture (Data Request Nos. 318 and 322). He did reference a case  
5 in the 1970s where the IRS found a normalization violation relating to the California Public  
6 Utility Commission.

7 Q. Why is a discussion of tax normalization and flow-through theory important in  
8 this proceeding?

9 A. In order to understand the coal credits and impact on KCPL and GMO, it is  
10 important to understand the concept of normalization and whether the act of allocating GMO a  
11 proportionate share of the coal credits is allowed under the tax normalization rules. As discussed  
12 above, normalization rules restrict the timing of the tax deductions to customers. These  
13 restrictions are intended to ensure that greater deductions than are permitted are not taken and  
14 those deductions or tax benefits are not provided to customers in rates faster (accelerated) than  
15 authorized. For example, accelerated depreciation is not allowed to be taken as a deduction in  
16 customer rates through the tax calculation faster than over the life of the plant investment. If  
17 taken on an accelerated basis, this would constitute a normalization violation. If the ITC were to  
18 be flowed-through to customers faster than over the life of plant investment, this too would  
19 violate the normalization rules and not be permitted.

20 Q. Is allocating a portion of the Iatan 2 Coal Credits to GMO a  
21 normalization violation?

22 A. It certainly does not meet the spirit of the normalization rules—taking a tax  
23 deduction faster than over the life of the plant investment or taking greater deductions than

1 authorized. GMO would only take a portion of the \$125 million based on its 18% ownership  
2 share—approximately \$26.6 million (actually \$26,562,000 but herein referred to as  
3 \$26.6 million). Between the three tax-paying Iatan 2 owners (KCPL, Empire and GMO) the  
4 sum of the tax benefits would be \$125 million. Thus, one of the purposes of the normalization  
5 rules is met.

6 From the perspective of Great Plains Energy, it would not take any greater tax benefit on  
7 a consolidated basis than the sum of the allocated amounts to KCPL and GMO—nothing greater.  
8 Again, the purposes of the normalization rule is met.

9 Staff would not recommend taking tax benefits for either KCPL or GMO faster than over  
10 the life of plant investment and would certainly would not recommend using any tax benefit  
11 amount greater than entitled for rate purposes.

12 Q. Does Mr. Montalbano state with certainty that assigning GMO its rightful  
13 ownership share of the coal credits would be a normalization violation?

14 A. No. He states at page 8 of his direct testimony that "...the imputation of credits  
15 and assumed amortization in GMO's rates could constitute a normalization violation and trigger  
16 penalties..." but does not say it will result in a violation. In discussing this with Ms. Hardesty,  
17 she indicated uncertainty of a tax normalization violation resulting from an imputation of coal  
18 credits to GMO as well. She said no one really knows for sure if allocating to GMO its share of  
19 the coal credits would constitute a normalization violation. Of course, KCPL's share of coal  
20 credits would be reduced without violating the normalization rules.

21 Q. Mr. Montalbano states at page 4 of his direct testimony that Congress provided an  
22 incentive to invest in utility assets through the investment tax credit and that "...Congress

1 mandated a sharing of tax benefits between ratepayers and utilities from a regulatory  
2 perspective...” Do you agree?

3 A. No. While it is clear that the original intent of the investment tax credits and  
4 accelerated depreciation was to provide an incentive to high capital industries such as utilities to  
5 invest in plant and capital projects, with respect to the ITC there is no sharing of these tax  
6 benefits among utility companies and its customers. Customers do enjoy certain benefits to how  
7 accelerated depreciation is treated for tax purposes and ratemaking purposes because of the way  
8 the tax deductions are eventually reflected in utility rates and prior to that being treated as a  
9 reduction to rate base. However, again at the urging of the utility industry, Congress placed such  
10 restrictions on the ITC that rendered it very costly to the customers.

11 Accelerated depreciation provided this sharing of benefits because utilities could take  
12 higher tax deduction for depreciation on its tax returns than were reflected in the income tax  
13 expenses in rates. Customers were forced to pay higher costs for income taxes than what the  
14 companies were actually paying for tax purposes. But the utilities had to accumulate the  
15 differences by each plant investment vintage and use those as an off-set to rate base—the  
16 accumulated deferred tax reserves. The interest free loan of the accelerated depreciation is  
17 treated as an offset to rate base which means customers do not have to pay a return on rate base  
18 for those amounts—clearly a benefit. But customers do not get that same benefit with ITC.

19 Consumers simply did not fare as well with respect to the ITC. As Mr. Montalbano  
20 explains in his direct testimony (page 4), regulated utilities were given an option that was far  
21 more restrictive in nature compared to the accelerated depreciation. The ITC rules were so  
22 restrictive that customers only received either the benefit of the ITC amortization over the life of  
23 the plant investment qualifying for the credit or the ITC rate base reduction, but not both, unlike



1 accelerated depreciation. Utilities received an interest free loan for the ITC from government but  
2 did not have to share this benefit with its customers. Thus, ITC is very costly to consumers.  
3 There is nothing about the ITC that can be considered as “sharing.”

4 With accelerated depreciation, utility customers received a rate base reduction for the  
5 accumulated deferred tax reserves and also eventually received the tax benefits of those deferrals  
6 as they turned around. Turn-around relates to the timing of when the tax deductions taken by the  
7 utility (protected by normalization rules) are eventually reflected in rates for customers.

8 Q. Mr. Montalbano refers to KCPL’s request to the IRS on March 16, 2011 for  
9 allocation of coal credits to GMO at page 7 of his direct testimony. On page 8 he states the IRS  
10 denied such request on August 24, 2011. Is there anything else the Commission should know  
11 about the IRS rejecting KCPL’s request?

12 A. Yes. What KCPL does not include in this discussion is that on September 21,  
13 2011 during a teleconference with the IRS, \*\* the agent in charge of the coal credit program  
14 indicated a willingness to consider the allocation of coal credits to GMO if Great Plains Energy,  
15 along with KCPL and GMO would apply. \*\* I reference this at page 205 of the Cost of Service  
16 Report filed on August 2, 2012 in KCPL’s rate case and August 9, 2012 in the GMO rate case  
17 (see Staff’s notes of the September 21, 2011 IRS conference call attached as Appendix 3, Highly  
18 Confidential Schedule CGF-3, to both reports).

19 To my knowledge, to date Great Plains Energy has not made any attempt to apply for  
20 allocation of these coal credits for GMO. Great Plains Energy, KCPL or GMO have not  
21 exhausted all options available to pursue this with the IRS.

22 Q. Should the IRS care if GMO receives its ownership share of the coal credits?

1           A.     No. As discussed earlier, GMO getting its share of the coal credits will not result  
2 in greater tax benefits than the authorized \$125 million project total amount nor will it result in  
3 tax deductions occurring any faster than over the life of the plant investment. If KCPL and  
4 GMO would have gone to the IRS to allocate the coal credits to GMO at the time when Empire  
5 approached the IRS for this purpose in 2010, the IRS would have had no reason to exclude  
6 GMO. Great Plains, KCPL and GMO could have gone to the IRS to include GMO after the  
7 July 2008 acquisition. Again, the IRS would have had no reason to exclude GMO.

8           Q.     Mr. Montalbano indicates at page 6 of his direct testimony that in fall of 2008  
9 Empire and GMO went to the IRS requesting coal credits but were rejected. Is this true?

10          A.     While both Empire and GMO did make such a request, both were requesting  
11 additional amounts over and above the \$125 million amount the IRS approved for the Iatan 2  
12 Project in April 2008. \*\* When it rejected Empire and GMO's request the IRS made it clear  
13 that the \$125 million amount was for the entire Iatan 2 plant project and that this represented the  
14 maximum allowable amount authorized for the project. KCPL is simply claiming more than its  
15 proportionate ownership share of coal credits allocated to the Iatan 2 Project. The fact that the  
16 IRS considered the credits to be allocated on a project basis, rather than on an ownership basis, is  
17 shown in the IRS' letter denying GMO's application for the coal credits in 2009. On January 23,  
18 2009, the IRS sent a letter informing GMO of the IRS' decision regarding GMO's October 30,  
19 2008 application:

20                   The Iatan 2 facility was allocated a credit of \$125 million, the maximum  
21 credit amount available, during the 2007-08 allocation round. The  
22 limitation on the credit amount under the Notice 2008-96 applies to each  
23 project, not to each taxpayer. Therefore, we will not accept GMO's  
24 application for the 2008-09 allocation round. We will notify DOE of our  
25 decision not to accept the application and will advise DOE to forgo  
26 reviewing the application. \*\*

1 Letters from the IRS relating to GMO's request as well as Empire's is attached as Highly  
2 Confidential Schedules CGF-REB-1 and CGF-REB-2 to this testimony.

3 Q. Mr. Montalbano discusses at page 7 of his direct testimony the original  
4 August 2008 memorandum of understanding (MOU) with the IRS to authorize the full  
5 \$125 million coal credits to the Iatan 2 Project, and that GMO was not part of the August 2010  
6 revision to the MOU. Did the IRS reject GMO from being part of the August 2010 MOU?

7 A. No. Great Plains Energy and KCPL, acting as the agent for GMO per the Joint  
8 Ownership Agreement (*see* Appendix 3, Schedule CGF 12 to COS Report), refused to include  
9 GMO in the request with the IRS to allocate any coal credits to GMO. \*\* In fact, the IRS,  
10 knowing there was another tax-paying entity involved with the Iatan 2 Project—GMO--  
11 specifically asked KCPL at the time of the request to revise the MOU about GMO. KCPL told  
12 the IRS GMO would not be asking for allocation of the coal credits. The IRS agent discussed  
13 this with Staff in the September 21, 2011 conference call. This agent said he requested KCPL  
14 provide a written letter under penalties of perjury to state that GMO would not ever request an  
15 allocation of the coal credits. \*\* This was discussed at page 215 of the COS Report and  
16 the May 3, 2010 letter to the IRS was attached as Appendix 3, Highly Confidential Schedule  
17 CGF 11, to the COS Report.

18 Q. Does Mr. Montalbano believe that GMO should be given a portion of the  
19 Advanced Coal Credits?

20 A. Mr. Montalbano indicated he could not provide an opinion on this subject as he  
21 was not engaged to do so. In a series of data requests, Mr. Montalbano was asked if he thought it  
22 proper to allocate coal credits to GMO if GMO was required to pay costs associated with Iatan 2

1 that gave rise to the qualifying for these credits. (Attached as Schedule CGF-REB-3-- Data  
2 Request Nos. 336-340 and 343-346) He didn't have an opinion on these questions.

