

Exhibit No.
Issue: Revenue Requirement - Capacity
Witness: Robert Janssen
Sponsoring Party: Dogwood Energy, LLC
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2010-0356

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of the Application of)
KCP&L Greater Missouri)
Operations Company for Approval) Case No. ER-2010-0356
to Make Certain Changes to its Charges)
for Electric Service.)

REBUTTAL TESTIMONY – REVENUE REQUIREMENT

OF ROBERT JANSSEN ON BEHALF OF

DOGWOOD ENERGY, LLC

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December 15, 2010

DISTRICT OF COLUMBIA)
) SS.
)

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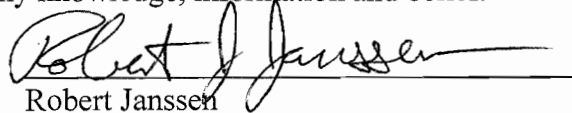
AFFIDAVIT OF ROBERT JANSEN

COMES NOW Robert Janssen, of lawful age, sound of mind and being first duly sworn, deposes and states:

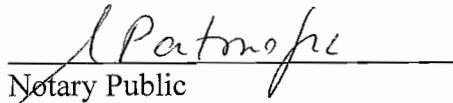
1. My name is Robert Janssen; I am Senior Vice President for Kelson Energy, Inc., the corporate parent of Dogwood Energy, LLC, and President and General Manager of Dogwood Energy, LLC.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony in the above-referenced case.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge, information and belief.


Robert Janssen

SUBSCRIBED AND SWORN to before me, a Notary Public, this 14th day
of December, 2010.


Notary Public

My Commission Expires:
(SEAL)

Miroslava Patnogi
Notary Public, District of Columbia
My Commission Expires December 14, 2012

REBUTTAL TESTIMONY OF
ROBERT JANSSEN ON BEHALF OF
DOGWOOD ENERGY, LLC

1 **I. QUALIFICATIONS**

2 **Q. Please state your name, business address, and title.**

3 A. My name is Robert Janssen. My business address is 6700 Alexander Bell Drive,
4 Suite 360, Columbia, MD 21046. I have held the position of Senior Vice
5 President for Kelson Energy Inc. ("Kelson") and President and General Manager
6 of Dogwood Energy, LLC since October 2008. From February 2007 to
7 September 2008, I was a Vice President with Kelson, and from October 2005 to
8 February 2007, I was a Director with Kelson.

9 **Q. On whose behalf are you testifying?**

10 A. I am testifying on behalf of Dogwood Energy, LLC ("Dogwood").

11 **Q. What is the relationship between Dogwood and Kelson Energy?**

12 A. Kelson is a power generation holding company that wholly owns Dogwood which
13 in turn owns a 650 MW combined cycle generating facility located in KCP&L
14 Greater Missouri Operation's (GMO's) Missouri Public Service ("MPS") service
15 territory, in Pleasant Hill, Missouri.¹ Dogwood employs 24 people at the plant
16 and regularly obtains services and supplies from Missouri businesses. It is also a

¹ This facility was formerly owned by Calpine and known as the Aries facility. Dogwood acquired it at the end of 2006.

1 state and local taxpayer. It primarily supplies power to utilities serving the
2 Kansas City region.

3 **Q. Please describe your educational background and professional experience.**

4 A. I have attached a copy of my resume as **Schedule RJ-1**, which outlines my
5 relevant background and experience. In brief, my experience includes (a)
6 development and management of generating facilities, (b) analysis of electricity
7 markets and transmission systems, (c) analysis of, and development of testimony
8 regarding, utility rates and other electric industry issues before federal and state
9 regulatory commissions, (d) due diligence analysis of power purchase agreements
10 and fuel contracts, (e) financial analysis of utility and independent power
11 producer assets such as power plants and water supply systems, and (f)
12 monitoring and reviewing the results of power supply Requests for Proposals.

13 **Q. What are your responsibilities?**

14 A. In my current position, I am responsible for, among other things, the operations of
15 the Dogwood Energy generating facility and representing Kelson and its
16 subsidiaries at the Southwest Power Pool (SPP) Regional Transmission
17 Organization (RTO).

