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Issue: Fuel Adjustment Clause
Witness: Matthew J. Barnes
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Type of Exhibit: Rebuttal Testimony
Case No.: ER-2016-0156
Date Testimony Prepared: August 15, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

WATER & SEWER DEPARTMENT

REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

*Jefferson City, Missouri
August 2016*

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CASE NO. ER-2016-0156

Q. Please state your name and business address?

A. My name is Matthew J. Barnes and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

Q. What is your position at the Commission?

A. I am a Utility Regulatory Auditor IV in the Commission Staff Division, Water and Sewer Department.

Q. Are you the same Matthew J. Barnes that contributed to Staff's Cost of Service Report ("COS Report") filed on July 15, 2016 and to Staff's Rate Design Report filed July 29, 2016?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address GMO witness Mr. Tim M. Rush's Fuel Adjustment Clause ("FAC") direct testimony in which he requests the continuation of the Company's FAC with modification. Specifically I will address inclusion of the following costs that Mr. Rush proposes to include in the FAC: 1) Midcontinent Independent System Operator ("MISO") transmission costs related to GMO's Crossroads generating plant, and 2) regulatory commission fees.

1 GMO's Transmission Expense in its Fuel Adjustment Clause

2 Q. On page 5, lines 7 through 17, Mr. Rush proposes to include all transmission
3 costs in GMO's FAC, with the exception of certain MISO transmission charges related to the
4 Crossroads generating station previously disallowed by the Commission. Does Staff agree
5 with Mr. Rush's proposal?

6 A. No, it does not. As it did on pages 178 to 179 of its COS Report Staff
7 recommends that the only transmission costs that should be included in GMO's FAC are
8 those costs that GMO incurs to 1) transmit electric power it did not generate to serve its own
9 native load and 2) transmit excess electric power it is selling to third parties located outside of
10 the Southwest Power Pool ("SPP"). All MISO transmission charges related to GMO's
11 Crossroads generating plant would be excluded from the FAC under Staff recommendation.¹

12 Q. Is Staff's recommendation consistent with previous Commission Report
13 and Orders?

14 A. Yes. In Staff's Rate Design Report, its recommendation is consistent with the
15 Commission's *Report and Order* in Kansas City Power & Light Company's ("KCPL") last
16 general rate case. Beginning on page 34 of the Commission's *Report and Order* in File No.
17 ER-2014-0370, the Commission stated the following:

18 The Commission has addressed this issue in recent rate cases. In the
19 Report and Order issued in File No. ER-2014-0258 for Ameren
20 Missouri, the Commission stated: The evidence demonstrated that for
21 purposes of operation of the MISO tariff, Ameren Missouri sells all the
22 power it generates into the MISO market and buys back whatever power
23 it needs to serve its native load. From that fact, Ameren Missouri leaps
24 to its conclusion that since it sells all its power to MISO and buys all that
25 power back, all such transactions are off system sales and purchased
26 power within the meaning of the FAC statute. The Commission does not
27 accept this point of view. The drafters of the FAC statute likely did not

¹ Further, Staff witness Karen Lyons recommends that all MISO transmission charges related to GMO's Crossroads generating plant be excluded from the revenue requirement for permanent rates in this case.

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1 envision a situation where a utility would consider all its generation
2 purchased power or off system sales. In fact, the policy underlying the
3 FAC statute is clear on its face. The statute is meant to insulate the utility
4 from unexpected and uncontrollable fluctuations in transportation costs
5 of purchased power. At the time the statute was drafted, and even in our
6 more complex present-day system, the costs of transporting energy in
7 addition to the energy generated by the utility or energy in excess of
8 what the utility needs to serve its load are the costs that are unexpected
9 and out of the utility's control to such an extent that a deviation from
10 traditional rate making is justified. Therefore, of the three reasons
11 Ameren Missouri incurs transmission costs cited earlier, the costs that
12 should be included in the FAC are 1) costs to transmit electric power it
13 did not generate to its own load (true purchased power) and 2) costs to
14 transmit excess electric power it is selling to third parties to locations
15 outside of MISO (off-system sales). Any other interpretation would
16 expand the reach of the FAC beyond its intent.

17 Similarly, in a subsequent rate case for The Empire District Electric
18 Company, which is also a member of SPP, the Commission concluded:

19 Furthermore, as has been the case since the FAC statute was created, the
20 costs of transporting energy in addition to the energy generated by the
21 utility or energy in excess of what the utility needs to serve its load are
22 the costs that are unexpected and out of the utility's control to such an
23 extent that a deviation from traditional rate making is justified.
24 Therefore, the costs Empire incurs related to transmission that are
25 appropriate for the FAC, from a policy perspective and by statute, are: 1)
26 Costs to transmit electric power it did not generate to its own load ("true
27 purchased power"); or 2) Costs to transmit excess electric power it is
28 selling to third parties to locations outside of its RTO ("Off-system
29 sales"). The evidence shows in this case that on a daily basis, KCPL
30 sells all of the power it generates into the SPP market and purchases
31 from SPP 100% of the electricity it sells to its retail customers.
32 However, based on the Commission's analysis in the two cases cited
33 above, it would not be lawful for KCPL to recover all of its SPP
34 transmission fees through the FAC. In addition, while KCPL's
35 transmission costs are increasing, those costs are known, measurable,
36 and not unpredictable, so the costs are not volatile. The Commission
37 concludes that the appropriate transmission costs to be included in the
38 FAC are 1) costs to transmit electric power it did not generate to its own
39 load (true purchased power); and 2) costs to transmit excess electric

