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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2012-0175

*Jefferson City, Missouri
September 2012*

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Lena M. Mantle

1 A. Yes. Staff recommends that the valuation of Crossroads in GMO's rate base
2 for MPS be based on the July 14, 2008 \$61.8 million valuation set by the Commission in
3 GMO's last rate case, Case No. ER-2010-0356.

4 Q. On page 8, at lines 19 through 21, of his direct testimony, Mr. Rush states: "In
5 the prior case, [Case No. ER-2010-0356,] the Company presented evidence that based on a
6 2007 Request for Proposal for supply resources, Crossroads provided the lowest 20-year net
7 present value of revenue requirements ("NPVRR")." Does this GMO evaluation provide an
8 appropriate basis for the Commission to rely on to set the value for Crossroads in rate base for
9 MPS?

10 A. No. As a part of the *Non-Unanimous Stipulation and Agreement* filed on
11 May 22, 2009, in Case No. ER-2009-0090, GMO agreed to provide a GMO-conducted
12 analysis regarding the Crossroads units, other capacity additions to GMO's generation
13 resources and purchased power agreements. GMO provided this analysis to Staff and other
14 parties on May 31, 2010. This study was based on adding capacity at 2009 costs, and did
15 include the inclusion of generic CTs at 2009 costs. However, GMO needed capacity for the
16 summer peak season of 2005, when its agreement to purchase power generated by the Aries
17 generating plant expired, not in 2009.

18 GMO's (then called Aquila) least cost plan before the Aries PPA ended was to build
19 five CTs totaling 500 MW, not the three 105 MW CTs totaling 315 MW that Aquila built at
20 South Harper for in-service during summer of 2005. So the analysis that Mr. Rush refers to is
21 not useful for determining what action for obtaining additional capacity was prudent for GMO
22 in 2005.

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1 Q. Did GMO do any analysis before the summer of 2005 to show what its prudent
2 course of action was?

3 A. Yes, it did. In 2000, GMO (then known as Aquila) entered into a five-year
4 purchased power agreement to obtain capacity and energy from the exempt wholesale
5 generator Aries Plant owned by Aquila Merchant and Calpine (“Aries PPA”). At that time,
6 GMO met with Staff and the Office of the Public Counsel twice a year to update them on
7 GMO’s resource needs, and its plans to meet those needs. The only information given to
8 Staff at those meetings was GMO’s presentation material. Staff provided feedback based on
9 the presentation materials and statements made during the presentations. Staff did not do a
10 formal or informal review of the resource plan updates presented at the meetings. Sometimes,
11 if Staff felt that it was warranted, Staff would respond to GMO after the meeting by a letter
12 expressing its concerns.

13 GMO (Aquila) began planning to replace the power and energy provided through the
14 Aries PPA with a RFP in the spring of 2001 for capacity and the delivery of energy in June
15 2005. The proposals Aquila received included purchased power offers respecting merchant
16 coal, combustion turbine (“CT”) and combined cycle (“CC”) plants. However, the electric
17 industry changed considerably when Aquila was reviewing the proposals in 2002, so at the
18 urging of Staff, GMO reissued the RFP in early 2003. At the June 26, 2003, resource
19 planning update meeting with Staff and Office of Public Counsel, GMO presented the results
20 of its analysis of the bids it received from this second RFP. Included in the responses were
21 proposals for wind, coal, CTs, and CCs. All of the proposals, but one, were for purchased
22 power agreements. GMO reviewed the proposals and then contacted neighboring utilities to
23 see what other supply options might be available. All of the proposals, including available

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1 capacity that GMO learned of from talking with neighboring utilities, were evaluated against
2 the option of GMO building a combustion turbine or combined cycle plant.