3 Q. Does Staff regard this as a tax matter?

4 A. While the mechanics of how the coal credits are implemented are tax related, the  
5 issue Staff has with KCPL and Great Plains Energy relates to its decision-making on excluding  
6 GMO from the benefits of these credits. This is a prudency issue. Neither Ms. Hardesty nor  
7 Mr. Montalbano provided any testimony on the decision-making aspects of not allocating any of  
8 these coal credits to GMO – an 18% owner of Iatan 2. Certainly GMO had to pay for its share of  
9 the Iatan 2 Project, but no one discusses in KCPL's testimony the justification for making such  
10 an exclusion and denying a tax-paying owner from the benefits of these important credits—  
11 credits that have the effect of lowering the costs of Iatan 2. No KCPL witness makes any  
12 attempt to provide an explanation or supply any justification for why it is proper having the  
13 customers of St. Joseph, Warrensburg, Sedalia and their surrounding communities pay  
14 proportionately more for Iatan 2 than KCPL's Missouri and Kansas customers and the customers  
15 in Joplin receiving service from Empire.

16 Q. Does Staff believe the actions of KCPL constitute affiliate abuse toward GMO?

17 A. Yes. KCPL is the only voice who can represent GMO since 2008. GMO and its  
18 customers have placed its entire operations and all managerial decision-making in the hands of  
19 KCPL. KCPL and Great Plains had no fewer than six chances to “get it right” with respect to the  
20 coal credits for GMO and failed in every way possible (*see* page 203 of Staff's COS Report to  
21 identify six opportunities to have this problem fixed). Mr. Montalbano makes no mention in his  
22 direct testimony about any decision-making regarding GMO's coal credits, just that any attempt  
23 to fix this bad situation will result in all kinds of tax consequences with tens of millions of

1 dollars hanging in the balance. The following key facts are not addressed in KCPL's direct  
2 testimony on this issue:

- 3 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
4 Aquila did not apply for coal credits
- 5 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
6 Great Plains Energy and KCPL did not include GMO in the dispute  
7 when it learned of Empire wanting its share of the coal credits
- 8 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
9 Great Plains Energy and KCPL did not include GMO in the allocation  
10 of the coal credits when they learned the IRS viewed these credits as  
11 being for the Iatan 2 Project
- 12 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
13 Great Plains Energy and KCPL did not include GMO in the  
14 Arbitration process
- 15 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
16 Great Plains Energy and KCPL did not include GMO in the request  
17 made to the IRS to allocate coal credits after the December 30, 2009  
18 Arbitration decision
- 19 • Neither Mr. Montalbano nor any other KCPL witness addresses that  
20 Great Plains Energy and KCPL did not include GMO in the request to  
21 the IRS to allocate coal credits in early 2010 at the time the IRS was  
22 considering the revision to include allocation to Empire

23 Thus, what Mr. Montalbano's testimony is really attempting to do is to scare the  
24 Commission about these alleged tax consequences of imputing coal credits to GMO and,  
25 accordingly, letting KCPL "off the hook." In essence, KCPL has paid a consultant to present a  
26 picture of dire consequences allowing KCPL and Great Plains Energy to hide behind the IRS on  
27 this issue.

28 The Commission should reject such a self-serving attempt on KCPL's part to deny GMO  
29 and its customers the Iatan 2 coal credits. Staff continues to support its recommendations  
30 presented in the COS Report found at pages 202-203.

1 **CROSSROADS ENERGY CENTER**

2 Q. What about how GMO has treated the Crossroads Energy Center in its direct case  
3 does Staff take issue with?

4 A. Mr. Rush states in his direct testimony at page 8 that GMO has “include[ed] the  
5 full plant balances and depreciation reserves and expenses for Crossroads based on the  
6 jurisdictional plant balance; [GMO] has continued the deferred income tax calculation based on  
7 the full plant balance, which is included as an offset to rate base; [and GMO has] included the  
8 electric transmission costs for getting power to the GMO territory.” Staff takes issue with each  
9 of these positions.

10 Staff disagrees with GMO’s positions because each was litigated in GMO’s 2010 rate  
11 case where Staff advocated that the Commission should impute the costs of additional  
12 combustion turbines at GMO’s South Harper generating station rather than relying on the costs  
13 of Crossroads when determining the revenue requirement for MPS. Instead, the Commission  
14 decided to include Crossroads in rate base for MPS, but valued that plant at \$61.8 million as of  
15 the July 14, 2008, the date that GMO would have theoretically acquired the power plant as part  
16 of a third-party transaction. The Commission also allowed all accumulated deferred income  
17 taxes associated with Crossroads based on the evidence of them in the record of that case and  
18 disallowed the added costs of transmitting electricity from the transmission constricted area of  
19 Clarksdale, Mississippi where Crossroads is located to the MPS rate district in west central Missouri.

20 Staff believes the Commission correctly decided each of these issues, but GMO is taking  
21 the same positions on these issues that it took, and lost, in its 2010 rate case. As Staff presented  
22 in its direct testimony in this case, the value of these Crossroads issues that should be included in  
23 this case should be based on how the Commission determined them in Case No. ER-2010-0356.

1 The Commission found the proper rate base value for Crossroads should be based on the average  
2 of two non-affiliate sales transactions of generating facilities identical to Crossroads. These  
3 facilities are located in Illinois and are called Raccoon Creek and Goose Creek. Both have the  
4 same combustion turbines as Crossroads which were all purchased from General Electric under  
5 the same contract in 2001. Staff presented evidence to the Commission in the 2010 rate case of  
6 what the values of Crossroads should be if the Commission determined this generating facility  
7 should be in rate base. The Commission decided to include Crossroads in MPS's rate base and  
8 decided its rate base value should be based on the average of the values of the combustion  
9 turbines installed at Raccoon Creek and Goose Creek.

10 Q. Please provide a history of the ownership of the Crossroads.

11 A. Crossroads was built in Clarksdale Mississippi in 2002 by Aquila Merchant  
12 Services, then a non-regulated wholly-owned subsidiary of Aquila. The following is a timeline  
13 of Crossroads ownership and significant events related to Crossroads based in part on a  
14 memorandum received from Great Plains dated October 31, 2007, that explains the history of the  
15 Crossroads plant. This memorandum is attached as Schedule CGF-REB-4 to this testimony.

16 • October 2002 – Crossroads was moved from business unit MEP  
17 (Merchant Energy Partners Investment LLC) into business unit ACEC  
18 (Aquila Crossroads Energy Center). ACEC was a business unit under the  
19 non-regulated subsidiary of Aquila MEP.

20 • October 2002 to March 2007 – Crossroads remained on the books of  
21 Aquila's non-regulated Merchant Energy partners.

22 • February 2007 – Great Plains Energy announced an agreement to  
23 acquire Aquila, Inc.

24 • March 2007 – the regulated jurisdictional operations of Aquila, now  
25 known as GMO, issued a request for proposal (RFP) for a long-term  
26 supply option. Crossroads was bid into the RFP at net book value to  
27 satisfy the long-term supply option. Based on 2007 time frame Aquila

1 selected Crossroads as the least cost and preferred option for long-term  
2 supply.

3 • March 2007 – Crossroads was transferred from Aquila Merchant to  
4 Aquila, Inc., referred to as GMO, at net book value and recorded on the  
5 books of a non-regulated business unit CECAQ (Crossroads Energy  
6 Center Aquila) where it resided when Great Plains Energy acquired Aquila  
7 (GMO).

8 • May 2007 – Great Plains Energy and Aquila filed a Joint Proxy  
9 Statement/Prospectus with the Securities and Exchange Commission.  
10 Great Plains Energy management told the SEC, the financial community  
11 and its shareholders that it found \$51.6 million to be an appropriate  
12 estimate of the fair value of Crossroads. Great Plains Energy estimated  
13 that this was the amount of proceeds it would receive from the sale of  
14 Crossroads to an unrelated party of similar sized units in the current  
15 market place.

16 • June 2007 – In a filing with the SEC, Great Plains Energy  
17 management told the SEC, the financial community and its shareholders  
18 that it found \$51.6 million to be an appropriate estimate of the fair value  
19 of Crossroads.

20 • August 2007 – In another filing with the SEC, Great Plains Energy  
21 management told the SEC, the financial community and its shareholders  
22 that it found \$51.6 million to be an appropriate estimate of the fair value  
23 of Crossroads.

24 • May 2008 – Great Plains Energy concurred with Aquila's  
25 recommendation to use Crossroads as the least cost and preferred option in  
26 its utility resource planning process as a long-term supply option.

27 • July 2008 – Close of Great Plains Energy's acquisition of Aquila.  
28 Aquila, Inc began using the business name GMO then later changed its  
29 name to GMO. Crossroads was recorded on the books of GMO business  
30 unit NREG by Great Plains Energy.

31 • August 2008 – Crossroads was moved from the books of GMO's  
32 business unit NREG to GMO's regulated books for MPS.

33 • September 2008 – GMO filed a Missouri rate case seeking to include  
34 Crossroads in rate base for MPS at net book value of \$117 million.



1 **CROSSROADS ENERGY CENTER RATE BASE VALUATION**

2 Q. What value has GMO included in MPS's rate base for Crossroads?

3 A. While Mr. Rush does not state an amount in his testimony, based on GMO's plant  
4 schedules, GMO included:

5 Plant in Service \$132.7 million including transmission plant

6 Less: Depreciation Reserve (41.4 million)

7 Net Crossroads Plant \$91.3 million

8 [source: Data Request 27 and Data Request 152]

9 Q. Has GMO supported its proposed rate base valuation for Crossroads?

10 A. No. Other than a brief mention by Mr. Rush at page 8 of his direct testimony that  
11 the Company included Crossroads at the full value, ignoring the Commission's ordered  
12 valuation, no other GMO witness made any attempt to support this asset valuation. GMO  
13 witness Darrin Ives even more briefly refers to Crossroads in his direct testimony at pages 4 and  
14 5, but only identifies other witnesses and states that for MPS "the full value of its Crossroads  
15 generating facility is included . . . ." Mr. Ives states he will discuss Crossroads later in his direct  
16 testimony but there appears to be no further reference to this plant in his direct testimony.  
17 Neither Mr. Ives nor any other Company witness provides any explanation why the Commission  
18 should authorize a greater value for Crossroads than the levels the Commission decided in Case  
19 No. ER-2010-0356.

20 Q. Has GMO provided any other support for why the Commission should include  
21 Crossroads at the full value GMO has on its books?

22 A. No. GMO did not make any other attempt to support the change it is proposing  
23 from the Commission Ordered level for Crossroads.