18 **Q. Have you testified in other regulatory proceedings regarding electric utility
19 rates and electric industry issues?**

20 A. Yes, I have submitted written testimony in other proceedings before this
21 Commission as well as such proceedings before the Federal Energy Regulatory
22 Commission, the Louisiana Public Service Commission, the Oklahoma

1 Corporation Commission, the Public Service Commission of Wisconsin, the City
2 Council of New Orleans, and the Public Utility Commission of Texas.

3 **II. PURPOSE AND SUMMARY OF TESTIMONY**

4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to respond to certain aspects of the direct
6 testimony submitted by GMO and the direct testimony and Cost of Service Report
7 submitted by the Commission Staff witnesses, and to describe Dogwood's
8 interests in this proceeding as both a retail power customer of GMO and
9 wholesale power supplier to GMO.

10 **Q. Please summarize your testimony.**

11 A. Dogwood Energy's payments to GMO for retail electricity service are a
12 significant portion of its fixed operating costs, and Dogwood is concerned about
13 the impacts of GMO's proposed 14-15% rate increase on its business. GMO's
14 asserted need for a rate increase is based on a number of factors, including
15 primarily the placement of the Iatan 2 generating facility into service. But its
16 rates are based on all relevant factors.

17 Among other issues raised in its testimony, Staff does not agree with the inclusion
18 of the Crossroads peaking facility in GMO's rate base and operating expenses.
19 Instead, Staff proposes (as it has in several prior cases) to set GMO's rates by

1 including two 105 MW hypothetical or proxy “Prudent CT” combustion turbines
2 in GMO’s rate base and operating expenses for the MPS service area. This
3 adjustment, if approved by the Commission for purposes of this case and future
4 rate cases, would protect GMO’s retail customers, including Dogwood, against
5 exorbitant rates. However, to address Staff’s underlying capacity concerns, the
6 Commission needs to further encourage GMO to not use the Crossroads facility in
7 Mississippi and instead replace it with another real and more efficient capacity
8 solution located near its native load, such as Dogwood’s combined cycle facility.
9 The Dogwood facility would provide local intermediate capacity that would be
10 more valuable to GMO than the peaking capacity offered by Crossroads,
11 particularly given the prospects of retirement of older coal-fired facilities due to
12 economics and future environmental regulations, and the continued growth of
13 intermittent renewable resources such as wind generation.

14 **III. GMO’S REQUEST FOR INCLUSION OF CROSSROADS IN RATE**
15 **BASE AND OPERATING EXPENSES**

16 **Q. How does GMO address the Crossroads plant in its direct testimony?**

17 A. Keeping in mind that I am not allowed to review the highly confidential portions
18 of GMO’s written testimony, it does not appear to me that GMO addresses the
19 issue of Crossroads, but rather ignores Staff’s previously established objections
20 and simply includes Crossroads in various schedules pertaining to its proposed

1 rate base and operating expenses.

2 **Q. Please briefly describe the Commission Staff's response to GMO's**
3 **application in this proceeding.**

4 A. With its direct testimony in this proceeding, Staff filed a Cost of Service report
5 that lays out Staff's positions on various issues, including its opposition to
6 inclusion of the Crossroads plant in rate base and operating expenses. Overall, as
7 I understand it, Staff is recommending a lesser rate increase for GMO for the
8 MPS area (based on a recommended rate of return of 7.98%),² compared to the
9 Company's request for a \$78.8 million increase.³ I understand that the portion of
10 the difference in positions that is attributable to Staff's recommended adjustment
11 for Crossroads is \$15 million.⁴

12 **Q. What is Dogwood's interest in this proceeding?**

13 A. First, Dogwood is a retail electricity customer of GMO. Dogwood takes electric
14 service from GMO for station service purposes, which includes the start-up of its
15 generating facilities and the electrical requirements of the administrative buildings
16 and auxiliary equipment at its generating facility. Dogwood currently takes
17 service under GMO's Large Power Service – Real Time Pricing tariff (MO737).
18 Dogwood's payments for retail electrical service from GMO comprise a
19 significant percentage of Dogwood's annual fixed operating costs. The proposed
20 14-15% increase in GMO's rates for the MPS area is a concern to Dogwood, as it

² Staff Accounting Schedule 1.