3 At this June 26, 2003 meeting, GMO told Staff that an “undisclosed” bidder had
4 offered it an excellent bid for 600 MW, but GMO could not tell Staff much about the bid at
5 that time. Because 600 MW would have been more than enough to cover GMO’s needs,
6 GMO felt it did not need to pursue other capacity. Staff filed rebuttal testimony on
7 September 10, 2003, in GMO’s financing case, Case No. EF-2003-0465,¹ stating its concerns
8 regarding GMO’s need to replace the Aries contract with generation GMO owned. Staff
9 learned in a data request response from GMO in Case No. EF-2003-0465 that this proposal
10 had been withdrawn and no substitute proposal made. On January 27, 2004, GMO again met
11 with Staff, this time not in a resource planning meeting, but in a meeting to let Staff know
12 about GMO’s power supply acquisition process for the next five years. In this meeting, GMO
13 disclosed that its preferred/proposed resource plan over the short term was to build three
14 combustion turbines and to enter into three-to-five year PPAs based off of the bids to its 2003
15 RFP. Staff was concerned with the short-term nature of GMO’s preferred/ proposed plan, so
16 three days later on January 30, 2004, Staff responded with a letter to Mr. Dennis Williams of
17 GMO, expressing Staff’s concern with GMO’s short-sightedness with regard to its capacity
18 planning for replacing its capacity needs it was satisfying with the Aries PPA. Staff also
19 explained in the letter that it was Staff’s belief that GMO needed to be looking at base-load
20 generation because GMO should not become overly dependent upon short-term PPAs.

21 Q. What did GMO do as the summer of 2005 approached?

¹ In the Matter of the Application of Aquila, Inc. for Authority to Assign, Transfer, Mortgage of Encumber its Franchise, Works or System

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1 A. GMO met with Staff on February 9, 2004, to provide its semi-annual resource
2 update. This update, which took into consideration events over a twenty-year time horizon,
3 showed that GMO's least cost plan for the 20 years was to build five 105 MW CTs in 2005
4 and to purchase a small amount of capacity on the market in 2005. Then, between 2005 and
5 2009, GMO would meet its load growth through purchases on the market; build a CT in 2009
6 and build another CT in 2010. It also called for GMO to pursue base load capacity for 2010.
7 However, GMO's preferred plan was different from its least cost plan. The only difference
8 between them was that instead of building five 105 MW CTs in 2005, GMO's preferred plan
9 was for GMO to build three 105 MW CTs in 2005 and enter into a 200 MW PPA in 2005.

10 At its next semi-annual update on July 9, 2004, GMO still showed that building five
11 105 MW CTs in 2005 was its least cost plan; however its preferred plan was still to build
12 three 105 MW CTs in 2005 and rely on 200 MW of PPAs in 2005. GMO had found a very
13 good 75 MW PPA from the Nebraska Public Power District ("NPPD"), but it was still
14 pursuing other PPAs for which it had received proposals. At subsequent resource planning
15 update meetings GMO provided updates on the three 105 MW CTs and its pursuit of PPAs.
16 Other than the 75 MW PPA with NPPD, GMO was unable to negotiate a PPA of more than a
17 few months' duration.

18 Q. What did GMO choose to do?

19 A. Aquila followed its preferred plan and built three 105 MW CTs at its South
20 Harper site near the City of Peculiar and entered into a short-term purchased-power contract
21 for power from another plant owned by Aquila Merchant - the 300 MW Crossroads plant in
22 Mississippi - to meet its capacity needs for 2005.

23 Q. How did Staff respond?

1 A. In GMO's (Aquila's) first general electric rate increase case after the
2 expiration of the Aries contract, Case No. ER-2005-0436, Staff asserted that, given the
3 information available to GMO from its resource planning process, when it decided how it
4 would replace the power it was obtaining through the Aries capacity contract, GMO should
5 have built five 105 MW CTs. In that case, it was Staff's position that utilities should carefully
6 do risk and contingency analysis of their resource plans and choose a resource plan that is
7 robust across many scenarios of possible future events. That is still Staff's position.
8 Prudently building and owning generation, whether it is base load, intermediate or peaking,
9 provides price stability for Missouri consumers. PPAs are useful tools and are typically less
10 expensive *in the short-term* than building generation, but they should not be relied upon as
11 long-term solutions to capacity needs in the planning process without a firm long-term
12 contract in hand. It was Staff position then, and is Staff's position now, that, instead of
13 relying on short-term PPAs, GMO should have had five 105 MW CTs built by 2005 and that
14 it then would have had that capacity available to serve its customers for the next thirty years.