1 Q. What does Staff recommend for the value of Crossroads in GMO's plant in  
2 service for MPS?

3 A. Staff continues to support the \$61.8 million value the Commission determined in  
4 Case No. ER-2010-0356 that is set out in its Order, updated for any additions and retirements  
5 since the December 31, 2010, true-up levels in that case. As noted above, this is the average of  
6 the Raccoon Creek and Goose Creek sale transactions a GMO affiliate made to Ameren Missouri  
7 in 2006. Staff based its plant and depreciation reserve values for Crossroads in MPS's rate base  
8 as of March 31, 2012, on the Commission's determination of the rate base value of Crossroads in  
9 GMO's 2010 rate case. Staff will adjust those values to August 31, 2012 values as part of the  
10 true-up. The plant amount for Crossroads in Staff's direct case as of March 31, 2012 is:

11	Plant in Service	\$62.3 million including transmission plant
12	Less: Depreciation Reserve	<u>( 9.0 million)</u>
13	Net Crossroads Plant	\$53.3 million

14 [Source: EMS Schedule 3, page 3 and Schedule 6, page 3 in Case No. ER-2012-0175]

15 Q. What was the book value of Crossroads when Great Plains acquired Aquila on  
16 July 14, 2008?

17 A. The following table identifies the booked amounts for Crossroads at  
18 September 30, 2008, which approximates the July 14, 2008, closing date of Great Plains Energy  
19 acquired Aquila and compares them with the true-up amounts as of December 31, 2010, based  
20 on the Commission's Order in Case No. ER-2010-0356 which reflected a value based on third-  
21 party sales transactions:

		<b>September 30, 2008</b>	<b>Commission Order December 31, 2010 True-up</b>
1			
2			
3	<b>Crossroads</b>		
4	<b><u>Production Plant</u></b>		
5	Plant	\$118.8 million	\$52.2 million
6	Less: Reserve	<u>(21.2 million)</u>	<u>(5.4 million)</u>
7	Net Production	\$97.6 million	\$46.8 million
8	<b><u>Transmission Plant</u></b>		
9	Plant	\$21.9 million	\$9.6 million
10	Less: Reserve	<u>(3.1 million)</u>	<u>(0.6 million)</u>
11	Net Transmission	\$18.8 million	\$9.0 million
12	Total Production and Transmission Plant		
13	Plant	\$140.7 million	\$61.8 million
14	Less: Reserve	<u>(24.3 million)</u>	<u>(6.0 million)</u>
15	<b>Net Crossroads</b>	<b>\$116.4 million</b>	<b>\$55.8 million</b>

16 [Source: EMS Schedule 3, pages 1 & 2 and Schedule 6, pages 1 & 2 in Case No. ER-2009-0090 and Commission  
17 Report & Order EMS Schedule 3, page 2 and Schedule 6, page 2 in Case No. ER-2010-0356]

18 Q. Did GMO overstate the rate base value of Crossroads in its direct case here?

19 A. Yes. The amount GMO is requesting for Crossroads is significantly overstated  
20 compared to what Great Plains Energy Incorporated (Great Plains Energy), the parent of GMO,  
21 paid for this plant facility. Great Plains would not have paid anywhere close to the \$116.4  
22 million net book value of Crossroads when it acquired this generating facility from Aquila as  
23 part of the July 14, 2008 acquisition. The Commission recognized this in its Order in Case No.  
24 ER-2010-0356 when it found at page 94:

25 When conducting its due diligence review of Aquila's assets for  
26 determining its offer price for Aquila, GPE [Great Plains Energy] would  
27 have considered the transmission constraints and other problems  
28 associated with Crossroads. It is incomprehensible that GPE would pay  
29 book value for generating facilities in Mississippi to serve retail customers

1 in and around Kansas City, Missouri. And, it is a virtual certainty that  
2 GPE management was able to negotiate a price for Aquila that considered  
3 the distressed nature of Crossroads as a merchant plant which Aquila  
4 Merchant was unable to sell despite trying for several years. Further, it is  
5 equally likely that GPE was in as good a position to negotiate a price for  
6 Crossroads as AmerenUE was when it negotiated the purchases of  
7 Raccoon Creek and Goose Creek, both located in Illinois, from Aquila  
8 Merchant in 2006.  
9 [footnote omitted]

10 GMO has overstated the amount of the Crossroads plant it is proposing to include in MPS' rate  
11 base by approximately \$65 million.

12 Q. Why is the amount GMO has included in MPS's rate base for Crossroads  
13 overstated by \$65 million?

14 A. Great Plains performed what is referred to as due diligence regarding the assets of  
15 Aquila it planned on purchasing as well as a review of the Missouri electric operations of both  
16 MPS and L&P in late 2006 and early 2007 when it was negotiating the acquisition price of  
17 Aquila. During this phase of the acquisition process, Great Plains valued Crossroads at  
18 substantially less than what Aquila Merchant paid for Crossroads. Great Plains made a Security  
19 Exchange Commission ("SEC") filing in which it disclosed that it viewed Crossroads to have a  
20 market value of \$51.6 million. In comparison the net book value of Crossroads at September 30,  
21 2008, close to the time of closing of the Aquila transaction, was \$116.4 million. Note that the  
22 net book value amount would have been slightly higher at the July 14, 2008 date when Great  
23 Plains closed its acquisition of Aquila.

24 The overstatement of Crossroads of \$65 million is based on the following:

25	Net Plant	\$116.4 million
26	Great Plains	<u>( 51.6 million)</u>
27	Valuation	
28	Overvaluation	\$64.8 million

1 Q. Would you explain why Staff views that Great Plains valued Crossroads at  
2 \$51.6 million?

3 A. When Great Plains offered to acquire Aquila in February 2007, its offer was based  
4 on a fair market valuation of Crossroads of \$51.6 million. Since Aquila accepted Great Plains'  
5 offer, Great Plains acquired Aquila Merchant based on Great Plains' valuation of Crossroads at  
6 \$51.6 million. Any attempt by Great Plains through GMO to place Crossroads in a regulated rate  
7 base in Missouri subsequent to its acquisition of Aquila and Aquila Merchant requires that the  
8 asset be placed in rate base at the price actually paid for the asset—the original cost.

9 The best evidence of the original cost of Crossroads is Great Plains disclosure to the  
10 Securities and Exchange Commission, its investors, and the public at large, by its SEC filing that  
11 identified the fair market value of Crossroads at the date of acquisition at \$51.6 million.

12 By proposing to include Crossroads in the MPS rate base at its non-regulated book value  
13 amount of \$91.3 million [\$132.7 million less reserve of \$41.4 million] as of March 31, 2012,  
14 when Great Plains actually valued Crossroads at \$51.6 million at the time it acquired the asset  
15 (by acquiring Aquila Merchant which had little asset value other than Crossroads), Great Plains  
16 is asking the Commission to value Crossroads at a much higher amount than what Great Plains  
17 viewed itself that it paid to acquire Crossroads in 2008. This is tantamount to including an  
18 acquisition adjustment for Crossroads of approximately \$65 million. The calculation of this  
19 proposed acquisition adjustment is based on Crossroads' net book value at time of the acquisition  
20 of \$116 million, less the cost to Great Plains acquisition costs for this asset of \$51.6 million.

21 Q. What is an acquisition adjustment?

22 A. An acquisition adjustment results when utility property is purchased or acquired  
23 for an amount either in excess of or below book value. Book value relates to the value placed on

1 utility property and recorded on the Company's books and records at the time the utility property  
2 is first placed in public service, adjusted for depreciation and amortization. This assessment of  
3 value is commonly referred to as the property's "original cost." The acquisition adjustment is  
4 made up of two components, the merger premium and the transaction costs. Transaction costs  
5 are the pre-merger costs to close or complete the merger.

6 Q. What is original cost?

7 A. The term "original cost," as defined by the Electric Plant Instruction Section of  
8 the FERC Uniform System of Accounts ("USOA"), relates to:

9 All amounts included in the accounts for electric plant acquired as an  
10 operating unit or system, except as otherwise provided in the texts of the  
11 intangible plant accounts, shall be stated at the cost incurred by the person  
12 who first devoted the property to utility service. (Paragraph 15,052 of  
13 USOA).

14 Depreciation and amortization of the utility property from the previous owner must be deducted  
15 from the original cost, which results in a net original cost figure to be recorded on the  
16 purchaser's books and records. The acquired property is valued at the same value the seller  
17 placed on it, hence the "original cost when first devoted to public service," adjusted for  
18 depreciation and amortization, concept.

19 Q. Is use of net original cost for valuing rate base still the predominant form  
20 of regulation?

21 A. Yes. In the State of Missouri, the use of original cost less depreciation and  
22 amortization, i.e., net original cost, to set rates is not only the predominant form of regulation,  
23 but to my knowledge, the only form that has been employed by this Commission.

1 Q. How does an acquisition adjustment result?

2 A. Utility property is recorded on the company's books and records at net original  
3 cost. A utility must account for any difference between the acquisition cost or purchase price of  
4 property and the net original cost, i.e., the amount paid to the original owner (the seller) for  
5 utility property being first placed into service and the recorded net original cost amount. This  
6 difference in purchase price is recorded in USOA Account No. 114, Electric Plant Acquisition  
7 Adjustments. The amortization of the acquisition adjustment is made to Account 406,  
8 Amortization of Electric Plant Acquisition Adjustments, if authorization is granted to include the  
9 adjustment in cost of service for ratemaking purposes (above-the-line treatment). If no  
10 authorization is given to include an amortization for ratemaking purposes (i.e., below-the-line  
11 treatment occurs), then Account No. 425, Miscellaneous Amortization must be used.

12 Q. Is it appropriate to use the full value of depreciation reserve and deferred tax  
13 reserve if Crossroads is included at the net book value proposed by GMO?

14 A. While that is not Staff's position in this case, if the Commission includes the full  
15 net book value of Crossroads in the case as GMO requests, it would clearly be proper to include  
16 the levels of depreciation reserve and deferred tax reserve going back to when the plant was first  
17 completed in 2002 as offsets to the plant and rate base amounts.

18 However, if the Commission authorizes Crossroads to be placed in rate base at the values  
19 determined in the last GMO rate case, then the "original costs" of the power plant would be the  
20 \$61.8 million dollar amount. Both depreciation and deferred taxes would start accumulating  
21 from the acquired date of July 2008 in this instance. I further discuss deferred taxes later in  
22 this testimony.

1 Q. Did Great Plains' senior management perform a fair market valuation  
2 of Crossroads?

3 A. Yes. Great Plains made a "fair market valuation" of Crossroads in the  
4 February to May 2007 time frame. This valuation was an objective fair market valuation of a  
5 reasonable cost of Crossroads in early 2007. This valuation was released to the public on at least  
6 three occasions from May 2007 to August 2007 in successive joint proxy statements and  
7 amendments Great Plains and Aquila filed with the SEC. Great Plains estimated that  
8 \$51.6 million was the dollar amount of proceeds it would receive from the sale of Crossroads to  
9 an unrelated party in the then current market place. The following is a quote from the joint  
10 proxy statement and amendments:

11 D - The pro forma adjustment represents the adjustment of the estimated  
12 fair value of certain Adjusted Aquila non-regulated tangible assets and  
13 reduction of depreciation expense associated with the decreased fair value.  
14 The adjustment was determined based on Great Plains Energy's estimates  
15 of fair value based on estimates of proceeds from sale of units to an  
16 unrelated party of similar capacity in the current market place. The  
17 preliminary internal analysis indicated a fair value estimate of Aquila's  
18 non-regulated Crossroads power generating facility of approximately  
19 \$51.6 million. This analysis is significantly affected by assumptions  
20 regarding the current market for sales of units of similar capacity. The  
21 \$66.3 million adjustment reflects the difference between the fair value of  
22 the combustion turbines at \$51.6 million and the \$117.9 million book  
23 value of the facility at March 31, 2007.