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1 power it is selling to third parties to locations outside of SPP (off-system
2 sales).²

3 Q. Is Staff's recommendation to exclude any and all MISO transmission charges
4 related to GMO Crossroads generating plant in GMO's FAC consistent with previous
5 Commission Report and Orders?

6 A. Yes. In Staff's Rate Design Report, its recommendation to exclude any and all
7 MISO transmission costs in GMO's FAC is consistent with the Commission's Report and
8 Orders in GMO's previous two rate cases. In GMO's last rate case, File No. ER-2012-0175
9 the Commission's *Report and Order* stated the following concerning GMO's Crossroads
10 generating plant:

11 **Crossroads Transmission.** Several parties ask the Commission to order
12 that GMO's FAC tariff sheets state expressly that GMO's FAC excludes
13 transmission costs related to the Crossroads. Insofar as the Commission
14 has determined that no transmission costs from Crossroads will enter
15 GMO's MPS rates, there is no further dispute, and no further findings of
16 fact and conclusions of law are required. The Commission will order
17 GMO's FAC clarified to state that GMO's FAC excludes transmission
18 costs related to Crossroads.

19 The Commission also stated in its *Report and Order* in File No. ER-2010-0356 the following
20 concerning GMO's Crossroads generating plant:

21 If the Commission accepts Staff's position on fuel costs in the
22 Crossroads issue, Staff recommends the Commission authorize and
23 require modification of GMO's fuel adjustment clause to include a new
24 factor that would exclude an increment of GMO's fuel costs for its
25 Crossroads generating station from Fuel and Purchased Power
26 Adjustments (GMO FAC —FPAs). Consistent with its position that
27 GMO's ratepayers should pay costs based on two 105 megawatt
28 combustion turbines built in 2005 and located at the South Harper site,
29 GMO's fuel clause should be modified so that its customers do not bear
30 the incremental costs associated with higher gas prices and transmission

² Report and Order, ER-2014-0351, *In the Matter of the Empire Dist. Elec. Co. for Auth. to File Tariffs Increasing Rates for Elec. Serv. Provided to Customers in the Company's Missouri Serv. Area, ER-2014-0351, 2015 WL 4036220 (June 24, 2015).*

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1 costs of the Crossroads Energy Center which is located near Clarksdale,
2 Mississippi.

3 A more detailed discussion of GMO's Crossroads generating plant and Staff's
4 recommendation to exclude all Crossroads transmission costs in base rates and the FAC is in
5 Staff's COS Report beginning on page 53 through page 61.

6 Q. Does Mr. Rush propose to include regulatory commission fees in
7 GMO's FAC?

8 A. Yes. However, Mr. Rush does not specifically say in his testimony that
9 regulatory commission fees should be included in GMO's FAC. He does include them in his
10 Schedule TMR-5 and TMR-6 when calculating the Company proposed Base Factor.

11 Q. Does Staff agree with Mr. Rush that regulatory commission fees should be
12 included in GMO's FAC?

13 A. No. Regulatory commission fees are administrative fees, they are not fuel
14 and purchased power expenses and they should be excluded from GMO's FAC. This is
15 consistent with the Commission's *Report and Order* in KCPL's last general rate case, File
16 No. ER-2014-0370. Beginning on page 36 of the Commission's *Report and Order* in File No.
17 ER-2014-0370, the Commission stated the following:

18 KCPL has requested that SPP Schedule 1-A and 12 fees be included in
19 its FAC. The Commission finds that these fees are administrative in
20 nature and not directly linked to fuel and purchased power costs. These
21 fees support the operation of SPP and are not needed for KCPL to buy
22 and sell energy to meet the needs of its customers. These fees are neither
23 fuel and purchased power expenses nor transportation expenses incurred
24 to deliver fuel or purchased power. The Commission concludes that
25 including such fees would be unlawful under Section 386.266.1, RSMo,
26 and, therefore, Schedule 1-A and 12 fees should not be included in the
27 FAC. These fees are appropriate for recovery in base rates.

28 Q. Does this conclude your rebuttal testimony?

29 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority)
to Implement A General Rate Increase for)
Electric Service)

Case No. ER-2016-0156

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW MATTHEW J. BARNES and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

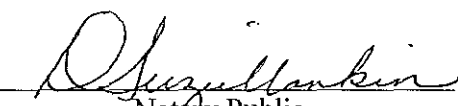
Further the Affiant sayeth not.


MATTHEW J. BARNES

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 12th day of August, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070


Notary Public