³ Featherstone Direct, p. 36.

⁴ Staff Cost of Service Report, p. 109.

1 undoubtedly is for many of GMO's other customers.

2 Second, Dogwood is a wholesale power supplier to GMO. Therefore, Dogwood
3 has a particular interest and expertise to bring to this proceeding regarding
4 GMO's choices for capacity and energy supplies that GMO wants Dogwood and
5 other customers to pay for through retail electric service rates. Dogwood wants to
6 assure it has a fair and competitive opportunity to supply power to GMO.

7 **Q. Are GMO's choices regarding capacity and energy supplies at issue in this**
8 **proceeding?**

9 A. Yes. As indicated above, while GMO seems to take inclusion of the Crossroads
10 facility in its rate base and operating expenses for granted, Staff has opposed that
11 aspect of GMO's proposed rate increase consistent with its position in prior rate
12 cases.

13 **Q. Has the Commission specifically addressed the inclusion of Crossroads in**
14 **GMO's rate base and operating expenses?**

15 A. Not to my knowledge. While Staff, Dogwood, and other parties have raised the
16 issue in prior cases, those matters were resolved by settlement without a
17 Commission decision on the issue.

18 **Q. Please describe GMO's proposal to include Crossroads in its retail rates in**
19 **this proceeding.**

20 A. Again, while it does not appear to me that GMO witnesses discuss in their
21 testimony the issue of inclusion of Crossroads in rate base and operating

1 expenses, from isolated references in their testimony and their schedules and from
2 Staff testimony I understand that GMO proposes to include Crossroads in rate
3 base at the depreciated net book value of the plant, and to include its operating
4 costs, including transmission service, based on current costs.⁵

5 **Q. How did GMO decide to rely on the Crossroads facility to meet its capacity
6 needs?**

7 A. Based on GMO's testimony in prior proceedings, its decision to include
8 Crossroads in rates was based on an RFP issued in the spring of 2007 for its short
9 and long-term resource needs.⁶ GMO indicated that Crossroads was bid into the
10 RFP by the corporate division of GMO.⁷ GMO asserted that this option beat all
11 the other third-party offers bid into the 2007 RFP.⁸

12 **Q. Was Crossroads previously owned or operated by an affiliate of GMO?**

13 A. An unregulated affiliate named Aquila Merchant Services held the tolling
14 agreement for the capacity and energy from Crossroads through 2032 with a right
15 to extend up to ten more years.⁹ This tolling agreement was transferred to Aquila,
16 Inc. on March 31, 2007 and was bid into the RFP, according to GMO witness
17 Rooney's direct testimony in Case No. ER-2009-0090.¹⁰ From Staff's Cost of
18 Service Report and GMO's schedules, it appears GMO has now transferred the

⁵ Staff Cost of Service Report, p. 104-05.

⁶ Case No. ER-2009-0090, GMO Witness Rooney, Direct, p. 24, lines 15-21.

⁷ Ibid. at p. 25, lines 2-6.

⁸ Ibid. at p. 25, lines 10-14.

⁹ Ibid. at p. 26, lines 9-23.

¹⁰ Ibid. at p. 27, lines 1-5.

1 facility to regulated plant on its books.¹¹ Apparently, the plant is still leased from
2 the City of Clarksdale, Mississippi.¹²

3 **Q. Please describe the Crossroads facility.**

4 A. As stated by GMO in its testimony in prior proceedings, Crossroads is an
5 approximately 300 MW gas-fired combustion turbine peaking facility built in
6 2002. The facility consists of four General Electric 7EA turbines. The units are
7 located 400 miles away from the MPS area, in the City of Clarksdale,
8 Mississippi.¹³ It is my understanding that due to local transmission constraints,
9 Crossroads is currently subject to a special protection scheme (SPS) that makes a
10 significant portion of its capacity unreliable for meeting GMO's customers'
11 needs.