24 Great Plains Energy management believes this to be an appropriate  
25 estimate of the fair value of the facility. The adjusted value will be  
26 depreciated over the estimated remaining useful lives of the underlying  
27 assets and could be materially affected by changes in fair value prior to the  
28 closing of the merger. An additional change in the fair value of the  
29 facility of \$15 million would result in an additional change to annual  
30 depreciation expense of approximately \$0.5 million.

31 [Great Plains Energy & Aquila Joint Proxy Statement/Prospectus the SEC  
32 on May 8, 2007, page 175]



1 Aquila, the owner of Crossroads then in 2007, apparently also believed the value of Crossroads  
2 was \$51.6 million, since it was part of the Joint Proxy Statement/Prospectus filed with the SEC  
3 in May 2007.

4 Q. Did Great Plains make any pro forma adjustments to the value of Crossroads on  
5 its Pro Forma Balance Sheet that is included in the May 8, 2007 proxy statement?

6 A. Yes, it did. At page 170 of this proxy statement is Great Plains' Pro Forma  
7 Combined Balance Sheet as of December 31, 2006. This balance sheet shows in Pro Forma  
8 Adjustment D that Great Plains management estimated that it would have to write down the  
9 value of Aquila's Nonutility Plant by \$67.25 million, with \$66.3 million of this amount  
10 representing its estimated write down of the Crossroads Energy Center. The remaining  
11 approximately \$1 million was for GMO's other non-regulated assets.

12 Q. Did Great Plains transfer this \$66.3 million valuation write down of Crossroads  
13 from non-regulated plant?

14 A. Yes. On page 175 of the May 8, 2007 Proxy Statement in an explanation of Pro  
15 Forma Adjustment E to Goodwill, Great Plains made public that it expected that if the Aquila  
16 acquisition went forward Great Plains would have to transfer the \$66.3 million Crossroads write  
17 down in Adjustment D from Non-utility plant to Goodwill. Clearly, Great Plains believed  
18 throughout the acquisition process that the Crossroads Energy Center could not be valued at its  
19 book value and would be valued at a substantial discount from book value.

20 Q. In addition to the recognition by Great Plains' management that the value of  
21 Crossroads is significantly less than its book value, are there other indications that the fair market  
22 value of Crossroads is less than its current book value?

1           A.     Yes.     According to GMO's response to Data Request 180 in Case No.  
2 ER-2009-0090 \*\* on at least two occasions in the past, one in 2001 and one in 2005, Aquila  
3 tried to sell Crossroads, but could not find a buyer. In the 2005 attempt, despite contacting 79  
4 parties, Aquila was unable to obtain one bid. \*\*

5           Q.     Did Great Plains purchase Crossroads with the intention of using it as a regulated  
6 Missouri generation plant?

7           A.     No. In Form 425, filed with the SEC on February 8, 2007, Great Plains included  
8 a transcript of a joint webcast call by Great Plains Energy Incorporated, Aquila, Inc. and Black  
9 Hills Corporation that occurred on February 7, 2007. Mr. Terry Bassham, then Great Plains'  
10 Executive Vice-President and Chief Financial Officer, and now Chief Executive Officer, stated  
11 that it was Great Plains' intention to "monetize" or sell Crossroads. The relevant portion of this  
12 transcript is reflected below:

13                   **Mike Chesser** Operator, we'd like to take one more question if we could  
14 because you all might expect we have quite a busy schedule ahead of us today.

15                   **Operator** Michael Lapidés of Goldman Sachs.

16                   **Michael Lapidés** Easy one. Mike, Terry, what are your thoughts on the  
17 peaking plant, the gas plant that Aquila owns?

18                   **Mike Chesser** At this stage as you know it is in litigation. And it has been  
19 appealed or it has been ruled on and appealed and it's being re-appealed. We  
20 have done quite a bit of due diligence around the potential outcomes on that  
21 and we have factored that impact into our purchase price.

22                   **Michael Lapidés** I'm thinking not the regulated one but the merchant one.

23                   **Terry Bassham** Crossroads.

24                   **Michael Lapidés** My apologies for not being --

25                   **Terry Bassham** That is okay, Michael. As Mike said we looked at  
26 (indiscernible) from a Crossroads perspective. We looked at the ability to  
27 utilize that or sell it. Our preference would be probably to get value through  
28 monetizing it. But if not we've looked at other options as well.

29           Q.     What is the significance of the fact that Great Plains' preference was to sell  
30 Crossroads after acquiring Aquila?

31           A.     Great Plains intended to sell Crossroads, and identified the amount that it  
32 expected to receive from that sale. The fact that Great Plains did not sell Crossroads, despite

1 being its stated preference, means that like Aquila, it could not find a buyer, or it decided not to  
2 sell Crossroads for some other reason.

3 Q. Does the Commission require that assets acquired in a merger or acquisition be  
4 included in rate base at net original cost?

5 A. Yes. The Commission has consistently applied the net original cost standard  
6 when placing a value on assets for purposes of establishing a utility's rates.

7 Q. What was Great Plains' evaluation of its original cost of Crossroads when it  
8 evaluated what to pay to acquire Aquila?

9 A. The fair market value of \$51.6 million which Great Plains placed on Crossroads  
10 on the date of acquisition. Under the Commission's Affiliate Transactions Rule,  
11 4 CSR 240-20.015 Affiliate Transactions, any transfer of Crossroads from non-regulated to  
12 regulated operations would have to be at or below that \$51.6 million.

13 Q. Did the Commission rely on its Affiliate Transactions Rule for valuing  
14 Crossroads in GMO's last rate case?

15 A. No. The Commission found that Crossroads should be included in rates based on  
16 two arms-length transactions made by AmerenUE (now Ameren Missouri). Since it used a  
17 market value for Crossroads when it ordered the plant be placed in rate base, the Commission did  
18 not rely on its Affiliate Transaction Rule.

19 Q. Did Great Plains estimate the value any other major asset it would acquire when  
20 purchasing Aquila?

21 A. Yes. At the time of the July 2008 Aquila acquisition, Aquila's South Harper  
22 three 105 megawatt combustion turbine generating station was in litigation over whether that  
23 station could remain operational. When performing its due diligence for acquiring Aquila,

1 Great Plains identified that there was an issue with South Harper, and indicated that it considered  
2 this issue in deciding its offer to purchase Aquila.

3 In the SEC filing made in Form 425 on February 8, 2007, Great Plains included a  
4 transcript of a joint webcast call by Great Plains, Aquila and Black Hills Corporation on  
5 February 7, 2007. Mr. Chesser, the Chief Executive Officer of Great Plains, made the  
6 following statement:

7 **Mike Chesser** At this stage as you know it is in litigation. And it has  
8 been appealed or it has been ruled on and appealed and it's being re-  
9 appealed. We have done quite a bit of due diligence around the potential  
10 outcomes on that and we have factored that impact into our purchase  
11 price.

12 Q. Has Staff made any adjustment to exclude costs for the South Harper station in  
13 this case?

14 A. No. While some South Harper costs were excluded in prior cases for the  
15 problems associated with South Harper, Staff has not reflected any adjustment relating to Great  
16 Plains paying a reduced price for this generating station because of the legal problems it had  
17 regarding that station. While South Harper could be considered overstated in value because of  
18 Great Plains concerns with this generating station, Staff continues to believe it is properly valued  
19 in MPS' rate base today and, therefore, has not made any adjustment to remove costs for the this  
20 facility for rate base valuation purposes.

21 **CROSSROADS ENERGY CENTER COURT REVIEW**

22 Q. Mr. Rush states at page 8 of his direct testimony that the Commission's valuation  
23 of Crossroads in its 2010 rate case is being reviewed by the Courts. What is the status of that  
24 review?

1           A.     It is my understanding that the Circuit Court has reviewed it and upheld the  
2 Commission not only on the Crossroad's issues, but on all issues it reviewed. I understand the  
3 2010 rate decision is now under review by the Western District Court.

4           **CROSSROADS ENERGY CENTER TRANSMISSION COST**

5           Q.     What is the Company's position on the treatment of the costs of transmitting  
6 electricity from Crossroads in Mississippi to GMO's service area in west central Missouri?

7           A.     Mr. Rush states in his direct testimony at page 8 that GMO included all the  
8 electric transmission costs for Crossroads in the Company's case. Mr. Crawford states at  
9 page 12 of his direct testimony that he believes it is reasonable to have GMO's Missouri  
10 customers pay for firm transmission costs incurred to transport electricity from Crossroads at  
11 Clarksdale, Mississippi.

12          Q.     What transmission costs may be incurred to generate electricity at a facility such  
13 as Crossroads?

14          A.     Mr. Crawford identifies at page 12 of his direct testimony that "there are two  
15 major transportation-related costs for a major generating facility. These include the cost to move  
16 fuel to the generating facility and the cost to move the electricity generated to the retail customer  
17 service area. Both components are required."

18          Q.     Do you agree with Mr. Crawford's statements?

19          A.     No. Many generating facilities do not have firm natural gas transportation. And  
20 all of KCPL's and GMO's generating facilities do not need firm transmission service because, as  
21 a member of the Southwest Power Pool (SPP) except for one power plant—Crossroads, all other  
22 generating units are able to transport power to their retail customers without incurring firm  
23 transmission costs. Since all other generating units in the KCPL and GMO fleets are within the

1 SPP transmission territory there is no cost for transmission service when the electricity is used by  
2 retail customers. The single exception is Crossroads. Since this Mississippi generating plant is  
3 located 525 miles away from GMO's load centers, GMO has decided for the Crossroads facility  
4 to have firm transmission to get power back to its retail customers in Missouri.

5 Q. Is the firm transmission for Crossroads expensive?

6 A. Yes. For 2011 the annual amount of transmission costs for Crossroads was  
7 **\*\* \$4.7 million \*\*** (for costs of other years see page 83 of COS Report filed in this case). At  
8 page 13 of his direct testimony, Mr. Crawford identifies the annual cost for firm transmission  
9 service for Crossroads at \$5.2 million. This is a substantial amount of yearly expense that GMO  
10 expects its customers to pay in rates because Aquila Merchant built a plant in Clarkdale,  
11 Mississippi in 2002 for its non-regulated merchant operations.

12 Q. Does GMO seek recovery of these transmission costs?

13 A. Yes. Mr. Crawford indicates at pages 12 and 13 of his rebuttal it is reasonable get  
14 recovery in rates for the firm transmission costs. He states that "...all major generating facilities  
15 will have costs related to transporting fuel and electricity." Certainly, combustion turbines using  
16 natural gas as a fuel source require costs for the transportation of this commodity. However, I  
17 know of no KCPL or GMO generating facility that require firm transmission service except  
18 Crossroads. Neither KCPL or GMO have any other power plants located outside of the  
19 transmission network system requiring firm transmission service and incurring additional  
20 transmission costs. Only Crossroads has to have firm transmission service.