15 This was the first case, Case No. ER-2005-0436, where, in lieu of costs based on
16 GMO's three 105 MW CTs South Harper power plant and a purchased power agreement,
17 Staff included the costs of a new site with five installed 105 MW CTs in its case to
18 approximate a self-build option for meeting GMO's load in its MPS rate district. At that time
19 GMO was in ongoing litigation over the South Harper power plant, so GMO used short-term
20 purchased power contracts to meet its capacity needs. The parties in Case No. ER-2005-0436
21 entered into a Stipulation and Agreement regarding fuel and purchased power expenses. The
22 Stipulation and Agreement was silent regarding how GMO should meet its capacity
23 requirements.

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1 Q. Did Staff revisit this capacity issue in GMO's next electric rate case?

2 A. Yes. In GMO's next rate increase case, Case No. ER-2007-0004, GMO was
3 still relying on the three 105 MW CTs at South Harper and a short-term PPA. Due to GMO's
4 continued litigation over whether the South Harper power plant violated Cass County,
5 Missouri zoning, in this case, consistent with its position in the prior rate case, Staff took the
6 position that GMO should have built five 105 MW CTs in 2005 to meet its capacity and
7 energy needs. In this 2007 case, Staff and other parties entered into another Stipulation and
8 Agreement regarding fuel and purchased power expense that was silent on how GMO should
9 meet its capacity requirements.

10 Q. Was GMO's litigation over South Harper resolved?

11 A. Yes, in part by an act of the Missouri Legislature. In 2008, Section 393.171
12 RSMo. became law. It allowed the Commission to grant GMO a certificate of convenience
13 and necessity ("CCN") for South Harper and the substation associated with it. The
14 Commission granted GMO a CCN for South Harper and the substation effective
15 March 28, 2009 in Case No. EA-2009-0118.

16 Q. When did GMO get that CCN?

17 A. GMO obtained this CCN during its next rate increase case, Case No. ER-2009-
18 0090. By that time Great Plains Energy had acquired GMO and renamed it from Aquila to
19 GMO. Once the legal issues surrounding South Harper were resolved and the Commission
20 had granted Aquila a CCN for South Harper, Staff changed its position on whether South
21 Harper should be included in GMO's rate base for MPS and included the capacity and
22 running costs of the three 105 MW CTs at South Harper in its cost-of-service determination
23 for MPS, but Staff maintained its position that GMO should have built five 105 CTs in 2005,

1 not three. Again, in Case No. ER-2009-0090, Staff and other parties entered into a Non-
2 Unanimous Stipulation and Agreement regarding fuel and purchased power expense which
3 was silent on how GMO should meet its capacity requirements.

4 Q. What happened on this issue in GMO's next electric rate case?

5 A. It was Staff's position again in that case, Case No. ER-2010-0356, that it was
6 imprudent for GMO not to have "steel in the ground," i.e., own the generating capacity it
7 needs to serve its retail customers. In that case, GMO agreed. However, parties did not settle
8 the issue of how to cost GMO's capacity. Staff continued to argue it should be based on the
9 cost of five CTs installed at South Harper, while GMO argued for basing that capacity on the
10 Crossroads Energy Center it transferred onto its regulated books from its unregulated books at
11 cost. The Commission stated the following conclusion on page 99 of its May 4, 2011 Report
12 and Order in that case:

13 27. The Commission concludes that if included in rate base at a fair market
14 value, rather than the higher net book value paid to its affiliate, and except for
15 the additional cost of transmission from Mississippi to Missouri, the
16 Company's 2004 decision to pursue the construction of three 105 MW
17 combustion turbines at South Harper and pursue a 200 MW system-
18 participation based purchased power agreement, and the Company's decision
19 to add the Crossroads generating facility to the MPS generation fleet were
20 prudent and reasonable decisions.

21 Q. What is Staff's position in this case regarding the treatment of Crossroads for
22 setting rates for the MPS district?

23 A. In addition to the recommendations made in Staff's COS Report and the
24 rebuttal testimony of Staff witness Cary Featherstone, it is Staff's recommendation that the
25 Commission again in this case, Case No. ER-2012-0175, reach the same conclusions and
26 confirm that including Crossroads in rate base for MPS is prudent and reasonable only if it is

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1 | valued based on the 2006 AmerenUE contract prices and no associated transmission costs are
2 | included in GMO's cost of service.

3 | Q. Does this conclude your rebuttal testimony?

4 | A. Yes, it does.