12 **IV. COMMISSION STAFF RESPONSE REGARDING CROSSROADS**

13 **Q. What is the Staff's response to GMO's inclusion of Crossroads in its rate**
14 **base and operating expenses?**

15 A. The Staff opposes inclusion of Crossroads in GMO's rate base and operating
16 expenses and instead recommends inclusion of two hypothetical 105 MW
17 combustion turbines at GMO's South Harper site in Missouri, which Staff refers
18 to as "Prudent Turbines 4 and 5", using costs as if such turbines were installed in

¹¹ Staff Cost of Service Report, p. 110.

¹² GMO Witness Weisensee Direct, p. 55.

¹³ Case No. ER-2009-0090, GMO Witness Rooney, Direct, p. 26, lines 1-7.

1 2005. Generally, the Staff provides the following reasons for its position:

- 2 1. GMO should have built five CTs at South Harper, not just three, in
3 2005 to meet its capacity needs;
- 4 2. Crossroads was not located or sized to meet the GMO native load;
- 5 3. Affiliate transaction concerns;
- 6 4. Higher natural gas prices at Crossroads;
- 7 5. Cost of transmission from Mississippi to the GMO area; and
- 8 6. Impaired managerial oversight.¹⁴

9 **Q. Does Staff indicate that its concerns go beyond the ratemaking process?**

10 A. Yes. The Staff Cost of Service Report states, “Staff still remains concerned with
11 GMO’s resource plans.”¹⁵ Some of this part of the Staff’s report is highly
12 confidential and, therefore, not available to me. However, the portions that are
13 available to me indicate that Staff is concerned that GMO will not have enough
14 capacity in the future.

15 **V. DOGWOOD RESPONSE**

16 **Q. What is your response to Staff’s recommendation regarding Crossroads?**

17 A. First, I would like to state that Dogwood appreciates the Staff’s continued efforts
18 to protect the interests of GMO’s customers by carefully scrutinizing GMO’s

¹⁴ Staff Cost of Service Report at p 91-92.

¹⁵ Ibid.

1 proposed capacity requirements solutions. However, I do believe that the
2 Commission should consider other alternatives rather than just adjusting GMO's
3 rate recovery on Crossroads based on Staff's proxy Prudent Turbines 4 and 5.
4 This issue has come up in several prior cases and is likely to keep coming up in
5 the future unless a real change in GMO's supply portfolio is implemented that
6 will resolve the current dispute.

7 **Q. Please explain why alternatives to Staff's proposal should be examined.**

8 A. Staff's proxy South Harper peaking turbines are meant to mimic the costs and
9 benefits that GMO's customers would obtain if GMO had built such peaking
10 facilities in 2005. But if only an accounting adjustment is made in this and future
11 rate cases, and GMO is nonetheless willing to limit its recovery on Crossroads to
12 that amount allowed by Staff's adjustments for the proxy turbines, GMO's
13 customers will still not be getting the benefits of local generation that the Staff is
14 attempting to secure.

15 As mentioned above, Staff states in its Cost of Service Report that its concerns
16 about Crossroads include that it was not located and sized to meet GMO's native
17 load. In terms of size, Staff's imputed prudent turbines indicate that only 210
18 MW of capacity was needed in 2005, rather than the 300 MW nominal capacity of
19 Crossroads. Concerning location, proximity of a power plant relative to a utility's
20 load is important because a generator situated in or near the load can provide the
21 following power supply benefits:

- 1 1. Reduced losses on supply of real power;
- 2 2. Reactive power can be supplied to the load; and
- 3 3. Supply is more reliable due to less risk of transmission service
- 4 curtailment.

5 Further, as Staff observes, the prices of natural gas for fueling a generation plant
6 are different between where Crossroads is located and where GMO's load is
7 located, with generation located in the area of GMO's load generally being able to
8 obtain cheaper natural gas supplies. The cost differential between those two
9 regions recently has ranged from \$0.25 to \$0.50 per mmbtu during June to August
10 2010, which is a sizable amount, particularly in light of the currently low prices
11 for natural gas.

12 Also, from an economic development perspective, a power plant located in or
13 near GMO's service territory brings jobs and business to the region whereas a
14 power plant remote from GMO's service territory does not.