21 Q. Why does Crossroads have firm transmission service?

22 A. Because it is located in Clarksdale, Mississippi.

1 Q. Did GMO make a comparison of the firm transmission service for power plant  
2 sites in other parts of the country?

3 A. Yes. Mr. Crawford discusses this in his direct testimony at page 13. In an  
4 apparent attempt to make the transmission costs for the Mississippi Crossroads plant look  
5 reasonable, GMO presents some comparative costs from two Illinois plant facilities.  
6 Mr. Crawford concludes: “given that the transportation costs are generally lower in total for  
7 Crossroads, it is reasonable that the Commission allow recovery of these costs.”

8 What Mr. Crawford and GMO fail to understand is that Aquila made deliberate business  
9 decisions to locate these generators where there were known congestion issues on the  
10 transmission network. Aquila Merchant believed placing peaking units in areas of transmission  
11 constraints would allow the non-regulated operations to enjoy the benefits of high priced power  
12 when there were times of restrictions of the network. In other words, Crossroads was placed in a  
13 location where it would ultimately be costly to transport power out of the region. Of course,  
14 Aquila never intended to use the power generated from Crossroads for GMO customers, so  
15 the transmission costs and the ability to transport electricity from Mississippi never was a  
16 concern—that is until KCPL took over operating GMO.

17 Now Mr. Crawford and GMO would have the Commission believe Crossroads is actually  
18 a bargain compared to the cost of transporting power in other parts of the country. GMO seems  
19 to suggest that if other parts of the country have higher transmission costs than the Crossroads  
20 transmission costs from Mississippi to west-central Missouri that somehow makes the  
21 Crossroads transmission costs reasonable and, therefore, they should be included in the revenue  
22 requirement for MPS. But GMO misses the point of the Commission’s decision in the last case.  
23 I don’t believe the Commission was suggesting with its decision that it disallowed the

1 Crossroads transmission costs because they are high to transport electricity out of Mississippi to  
2 Missouri. It is not that these costs are in Mississippi that makes them unreasonable. If  
3 Crossroads had been located elsewhere well outside GMO's service area and the transmission  
4 costs for it were costly, those costs should be disallowed.

5 The almost \$10 million (page 13 of his direct) that Mr. Crawford claims GMO would  
6 incur if it attempted to transport power from Illinois does not make the \$5.2 million transmission  
7 costs for Crossroads in Mississippi reasonable. The Commission should have the same concerns  
8 with transmission costs regardless of where the generation plant is located. The fact of the  
9 matter is that no regulated utility located in Kansas City would build power plant facilities so far  
10 away from where customers needing the power are located—not in Mississippi, not in Illinois,  
11 not where the power has to travel extremely long distances resulting in substantial  
12 transmission costs.

13 Q. Do transmission constraints affect the value of a generating plant?

14 A. Yes. The higher the transmission costs for a potential purchaser, the less valuable  
15 the plant is.

16 Q. What does that mean for valuing Crossroads?

17 A. For AmerenUE there are no transmission costs for it to obtain power from  
18 Raccoon Creek and Goose Creek to serve its retail customers in Missouri since the power from  
19 those units is being used to serve native load customers. GMO incurs high costs to obtain power  
20 from Crossroads because it is well outside the Southwest Power Pool area within which GMO,  
21 and KCPL, is located. Therefore, if the Commission were to include any transmission costs for  
22 Crossroads in the revenue requirement for MPS and rely on the values that AmerenUE placed on  
23 Raccoon Creek and Goose Creek for valuing Crossroads, it should discount the \$61.8 million



1 valuation for Crossroads it found in GMO's 2010 rate case because of the higher costs of  
2 transporting power from Crossroads to GMO's retail customers than AmerenUE's cost of  
3 transporting power from Raccoon Creek and Goose Creek to its retail customers.

4 Q. Is the Commission's rate base valuation of Crossroads conservative?

5 A. Yes. When the value of Crossroads determined by Great Plains of \$51.6 is  
6 considered, the Commission's valuation in the last case is reasonable. However, considering that  
7 Crossroads is located in Mississippi far from AmerenUE's service area so that, like GMO,  
8 AmerenUE would incur transmission costs to serve its retail customer with power from  
9 Crossroads, AmerenUE should not have been willing to pay as much for Crossroads on a \$/kW  
10 basis as it paid for either Raccoon Creek or Goose Creek. Instead, because of AmerenUE should  
11 have discounted Crossroads below the \$/kW bases it paid for Raccoon Creek and Goose Creek in  
12 2006 when it purchased them from Aquila Merchant. Taking all of this into consideration, the  
13 Commission's rate base valuation of Crossroads in Case No. ER-2010-0356 is more  
14 than reasonable.

15 Q. By relying on Raccoon Creek Goose Creek for valuing Crossroads, did the  
16 Commission somehow endorse the location of those units for GMO?

17 A. No. Raccoon Creek and Goose Creek were two power plants Aquila Merchant  
18 sold in the 2006 time frame when Aquila needed capacity to replace the 500 megawatt it was  
19 obtaining from the Aries Combined Cycle Unit through a purchased power agreement expired in  
20 May 2005. These units are actual arms-length, third party transactions that demonstrated that  
21 generating capacity was available in marketplace in the 2004 to 2006 time frame at very  
22 attractive prices. This period of time represented great buying opportunities base on both the

1 price and availability of equipment. That is why AmerenUE purchased both Raccoon Creek and  
2 Goose Creek.

3 Indeed, Aquila had many opportunities to buy generating equipment for its regulated  
4 operations. It had many opportunities to purchase deeply discounted turbine equipment in a  
5 buyer's market and would, like every other utility I'm aware, have built those facilities close to  
6 where the power was needed. Aquila failed to take advantage of these very attractive buying  
7 opportunities, and its customers have been paying the price ever since. Remember, Staff has  
8 been dealing with GMO's (both when named Aquila and now) approach to meeting capacity  
9 requirements since at least 2000. It is not by accident that all of the generating facilities KCPL  
10 and GMO own and use to serve their retail customers except Crossroads are located near the load  
11 they serve, not over 500 miles away.

12 Using Illinois plants to evaluate the plant cost of Crossroads is not the same as  
13 concluding that the fact that those plants are located in Illinois or anywhere else far away from  
14 GMO's customers means the cost of transporting power from them to GMO's retail customers  
15 should be considered. Staff was not suggesting that the power come from Raccoon Creek or  
16 Goose Creek when it used those facilities to value Crossroads, and Staff does not believe the  
17 Commission did either.

18 Q. What are examples of some of the other generating plant buying opportunities that  
19 Aquila did not take advantage of before 2005?

20 A. At page 79 of Staff's COS Report I identify three combustion turbines identical to  
21 those at Crossroads, Raccoon Creek and Goose Creek that Aquila Merchant sold to entities in  
22 Colorado and Nebraska. Those turbines were sold at prices well below the levels Staff  
23 recommended the Commission base its valuation of Crossroads on in GMO's 2010 rate case

1 which the Commission adopted. Perhaps they provide a better basis for valuing Crossroads than  
2 Raccoon Creek and Goose Creek. I believe if they were used as the basis for valuing Crossroads  
3 the value of Crossroads would have been lower than Staff's recommendations in GMO's 2012  
4 rate case. The average cost of those three turbines based on their sales was \*\* \$11.8 million \*\*  
5 per unit, well below the \*\* \$19.7 million \*\* per unit at Crossroads-savings of \*\* \$7.9 million \*\*  
6 per turbine. During that same timeframe Aquila released another turbine back to the  
7 manufacture losing its reservation payments. There were many opportunities to have built  
8 peaking facilities at very attractive prices in the buyer's market of 2004 when Aquila needed to  
9 be preparing to replace by the summer of 2005 the capacity it was losing with the end of the  
10 500 megawatts Aries PPA.

11 Q. If Mr. Crawford's analysis for the costs to transport power from Illinois is correct,  
12 would Staff recommend the Commission include those costs in the revenue requirement  
13 for MPS?

14 A. No. Again, the issue is not where the transmission is located; the issue is that  
15 GMO must incur costs for firm transmission to get power from Crossroads to meet the electricity  
16 requirements of the Company's customers in west central Missouri. Utilities simply don't put  
17 power plants where their customers are not located. Certainly, unless the cost of the generating  
18 facility is steeply discounted or annual transmission costs are low they do not own generating  
19 facilities located over 500 miles from where their customers are located.

20 I do not recommend including in the revenue requirement of MPS GMO's \$9.7 million  
21 per year charge for transmission costs to transport power from Illinois to west central Missouri  
22 any more than I recommend including the \$5.2 million annual level for Crossroads to transport  
23 power from Mississippi.

1 Q. How did the Commission treat the transmission costs for transporting power from  
2 Crossroads to GMO's service area in GMO's 2010 rate case?

3 A. The Commission concluded that it was unreasonable for GMO's retail customers  
4 to pay for firm transmission costs to transport power over 500 miles to western Missouri. The  
5 Commission stated the following in 29 Conclusion of Law – Crossroads, at page 99 of its Order  
6 in GMO's 2010 rate case:

7 In addition to the valuation, the Commission concludes that but for the  
8 location of Crossroads customers would not have to pay the excessive cost  
9 of transmission. Therefore, transmission costs from the Crossroads  
10 facility, including any related to OSS [off-system sales] shall be  
11 disallowed from expenses in rates and therefore also not recoverable  
12 through GMO's fuel adjustment clause ("FAC").

13 And at page 87 of that same Order, the Commission stated:

14 It is not just and reasonable to require ratepayers to pay for the added  
15 transmission costs of electricity generated so far away in a transmission  
16 constricted location. Thus, the Commission will exclude the excessive  
17 transmission costs from recovery in rates.

18 **CROSSROADS ENERGY CENTER NATURAL GAS TRANSPORTATION COST**

19 Q. Does GMO have firm natural gas transportation to any of its generating facilities  
20 other than Crossroads?

21 A. Yes. It has firm natural gas transportation for Crossroads (located in Mississippi)  
22 and for its South Harper Generating Facility located near Peculiar, Missouri, just South of  
23 Kansas City and within a few miles of GMO's service area.

1 Q. Does GMO have firm natural gas transportation for any of its generating facilities  
2 that are located within its service area?

3 A. No. None of KCPL's natural gas-fired generating facilities has firm  
4 transportation service for moving natural gas to them. GMO has several natural gas-fired that do  
5 not have firm transportation:

- 6 • 253 megawatts at Greenwood Generating Unit Nos. 1 through 4
- 7 • 71 megawatts at Ralph Green
- 8 • 98 megawatts at Lake Road Units 1, 3 and 5

9 Q. GMO is an affiliate of KCPL. Does KCPL have firm natural gas transportation to  
10 any of its generating facilities?