15 **Q. From a historical perspective, why did GMO need capacity in 2005?**

16 A. As stated by Staff, GMO had a five-year, 500 MW PPA that was expiring in May
17 2005.¹⁶ The combined cycle facility currently owned and operated by Dogwood
18 within GMO's utility territory was the source of the capacity and energy supplied
19 to GMO under that PPA. The plant was under the joint ownership of Calpine and
20 Aquila Merchant Services, Inc. during a portion of that time period. The total of

¹⁶ Ibid. at p. 91.

1 five turbines at South Harper as proposed by Staff approximately replaces the
2 capacity that GMO had previously been receiving from Dogwood's facilities (at
3 that time, Aries).

4 **Q. What are the alternative capacity solutions to which you have referred?**

5 A. Among others, the alternatives include power supply and plant purchase offers
6 (whether partial or total plant) such as those that Dogwood has extended to GMO
7 in recent years. Such offers provide GMO with real opportunities for power
8 supply from an existing facility that meets the needs Staff puts forth for GMO's
9 power supplies, including a good location, the right size, no need for affiliated
10 company concerns, lower gas costs, and reduced transmission costs.

11
12 With all the risks that attend construction of a new plant, there are clear benefits
13 to instead purchasing a plant that is already built, kept up to date, and operating
14 efficiently – such as the Dogwood facility.

15 **Q. Why does the Dogwood plant present a viable alternative that GMO should**
16 **consider?**

17 A. Since Dogwood acquired the combined cycle plant in 2006, we have made a
18 variety of performance improvements and investments in the facility, increasing
19 its efficiency, reliability and capacity. It can provide local, efficient, clean,
20 intermediate capacity that would be more valuable to GMO than the distant
21 peaking capacity available from Crossroads. Because of Dogwood's location,
22 there would be reduced losses of supply and greater reliability, available reactive

1 power, lower natural gas and transmission costs, and greater economic impact.
2 These advantages of the Dogwood plant will increase over time, as the pressures
3 of economics and environmental regulations mount towards retirement of aging
4 coal-fired plants and introduction of intermittent renewable resources like wind,¹⁷
5 making Dogwood an important resource to reliably meet the current and future
6 needs of GMO and its customers. The Dogwood site also still has room for
7 expansion by up to three more CTs, further increasing the flexibility that it would
8 afford to GMO.¹⁸ In contrast, Crossroads' current full capacity is not reliable, as
9 it is subject to output limitations by means of a special protection scheme due to
10 transmission constraints near the facility.

11

12 Further, since the Prudent Turbines 4 and 5 at South Harper as proposed by Staff
13 are intended to partially replace the capacity that GMO had been receiving prior
14 to June 2005 under a five-year, 500 MW PPA with Dogwood (then Aries),
15 obtaining capacity from Dogwood today that is actually available would seem to
16 be a good, logical alternative to applying a financial adjustment based on
17 hypothetical capacity not actually available now. This is particularly true when
18 the location of the facility for which costs are effectively being adjusted
19 (Crossroads), is not similarly situated and does not provide the same benefits and

¹⁷ As referenced by Commissioner Davis in other proceedings, Wood Mackenzie and Fitch Rating Agency foresee retirement of 60 gigawatts of coal-fired electric plants in the USA during the next ten years. Case No. EX-2010-0254 (Davis Dissent, 10/25/10).

¹⁸ As Staff has noted in its testimony (Featherstone Direct, at p. 59, lines 12-19), the three turbines installed at South Harper were originally intended to be installed at the Dogwood site (formerly Aries) as an expansion called "Aries II".

1 value as capacity located more closely to GMO's load, such as Dogwood or the
2 South Harper location for the Prudent Turbines.

3 **Q. What proposals has Dogwood submitted to GMO?**

4 A. We have responded to all of GMO's long-term and short-term RFPs issued during
5 the past few years, of which we were aware, and we have also attempted to keep
6 GMO apprised of the status of our long-term pricing from time to time between
7 the issuance of its RFPs.