11 A. KCPL has several natural gas-fired combustion turbines that do not have  
12 firm transportation:

- 13 • 310 megawatts at West Gardner Units Nos. 1 through 4
  - 14 • 75 megawatts at Osawatomie
  - 15 • 232 megawatts at Hawthorn 6 and 9 combined cycle
  - 16 • 77 megawatts at Hawthorn 7
  - 17 • 77 megawatts at Hawthorn 8
- 18 [source: page 23 of 2011 Great Plains Energy Annual Report]

19 Q. At pages 25 to 30 of his direct testimony GMO witness Blunk testifies that  
20 combustion turbine stations such as Crossroads and South Harper may have two types of  
21 transmission costs—one for transporting electricity from the station to end users and one for  
22 transporting natural gas to the station. He then makes some assumptions to estimate what it  
23 might cost to increase the supply of natural gas to South Harper to serve the CTs presently  
24 located at Crossroads. For purposes of valuing the costs of Crossroads does his example have  
25 any merit?

26 A. No. Crossroads was built in 2002 and South Harper in 2005. Both were  
27 designed, sized and built based on the capacity needs, available gas supply, and electricity

1 transmission costs those who built them anticipated when they were built. It is not reasonable to  
2 assume that locating the Crossroads CTs at South Harper in 2012 is a reasonable model for  
3 exploring natural gas transportation costs. Not long after building South Harper GMO was  
4 exploring construction of another combustion turbine station at Sedalia. It may very well be that  
5 the cost of supplying natural gas to that location would be substantially less than Mr. Blunk's  
6 estimate of increasing the natural gas supply to South Harper to accommodate the  
7 Crossroads CTs.

8 Q. Is it a certainty that any expansion of South Harper would need year-round firm  
9 transportation for natural gas?

10 A. No. While that would have to be determined in an economic study for any actual  
11 project for the South Harper site, there is sufficient capacity at GMO's other peaking facility to  
12 meet customer demands on all but the highest peak demands of the system. GMO also relies on  
13 KCPL to supply much of its purchased power needs.

14 Q. Mr. Blunk indicates in his direct testimony at page 27 that he estimates a range of  
15 costs that GMO would incur if the natural-gas units were located in the Kansas City area instead  
16 of Mississippi.

17 A. The range of costs relating to pipeline capacity are speculative costs at best.  
18 These costs are not actual costs but projections based on information GMO requested from the  
19 two pipelines serving South Harper. While these estimates may be helpful to get an idea of what  
20 costs to expect in the early planning stages of power plant decision-making, doubt these costs  
21 would be sufficient to making an actual decision. They certainly would be firmed up to develop  
22 a construction budget for the actual construction.

1 Q. Would pipelines need to provide more firm amounts to actually build the  
2 upgrades necessary to the pipeline system if GMO would move forward to expand the South  
3 Harper site?

4 A. I would think so. In the process of working with GMO to upgrade pipeline  
5 capacity to accommodate additional generating units at South Harper, it is likely that other  
6 customers on the pipeline would benefit from such upgrades. If such were the case, then the  
7 pipeline companies—in this case Southern Star and Panhandle—may make allowances to what  
8 costs GMO would actually have to pay for the upgrades.

9 The real point is the cost estimates that Mr. Blunk has presented in his direct case may  
10 likely change for an actual expansion at South Harper.

11 Q. Is GMO a summer peaking utility?

12 A. Yes. As such, GMO needs peaking power during the hottest parts of the year  
13 while the natural gas pipelines are designed to meet the winter loads of the heating season. At  
14 the time when GMO needs the bulk of its power in the summer is when the pipeline capacity is  
15 least needed for other customers.

16 Q. What is the point of GMO's testimony on the pipeline costs and  
17 transmission costs?

18 A. To show what a bargain Crossroads is. GMO has every incentive to show the  
19 highest costs of alternatives to its proposed treatment of Crossroads. The Commission should be  
20 very leery of such presentation when it considers the Crossroads valuation and related costs.

21 Q. Are there other locations than South Harper that should be considered?

1           A.     Yes.  GMO has any number of sites available and should limit capacity expansion  
2 to just the South Harper site as Mr. Blunk suggests in his direct.  At one time Aquila discussed a  
3 Sedalia site for its next power plant site.  Rather than limiting the evaluation of site expansion to  
4 South Harper, Greenwood would be a possibility.

5           Also, KCPL has a two sites at Osawatomie and West Gardner that could be considered  
6 through a joint ownership arrangement.

7           In assessing the generation needs of GMO, even Aries (now called Dogwood) should  
8 have consideration.

9     **CROSSROADS ENERGY CENTER DEFERRED INCOME TAXES**

10          Q.     How has GMO treated accumulated deferred income taxes for Crossroads?

11          A.     Mr. Rush states at page 8 of his direct testimony, “the Company has continued the  
12 deferred income tax calculation based on the full plant balance, which is included as an offset to  
13 rate base.”  GMO witness Hardesty identifies in her direct testimony at page 4 that the GMO is  
14 requesting \$8,355,048 amount be used as an offset to rate base based on Crossroads plant  
15 projected through the true-up period of August 31, 2012.

16          Q.     Does Staff agree with GMO that the accumulated deferred income taxes for  
17 Crossroads included in determining the revenue requirement for MPS should be based on the full  
18 plant balance that GMO has included for Crossroads in its direct case?

19          A.     No.  Deferred taxes should be consistent with the value for Crossroads the  
20 Commission determines should be included in rate base for MPS.  Deferred taxes are directly  
21 related to the level of plant investment.  If the Commission accepts GMO’s position that  
22 Crossroads should be included at the full net book value then the deferred tax balance should be



1 based on the deferred taxes accumulated for Crossroads since 2002 when the plant was  
2 completed. This would be approximately \$11.3 million of deferred income taxes.

3           However, if the Commission should continue to value Crossroads as it did in Case No.  
4 ER-2010-0356 at the \$61.8 million as of July, 2008 (date when GMO would have theoretically  
5 acquired Crossroads based on a third-party sale transaction) in MPS rate base then the associated  
6 deferred income taxes included in the revenue requirement for MPS should be based on that  
7 valuation, updated through the August 31, 2012, true-up cut-off date. Using the Commission's  
8 authorized value of \$61.8 million for Crossroads at the time that GMO would have acquired  
9 Crossroads on July 14, 2008, the amount of deferred taxes would have been zero. Since the  
10 Commission based its valuation of Crossroads on two third-party non-affiliate purchases of  
11 Raccoon Creek and Goose Creek as though GMO had acquired Crossroads in a third-party  
12 distressed market transaction, deferred taxes would start accumulating at the time of the  
13 theoretical purchase. In essence, deferred taxes would be synchronized with GMO's acquisition  
14 of the "new" plant valued at the \$61.8 million.

15           Q.     Have parties disputed what the accumulated deferred income taxes for Crossroads  
16 should be for purposes of including them in the revenue requirement for MPS in the past?

17           A.     Yes. Starting in GMO's 2009 rate case and continuing in GMO's 2010 rate case,  
18 GMO only included the deferred income taxes generated by Crossroads since 2007 when it was  
19 transferred from Aquila Merchant based on Aquila's booked value for Crossroads when it was  
20 valued as a Aquila Merchant property. Aquila's non-regulated Aquila Merchant affiliate built  
21 Crossroads in 2002. GMO left the deferred taxes relating to the period from when Aquila  
22 Merchant built Crossroads in 2002 until July 2008 with a non-regulated GMO affiliate. GMO's  
23 position regarding the deferred taxes generated during 2002 to 2007, although not specifically

1 identified by the Company, seems to be those deferred taxes generated while Crossroads was in  
2 Aquila Merchant should not be included in rate base for MPS. If Crossroads is valued for rate  
3 base purposes at full book value, then it is Staff's position all the accumulated deferred income  
4 taxes generated by Crossroads since it was built should be included in MPS's rate base,  
5 regardless of when they were generated—prior to the transfer to regulated operations and after.

6 Q. What exactly are accumulated deferred income taxes?

7 A. Deferred taxes represent the difference between when tax benefits are reflected in  
8 the determination of taxable income and when they are included in a utility's revenue  
9 requirement for ratemaking. These differences are referred to as "timing differences."  
10 Primarily, the timing differences are created by the use of accelerated depreciation methods that  
11 are permitted by the IRS in the computation of taxable income when, in ratemaking, the benefits  
12 are recognized by use of the straight-line depreciation method, i.e., the benefits are recognized  
13 earlier for income tax purposes than they are for ratemaking purposes. The amount of the  
14 deferred taxes results from the amount of plant investment, in this case, Crossroads. For  
15 ratemaking purposes, GMO and Staff do not include the accelerated depreciation amounts for  
16 determining the income taxes included in revenue requirement. These deferred tax amounts are  
17 included in rate determinations over the life of the plant assets. Eventually, through a concept  
18 known as turn-around, the depreciation over the amount included in rates from straight-line  
19 method is also reflected in the income tax calculation. Customers do get the tax benefits of all  
20 the depreciation relating to the plant investment and the accelerated depreciation is accumulated  
21 in deferred taxes, which are used as an offset (reduction) to rate base.

1 Q. Should the Commission include all of the deferred income taxes generated from  
2 the completion of Crossroads in 2002 as an offset to the value it includes in rate base  
3 for Crossroads?

4 A. If Crossroads is placed in rate base for MPS at full net book value, as proposed by  
5 GMO, then all the deferred taxes created since the inception of the power plan in 2002 should be  
6 used as an offset to rate base. The Commission found this amount to be \$15 million in GMO's  
7 2010 rate case. In this case GMO has included an amount for deferred taxes of \$8.3 million  
8 (\$8,355,048 source: Data Request 152) based on a projection made by GMO for Crossroads  
9 plant as of the August 31, 2012 true-up (Hardesty direct page 4).

10 Q. If for rate base purposes the Commission values Crossroads at \$61.8 million as of  
11 July 14, 2008, should it also include all the deferred accumulated income taxes generated from  
12 the completion of Crossroads in 2002 as an offset to that rate base value?

13 A. As I testified earlier, the amount of the accumulated deferred income taxes used  
14 as an offset to the value of Crossroads included in rate base should be related to that plant value.  
15 Staff believes it is necessary for the parties to discuss the amount of deferred taxes that should be  
16 used for Crossroads based on the level determined by the Commission. If Crossroads is valued  
17 based on the Commission's findings in Case No. ER-2010-0356—the \$61.8 million level—then  
18 the amount of deferred taxes consistent with Crossroads August 31, 2012 estimated plant level  
19 should be \$4.2 million (\$4,221,784 source: Data Request 153) August 31, 2012 estimate.