8 **Q. Please provide an example of a response from Dogwood to one of GMO's**
9 **RFPs for power supplies.**

10 A. For example, GMO issued an RFP in September 2008. The RFP requested
11 proposals to provide capacity and energy from sources other than wind
12 generation, including, but not limited to, base-load capacity resources,
13 intermediate peaking, conventional peaking, and renewable resources. The RFP
14 stated that GMO had identified a need for 150 MW beginning in June 2009, and
15 450 MW of additional capacity needs (total of 600 MW) by the 2011-2013 time
16 frame, and 200 MW of additional capacity needs (total of 800 MW) in the 2014-
17 2017 time frame. To fill these needs, the RFP stated that GMO was interested in
18 receiving both short and long-term proposals. The short-term proposals were
19 requested to be for supplies in 2009 and 2010, and the long-term proposals were
20 requested to be for a minimum of 20 years starting June 1, 2009 or later.
21 Dogwood submitted both short and long-term offers in response to GMO's 2008
22 RFP.

1 **Q. Please describe the offers provided by Dogwood.**

2 A. In summary, Dogwood offered through Westar (as Dogwood's energy manager)
3 and on its own, offers consistent with the terms of the RFP. There were six (6)
4 indicative, negotiable power purchase agreement ("PPA") offers of varying
5 configurations, for either combined cycle peaking or base capacity and energy,
6 terms of one to three years, and either summer peak-period or year-round
7 supplies. In lieu of long-term PPA offers, Dogwood submitted several asset sale
8 offers but also indicated it was willing to promptly develop and provide long-term
9 PPA offers.

10 **Q. How did Dogwood's proposals compare to Crossroads at the time?**

11 A. In my opinion, based on the information available to me, Dogwood's proposals
12 were more cost-effective options for meeting GMO's resource requirements than
13 a depreciated, cost-based offer from Crossroads. For example, in Case No. ER-
14 2009-0090, Dogwood submitted testimony from an independent expert, Judah
15 Rose of ICF International, confirming that even from a conservative perspective,
16 our 2008 proposals had a lower net present value revenue requirement than
17 Crossroads, and were even lower than a prior submittal we had made in 2007. Mr.
18 Rose observed that cost savings that would be attributable to Dogwood would
19 exceed the total capital cost of the Crossroads plant. In the public version of his
20 testimony, Mr. Rose indicated that "the much lower costs of the Dogwood plant
21 are the result of Dogwood's greater electrical energy cost savings [resulting from
22 more efficient conversion of natural gas to electricity], higher off-system sales

1 revenues [particularly in light of RTO energy markets], and lower transmission
2 costs [given proximity].” He also correctly noted other advantages offered by
3 Dogwood, including diversification of supply, lower CO2 emissions, lower
4 transmission losses, and higher reliability.¹⁹

5 **Q. Do you have any other comments about the 2008 RFP?**

6 A. Yes. The 2008 RFP was a very broad request for power supply proposals, which,
7 while casting a wide net to determine the available options, also would have made
8 it difficult for suppliers to respond in a manner that would precisely meet GMO’s
9 needs as described in their initial proposal. Such an RFP can often result in fewer
10 proposals received that actually meet the utility’s specific supply needs, unless the
11 utility follows up with a second round or asks for updates to offers that allow for
12 better comparisons after the first round of the RFP. For example, a utility could
13 often ask bidders to update their responses if it received offers for different time
14 periods for similar products. This would enable the utility to provide a clearer
15 indication of the desired product to bidders in order to get them to hone in more
16 precisely on the utility’s product, term and pricing needs, as well as allowing the
17 utility to more effectively compare the available options and obtain the most cost-
18 effective product for meeting its customers’ resource needs.

19

20 In addition, in order to obtain comparable offers for evaluation purposes, a utility

¹⁹ Case No. ER-2009-0090, Dogwood Witness Rose, Surrebuttal, p. 5-9.