20 Q. What are the various levels of deferred taxes for Crossroads based on the parties'  
21 differing positions?

22 A. The following table can be used to identify the various positions and when the  
23 deferred taxes would have originally started:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11

<b>Crossroads Plant Value At Commission Authorized Value Case ER-2010-0356 at Dec 31, 2010</b>	<b>Deferred Taxes Start at July 2008 GMO Acquired Crossroads at August 31, 2012-- estimated</b>	<b>Deferred Taxes in Staff's Direct Filing at March 31, 2012</b>	<b>Deferred Taxes Commission Authorized Value Case ER-2010-0356 at Dec 31, 2010</b>
\$61,764,000 At Dec 31, 2010			\$15,000,000
\$62,337,897 At March 31, 2012	\$4,221,784 At August 31, 2012-- estimate	\$14,765,829 At March 31, 2012-- actual	

Staff's Level of Crossroads Plant and Related Deferred Taxes—

GMO's Level of Crossroads Plant and Related Deferred Taxes—

<b>Crossroads Plant Value At Commission Authorized Value Case ER-2010-0356 at Dec 31, 2010</b>	<b>Deferred Taxes Start at July 2008 GMO Transferred Crossroads-- August 31, 2012-- estimated</b>	<b>Deferred Taxes in GMO's Direct Filing at March 31, 2012</b>	<b>Deferred Taxes Commission Authorized Value Case ER-2010-0356 at Dec 31, 2010</b>
\$61,764,000 At Dec 31, 2010 Ordered Amount			\$15,000,000 At Dec 31, 2010 Ordered Amount
\$132,692,782 At March 31, 2012	<b>\$8,355,048</b>	\$8,046,128	

Staff's Level of Crossroads Deferred Taxes if Commission Includes  
GMO's Proposed Full Amount for Crossroads—

1

<b>Crossroads Plant Value At March 31, 2012</b>	<b>Deferred Taxes Start at 2002 Crossroads Completion-- August 31, 2012-- - estimated</b>		<b>Deferred Taxes Commission Authorized Value Case ER-2010- 0356 at Dec 31, 2010</b>
\$61,764,000			\$15,000,000
At Dec 31, 2010 Ordered Amount			At Dec 31, 2010 Ordered Amount
\$132,692,782	\$11,304,665		\$15,000,000
At March 31, 2012	At March 31, 2012		At Dec 31, 2010 Ordered Amount

2

3

4

Using March 31, 2012 plant values as substitute –  
did not have August 31, 2012 amounts.

5

The above amounts for plant and deferred taxes will have to be updated to August 31, 2012

6

actual amounts at the true-up.

7

Q. Does this conclude your rebuttal testimony?

8

A. Yes.

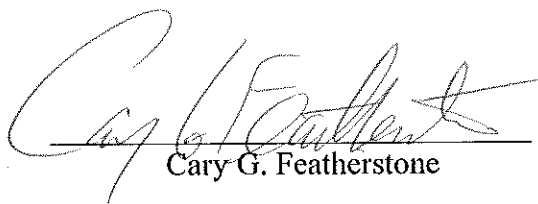
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater Missouri )  
Operations Company's Request for Authority )           Case No. ER-2012-0175  
to Implement General Rate Increase for )  
Electric Service )

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI     )  
  )     ss.  
COUNTY OF COLE     )

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 51 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Cary G. Featherstone

Subscribed and sworn to before me this 12<sup>th</sup> day of September, 2012.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 08, 2012  
Commission Number: 08412071

  
Notary Public

**SCHEDULE CGF-REB-1**

**AND**

**SCHEDULE CGF-REB-2**

**HAVE BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN THEIR ENTIRETY**

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0336

1. Does Mr. Montalbano believe it was prudent, reasonable, and consistent with its fiduciary responsibilities of Great Plains Energy and/ or Kansas City Power & Light officers not to seek a portion of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations at the time it sought the Tax Credit for KCPL in 2006 and 2007? 2. If yes, at what point in time does Mr. Montalbano, consistent with Great Plains Energy and/ of Kansas City Power & Light fiduciary responsibility to GMO and its customers, believe it would have been appropriate for KCPL and/ or GPE to seek, in whatever form appropriate, a proportional ownership share of the Tax Credit for GMO? Please explain.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0336 MO Verification.pdf



*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0336 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0337

1. Does Mr. Montalbano believe it was prudent, reasonable, and consistent with its fiduciary responsibilities of Great Plains Energy and/ or Kansas City Power & Light officers not to seek a portion of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations at the time when Empire District Electric Company requested the Tax Credit from KCPL in 2008? 2. If yes, at what point in time does Mr. Montalbano, consistent with Great Plains Energy and/ of Kansas City Power & Light fiduciary responsibility to GMO and its customers, believe it would have been appropriate for KCPL and/ or GPE to seek, in whatever form appropriate, a proportional ownership share of the Tax Credit for GMO? Please explain.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0337 MO Verification.pdf

***Verification of Response***

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0337 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0338

1. Does Mr. Montalbano believe it was prudent, reasonable, and consistent with its fiduciary responsibilities of Great Plains Energy and/ or Kansas City Power & Light officers not to seek a portion of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations at the time when Empire District Electric Company gave notice of arbitration in July 2009 requesting an allocation of the Tax Credit? 2. If yes, at what point in time does Mr. Montalbano, consistent with Great Plains Energy and/ of Kansas City Power & Light fiduciary responsibility GMO and its customers, believe it would have been appropriate for KCPL and/ or GPE to seek, in whatever form appropriate, a proportional ownership share of the Tax Credit for GMO? Please explain.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0338 MO Verification.pdf

*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0338 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0339

1. Does Mr. Montalbano believe it was prudent, reasonable, and consistent with its fiduciary responsibilities of Great Plains Energy and/ or Kansas City Power & Light officers not to seek a portion of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations at the time when the arbitration panel decided in December 2009 in favor of Empire District Electric Company' request for a proportional ownership share of the Tax Credit? 2. If yes, at what point in time does Mr. Montalbano, consistent with Great Plains Energy and/ of Kansas City Power & Light fiduciary responsibility to GMO and its customers, believe it would have been appropriate for KCPL and/ or GPE to seek, in whatever form appropriate, a proportional ownership share of the Tax Credit for GMO? Please explain.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0339 MO Verification.pdf

*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0339 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0340

1. Does Mr. Montalbano believe it was prudent, reasonable, and consistent with its fiduciary responsibilities of Great Plains Energy and/ or Kansas City Power & Light officers not to seek a portion of the Iatan 2 Advanced Coal Tax Credit for KCP&L Greater Missouri Operations at the time in early 2010 when a reallocation of the Tax Credits to Empire District Electric was made by KCPL to the Internal Revenue Service and the revised Memorandum of Understanding was agreed to with the IRS on September 9, 2010? 2. If yes, at what point in time does Mr. Montalbano, consistent with Great Plains Energy and/ of Kansas City Power & Light fiduciary responsibility to GMO and its customers, believe it would have been appropriate for KCPL and/ or GPE to seek, in whatever form appropriate, a proportional ownership share of the Tax Credit for GMO? Please explain.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0340 MO Verification.pdf



*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0340 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0343

1. Does Mr. Montalbano believe that KCP&L Greater Missouri Operations is entitled to a share of the tax benefits relating to the Advance Coal Tax Credits based on its ownership share of Iatan 2? 2. If not, provide any and all reasons why GMO is not entitled to any of the tax benefits relating to the Advance Coal Tax Credits based on its ownership share of Iatan 2. 3. If yes, what is the proper benefit GMO is entitled based on its ownership of Iatan 2?

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on the above matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0343 MO Verification.pdf

*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0343 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0344

1. With respect to Mr. Montalbano's direct testimony concerning the Advance Coal Tax Credit for Iatan 2, does Mr. Montalbano know if KCP&L Greater Missouri Operations was required to pay for its 18% ownership share of Iatan 2? 2. Does Mr. Montalbano know if Kansas City Power & Light was required to pay for its 54.71% ownership share of Iatan 2? 3. Does Mr. Montalbano know if Empire District Electric Company was required to pay for its 12% ownership share of Iatan 2? 4. Assuming each of the owners were required to make payments for their respective ownership shares of Iatan 2 then why would it not be proper for all benefits resulting from the ownership of Iatan 2 including the benefits of the Advanced Coal Tax Credits to be recognized / shared by all the tax-paying owners of Iatan 2 including GMO.

RESPONSE: (do not edit or delete this line or anything above this)

1.-3. I assume all parties were required to give some consideration for their respective ownership share in Iatan 2. 4. I have no opinion on this matter.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0344 MO Verification.pdf

*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0344 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0345

Does Mr. Montalbano believe it is generally accepted in the regulatory framework used by public utility commissions including regulatory and ratemaking concepts used by the Missouri Public Service Commission that those who pay the costs should receive the benefits e.g., in this case that KCP&L Greater Missouri Operations customers are required to pay for the environmental equipment that allowed Iatan 2 to qualify for the Advance Coal Tax Credit should GMO customers also receive any benefits relating to Iatan 2 including any tax benefits that gave rise to the installation of the environmental equipment.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on in this matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge the regulatory framework.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0345 MO Verification.pdf

***Verification of Response***

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0345 is true and accurate to the best of my knowledge and belief.

Signed: *Tom Rush*

Date: June 7, 2012

Company Name: KCPL  
Case Description: 2012 KCP&L Rate Case  
Case: ER-2012-0174

Response to Featherstone Cary Interrogatories – Set MPSC\_20120524  
Date of Response: 06/07/2012

Question No. :0346

1. Does Mr. Montalbano believe it would be proper for KCP&L Greater Missouri Operations customers not to have to pay in electric utility rates its 18% ownership share of the environmental equipment installed at latan 2? 2. If so, please explain the circumstances GMO customers should not have to pay for the environmental equipment installed at latan 2. 3. If so, identify all the reasons why it is proper for GMO customers to have to pay for the environmental equipment installed at latan 2. 4. With respect to the environmental costs necessary for the operations of latan 2 that qualified this generating facility for the Advance Coal Tax Credit—does Mr. Montalbano believe it would be appropriate that some or all of the these costs relating to the installation and operation of environmental equipment not be recovered in rates from KCP&L Greater Missouri Operations? 5. If yes, under what circumstances would it be appropriate that customers of GMO not pay in rates costs relating to the installation and operation of environmental equipment? 6. Please give as many examples as Mr. Montalbano believes are appropriate where it would be proper for customers of KCP&L Greater Missouri Operations not to have to pay in rates costs relating to the installation and operation of environmental equipment.

RESPONSE: (do not edit or delete this line or anything above this)

I have no opinion on this matter. I have been asked to provide guidance on the tax normalization impact of the facts as they are presented in this rate case, not to judge business decisions of KCPL or Great Plains Energy or the regulatory framework itself.