1 could also take the initiative to solicit additional bidders, as Staff has stated GMO
2 has done in the past.²⁰

3 **Q. Are you aware of GMO asking for any updates of offers or for a second**
4 **round of bids in response to receiving the first set of proposals in the 2008**
5 **RFP?**

6 A. No, I am not aware that GMO made any such requests.

7 **Q. Has Dogwood made more recent proposals?**

8 A. Yes. As a follow-up to our previous offer to GMO of a partial Dogwood capacity
9 sale mentioned above, we informed GMO during April 2010 that we are
10 continuing to pursue a formal fractional share sale process with other parties. At
11 that time, we also updated GMO on the pricing of such ownership shares of the
12 Dogwood plant. A copy of my letter to GMO is attached hereto as **Schedule RJ-**
13 **2P.**

14 **Q. Was the issue of reevaluating Crossroads in comparison to other available**
15 **options addressed at all in GMO's last rate case (ER-2009-0090)?**

16 A. While GMO's last rate case was resolved by "black box" settlement, there was
17 pertinent language in the stipulation between the parties under which GMO
18 agreed to reevaluate Crossroads by exploring "all reasonable options to add
19 generating capacity to GMO's system and use its best efforts to determine the best
20 terms available for each such option."²¹

²⁰ Staff Cost of Service Report, Appendices, Schedule LMM-1, p. 2.

²¹ Case No. ER-2009-0090, Stipulation, para. 8 "Crossroads".

1 **Q. Did GMO fulfill that stipulation?**

2 A. No, not in my opinion. To my knowledge, they did not make any effort to obtain
3 information from us specifically for purposes of this analysis before they
4 submitted their “Stipulation 8 Capacity Study” in May 2010. I suspect that my
5 letter of April 2010 came after they had completed their analysis, but in any event
6 they did not seek any information from us for their study prior to its submission.
7 According to Staff, this study was based on adding capacity at 2009 costs.²²
8 Hence, it does not appear to me that GMO used “best efforts to determine the best
9 terms available”. Because GMO only made public the executive summary, I only
10 know that it concluded that Crossroads was a better option than Dogwood, and
11 not the details of how GMO reached that conclusion.

12 **Q. How does GMO’s Integrated Resource Planning relate to these issues?**

13 A. Dogwood regularly participates in GMO’s IRP proceedings before the
14 Commission. Pursuant to Stipulation and subsequent Commission Order in Case
15 No. EE-2009-0237, GMO is required to submit a revised IRP on December 17,
16 2010, two days after submittal of this testimony. The revised IRP should include
17 new load and capacity information. Therefore, it is possible that additional
18 pertinent and updated information will be available from GMO very soon, albeit
19 most likely on a confidential basis.

20 **Q. How do you recommend that the Commission resolve these issues?**

21 A. GMO should obtain the most cost-effective (from the perspective of balancing

²² Staff Cost of Service Report, Appendices, Schedule LMM-1, p. 6.

1 both supply risk and cost) supplies that are available. If GMO selects a
2 suboptimal supply option, then its shareholders should bear the cost of that
3 decision and retail customers, such as Dogwood, should only pay rates that are
4 based on the most cost-effective, reasonable supply option.

5
6 Staff testifies that it would have been prudent for GMO to install two additional
7 turbines at South Harper in 2005. But, GMO did not do so. And, it is my
8 understanding that GMO may, at least for some period of time, not be able to
9 install such turbines due to limitations on its permits from Cass County. While
10 the Staff has a clear rationale for its position, I submit that the Commission should
11 not confine itself to Staff's proposal to impute the costs of Prudent Turbines 4 and
12 5 in lieu of inclusion of Crossroads in rate base and operating expenses (an
13 adjustment that would have to be continued in future rate cases as well). Rather,
14 in addition to concluding that GMO's prior decisions were imprudent, the
15 Commission should look to present solutions that remain more advantageous than
16 Crossroads. It is my opinion that the Dogwood plant represents one such real,
17 cost-effective supply alternative. Such a real resource would achieve the full set
18 of results that Staff desires, improving GMO's capacity solutions. The
19 Commission could convert such alternatives into reality, either in this proceeding
20 or possibly by means of a regulatory plan with GMO and other stakeholders that
21 addresses disposition and replacement of Crossroads as well as retirement and
22 replacement of coal-fired plants and implementation of renewable resources.

1 **VI. SUMMARY AND CONCLUSIONS**

2 **Q. Please summarize your testimony and conclusions.**

3 A. Dogwood's payments to GMO for retail electricity service are a significant
4 portion of its fixed operating costs, and Dogwood is concerned about GMO's
5 proposed 14-15% rate increase. While GMO's asserted need for a rate increase is
6 based on a number of investments and increases in non-fuel operating costs, we,
7 like Staff, do not agree with the inclusion of the Crossroads peaking facility in
8 GMO's rate base and operating expenses. Staff's proposal to continue its
9 historical adjustment for capacity requirements by maintaining hypothetical/proxy
10 Prudent Turbines 4 and 5 in GMO's rate base and operating expenses would
11 reduce costs to customers like Dogwood. However, this ratemaking adjustment
12 alone would not address the capacity concerns identified by Staff if GMO
13 nonetheless continues to utilize capacity and energy from the Crossroads facility
14 rather than securing an alternative, real capacity solution.

15 I recommend that as an alternative, the Commission should consider offers made
16 by Dogwood, in addition to the Staff's proxy Prudent Turbines 4 and 5 in setting
17 GMO's rates. These offers are real offers from an existing generating facility that
18 meet Staff's criteria for the type of generating facility on which GMO should rely
19 to meet its capacity requirements. GMO not only could have made a prudent

1 decision in 2005 or in 2008, but it also can still make a prudent decision now that
2 may be able to resolve this ongoing dispute, rather than continuing to rely upon
3 Crossroads. With such a real change in GMO's supply portfolio, a recurring
4 accounting adjustment would not be required in GMO's rate cases. The
5 Commission could convert such alternatives into reality, either in this proceeding
6 or possibly by means of a regulatory plan with GMO and other stakeholders that
7 addresses disposition and replacement of Crossroads as well as retirement and
8 replacement of coal-fired plants and implementation of renewable resources.

9 **Q. Do you hold the opinions you express in this testimony to a reasonable degree**
10 **of certainty as an expert regarding electrical power generation and**
11 **transmission markets and facilities?**

12 A. Yes.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes.

ROBERT J. JANSSEN

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rob.janssen@kelsonenergy.com

SUMMARY OF QUALIFICATIONS

- Senior executive energy professional with a technical background and sixteen years of corporate and consulting experience in the electricity and natural gas industries, including power plant management, acquisition, development, and financial analysis; RTO/ISO electricity market analysis, design and monitoring; utility rate analysis and development; and expert testimony and litigation support.

EXPERIENCE

Kelson Energy, Columbia, MD	October 2005 - Present
Senior Vice President, Kelson and President, Dogwood Energy	10/08 – Present
Vice President, Kelson and President, Redbud Energy	6/07 – 9/08
Vice President, Kelson and Vice President, Redbud Energy	2/07 – 6/07
Director, Kelson and Vice President, Redbud Energy	1/06 – 2/07
Director, Kelson	10/05 – 1/06

Primary Areas of responsibility include:

- Power plant management, operations and maintenance
- NERC reliability standards compliance
- State and Federal regulatory and legislative affairs
- RTO transmission and energy market participation

Southwest Power Pool Committee-level participation on behalf of Kelson Energy subsidiaries:

- Members Committee
- Strategic Planning Committee
- Corporate Governance Committee
- Markets and Operations Policy Committee
- Synergistic Planning Project Team

Boston Pacific Company, Inc., Washington, DC	October 1997 – September 2005
Project Director	10/01 – 9/05
Project Manager	10/98 – 10/01
Senior Consultant	10/97 – 10/98

Consulting practice focusing on three primary areas:

- Power Plant Development, Acquisition and Sale Support
- Electricity Market Analysis, Design and Monitoring
- Expert Testimony and Litigation Support

UGI Utilities, Inc., Reading, PA	July 1994 – October 1997
Commercial Engineer II	5/96 – 10/97
Industrial & Commercial Marketing Engineer I	7/94 – 5/96

Served as a technical expert and program manager for the Industrial and Commercial marketing department.

EDUCATION

University of Pennsylvania: GPA 3.39 / 4.00
B.S. in Mechanical Engineering with a Minor in Economics

1990-1994

Johns Hopkins University: GPA 4.00 / 4.00

2000-2002

Finance and Accounting Graduate Level Classes:

- Financial Accounting
- Managerial Finance
- Corporate Financial Theory