Response prepared by: Salvatore Montalbano, Pricewaterhouse Coopers, LLP

Attachment:

Q0346 MO Verification.pdf

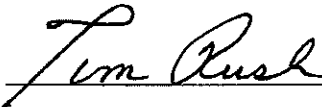


*Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2012-0174**

The response to Data Request # 0346 is true and accurate to the best of my knowledge and belief.

Signed: 

Date: June 7, 2012



To: Files  
From: Ron Klote, Senior Manager Regulatory Accounting  
CC: Darrin Ives  
Date: October 31, 2008  
Subject: Crossroads Energy Center Transfer to the KCP&L Greater Missouri Operations Company Regulated Jurisdiction's MOPUB Business Unit

**Purpose:**

To document the reason for and the timing of the property accounting move of the Crossroads Energy Center to the books and records of KCP&L Greater Missouri Operations Company's ("GMO") MOPUB business unit. In addition, documenting the recording of the Crossroads Energy Center as a capital lease and how the accumulated deferred income taxes ("ADIT") should be treated associated with the plant.

**Relevant Guidance Researched:**

Code of Federal Regulations Title 18 Part 101

**Background:**

The Crossroads Energy Center is an approximately 300MW combustion turbine power plant consisting of four General Electric 7EA units. It was built in 2002 by a non-regulated subsidiary of Aquila, Inc. titled Aquila Merchant Services. It is located in Mississippi and is owned by the City of Clarksdale for property tax abatement purposes. GMO holds a purchase option that provides the opportunity for GMO to purchase the plant from the City of Clarksdale at any time for \$1,000. This purchase would eliminate the property tax abatement treatment of the plant. The Crossroads Energy Center is controlled by GMO through a long-term tolling agreement. The plant is recorded as a capital lease on the books and records of MOPUB.

The placement of the Crossroads Energy Center on the books and records of Aquila, Inc. was as follows. In October 2002, the Crossroads Energy Center was moved from business unit MEP (Merchant Energy Partners Investment LLC) CWIP account into business unit ACEC (Crossroads Energy Center) plant accounts. ACEC was a business unit under the non-regulated subsidiary of MEP. In March 2007, due to the wind down of Aquila's Merchant operations and their inability to effectively dispatch power from the Crossroads Energy Center, there was a negotiation of the rights and obligations of the plant to Aquila, Inc. This transfer was governed by a Master Transfer Agreement dated March 31, 2007. Aquila, Inc. paid \$117.9 million to Aquila Merchant which was equivalent to the net book value of Crossroads at this time. Rather than pay a cash purchase price, the purchase price took the form of a credit that reduced the amount of indebtedness owed by Aquila Merchant to Aquila parent. On March 31, 2007, Crossroads Energy Center was recorded at Net Book Value to a nonregulated business unit CECAQ (Crossroads Energy Center Aquila) where it resided at the time of the acquisition of Aquila, Inc. by Great Plains Energy (GPE).

On March 19, 2007, the regulated jurisdictional operations of GMO issued a request for proposal for a long-term supply option. The Crossroads Energy Center was bid into the request for proposal at net book value to satisfy the long-term supply option. The candidates submitting bids for the long-term supply option were evaluated and the Crossroads Energy Center was selected as the least cost and preferred option for long-term supply. The evaluation process and selection of the Crossroads Energy Center as the preferred option was presented to the Missouri Public Service Commission Staff on October 31, 2007.

On approximately May 14, 2008 Aquila's management presented a review of the IRP process presented to Staff in October 2007 with GPE management. During this presentation, the Request for Proposal process was discussed with GPE management and Aquila's decision to select Crossroads as the least cost and preferred option was reviewed. At this meeting, GPE concurred with Aquila's recommendation to use Crossroads as a long-term supply option. (Added by Tim Rush on 1/6/09: Attendees, Todd Kobayashi, Kevin Bryant, Tim Rush, Scott Heidtbrink, Davis Rooney, Gail Allen, Gary Clemens, Denny Williams, Jeremy Morgan. As a note, in the initial evaluation of the acquisition of Aquila, GPE had not made a decision on how it would address the Crossroads facility.)

On August 31, 2008 the Crossroads Energy Center was moved from GMO's business unit NREG, where it was recorded after the acquisition of Aquila, Inc. by Great Plains Energy on July 14, 2008, to MOPUB's books and records. MOPUB is the regulated business unit which previously served the territory known as Missouri Public Service. On September 5, 2008 GMO regulated jurisdictions filed a rate case including the Crossroads Energy Center in MPS's rate base at net book value.

#### **Conclusion:**

The following actions regarding the accounting of the Crossroads Energy Center are appropriate:

1. The Crossroads Energy Center should be recorded at net book value on the books and records of KCP&L Greater Missouri Operations Company's MOPUB business unit.
2. August 2008 was the appropriate time to move the Crossroads Energy Center to the MOPUB business unit.
3. The Crossroads Energy Center is appropriately recorded as a capital lease as part of the continuing property records.
4. The ADIT associated with the time period that the Crossroads Energy Center was recorded on the non-regulated subsidiary of Aquila, Inc. should be recorded on the non-regulated business unit AQP (GMO's non-regulated subsidiary). The ADIT balances from March 2007 when the Crossroads Energy Center was moved to a business unit under Aquila, Inc. parents books and records until the present should be recorded on the business unit MOPUB.

#### **Support of Conclusion:**

##### Recorded at Net Book Value on MOPUB's Books and Records

The support for the decision by GPE's management to record the Crossroads Energy Center at net book value can be directly linked to the Request for Proposal process by GMO. As discussed in the background section above, on March 19, 2007 the regulated jurisdictional operations of GMO sent out a Request for Proposal to evaluate and choose a long-term supply option. Aquila, Inc. bid the Crossroads Energy Center into the Request for Proposal process at net book value. All bids were accumulated and evaluated. The Crossroads Energy Center was selected as the least cost and most preferred option. This was presented to Missouri Public Service Commission Staff on October 31, 2007.

Additionally, with the acquisition of Aquila, Inc. by Great Plains Energy, PricewaterhouseCoopers was engaged to complete a Purchase Accounting Valuation. As part of this analysis, there was an assessment of the fair market value of the Crossroads Energy Center. This evaluation resulted in an amount that was in excess of the Net Book Value that was offered into the Request for Proposal process initiated by Aquila Inc. GPE's management made the decision to not record a fair market value adjustment on the Crossroads Energy Center, but instead record the plant at net book value and include the property as part of GMO's regulated jurisdiction. This amount is being requested to be part of rate base at net book value in GMO's current rate case filing, case number ER-2009-0090.

##### Recorded at August 2008 on Business Unit MOPUB

The support to move the Crossroads Energy Center to MOPUB's business unit in August 2008 can be linked to a series of events ultimately concluding in GPE management's decision to include the Crossroads Energy Center in the GMO's regulated jurisdiction rate base calculation in the September 5, 2008 rate case filing (ER-2009-0090). The series of events as discussed in the background section of this whitepaper are detailed below:

- On March 31, 2007, the non-regulated subsidiary Merchant Energy Partners negotiated an assignment of the rights and obligations of the Crossroads Energy Center to the Parent company Aquila, Inc.
- Subsequently, Aquila, Inc. bid the Crossroads Energy Center into a Request for Proposal by GMO's regulated jurisdiction for a long-term supply option.
- GMO's evaluation of the bids offered concluded that the Crossroads Energy Center was the least cost and preferred option for the long-term supply option.
- On October 31, 2007, a presentation was made to the Missouri Public Service Commission Staff communicating the results of the Request for Proposal process.
- Approximately May 14, 2008 Aquila's management reviewed the results of the IRP process and the results of the Request for Proposal process with GPE's management. GPE's management concurred with the decision that Crossroads was the least cost and preferred long-term supply option.
- On July 14, 2008 Great Plains Energy completed their acquisition of Aquila, Inc.
- August 2008, GPE's management decided to include the Crossroads Energy Center in rate base in its GMO regulated jurisdiction.
- On August 25, 2008, GPE's management met with Missouri Public Service Commission Staff and discussed GPE's decision to move the Crossroads Energy Center onto the books and records of GMO's regulated jurisdiction and include the net book value of the plant in rate base in the upcoming rate case filing.
- August 31, 2008 Crossroads Energy Center was transferred to GMO's regulated jurisdiction.
- September 5, 2008, GMO filed a rate case under the docket number ER-2009-0090 including the Crossroads Energy Center in rate base at net book value.

Recorded as a Capital Lease

The "General Instructions" number 19 of 18 CFR part 101 states the following:

*If at the inception a lease meets one or more of the following criteria, the lease shall be classified as a capital lease. Otherwise, it shall be classified as an operating lease.*

1. *The lease transfers ownership of the property to the lessee by the end of the lease term.*
2. *The lease contains a bargain purchase option.*
3. *The lease term is equal to 75 percent or more of the estimated economic life of the leased property.*
4. *The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor.*

The Crossroads Energy Center has been recorded on the books and records since October 2002 as a capital lease. This is supported by the following:

- Criteria number 3 states that the lease term is equal to 75 percent or more of the estimated economic life of the leased property. The Crossroads Energy Center meets this criteria. The lease term agreed to with the City of Clarksdale was for an original term of 30 years and two 5 year extension options. The economic life of the plant is estimated at 40 years. This equates to 75 percent of the economic life when considering the original terms and 100 percent of the economic if the two 5 year extension periods are exercised. Both meet or exceed the 75 percent criteria discussed above.
- In addition, criteria number 2 states that the lease must contain a bargain purchase option. Effective March 28, 2008 GMO finalized a purchase option that allows it to purchase the Crossroads Energy Center from the City of Clarksdale at any time for \$1,000. \$1,000 would be considered a bargain purchase option as it is significantly less than the fair market value of the plant. Crossroads would meet this requirement.

Recording of ADIT Balances

ADIT balances to date associated with the Crossroads Energy Center can be grouped into two separate categories as follows:

- ADIT accumulated from original in service date during 2002 to the date the plant was transferred to Aquila, Inc.'s parents books CECAQ in March 2007.
- ADIT accumulated on Aquila, Inc.'s parents books from March 2007 to present.

The ADIT in the first grouping when the Crossroads Energy Center was recorded on Aquila's non-regulated subsidiary Merchant Energy Partner's with a business unit titled ACEC is attributable to the deferred intercompany gain from when the Plant was transferred to Aquila, Inc.'s parents books. The transfer of these ADIT balances to Parent would not be appropriate as the Parent or the future GMO jurisdiction has not received any benefits of the accelerated depreciation that was recognized on the non-regulated subsidiary books. As such, the ADIT associated with this time period is recorded presently on the non-regulated business unit AQP.

The ADIT associated with the time period of when the plant was recorded on Aquila Inc.'s parents books to the present is attributable to the tax effected difference between book and tax depreciation. Due to tax normalization rules, these amounts are required to follow the plant as it gets transferred to the GMO regulated jurisdiction of MOPUB. These ADIT amounts will be used as rate base offsets to the plants net book value that will be included in GMO's rate case filings.