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Joint Capacity Planning
Witness: Lena M. Mantle
Sponsoring Party: MO PSC Staff
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Case No.: ER-2012-0175
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2012-0175

*Jefferson City, Missouri
September 2011*

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Q. Would you state your name and your business address?

A. My name is Lena M. Mantle. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present position with the Missouri Public Service Commission (“Commission”)?

A. I am Manager of the Energy Unit of the Tariff, Safety, Economic, and Engineering Analysis Department, Regulatory Review Division.

Q. Are you the same Lena M. Mantle who provided rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I am responding to KCP&L Greater Missouri Operations Company (“GMO”) witness Burton L. Crawford’s rebuttal testimony regarding the assignment of capacity among the MPS and L&P rate districts and to KCPL witness Tim M. Rush’s rebuttal testimony regarding GMO’s capacity planning.

Q. What is Staff’s recommendation regarding the assignment of capacity between GMO’s MPS and L&P rate districts?

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1 A. Staff’s recommendation regarding capacity assignment among GMO’s L&P
2 and MPS rate districts is unchanged—that the natural gas-fired 71 MW Ralph Green
3 combustion turbine that was owned by UtiliCorp United, Inc. (“UtiliCorp”) when it was a
4 stand-alone utility be assigned to the L&P rate district.

5 Q. What is Staff’s recommendation regarding joint capacity planning?

6 A. With respect to joint capacity planning, Staff recommendation also remains
7 unchanged—that the Commission not make any determinations regarding the
8 acknowledgment of a resource planning process in this rate case. The currently pending
9 resource planning cases for KCPL and GMO (Case Nos. EO-2012-0323 and EO-2012-0324
10 respectively) are the correct cases for the Commission to make such determinations. If the
11 Commission chooses to make a determination in this rate case, Staff recommends the
12 Commission not allow GMO and KCPL to conduct joint resource planning of capacity and
13 resources. If the Commission considers allowing joint resource planning, before the
14 Commission allows KCPL and GMO to share capacity resources or engage in capacity
15 resource planning together, it should require: 1) GMO and KCPL to file a detailed proposal
16 for assigning capacity and energy between KCPL and GMO, and if GMO’s MPS and L&P
17 rate districts are not eliminated, between GMO’s MPS and L&P rate districts; and 2) KCPL
18 and GMO to file a plan for merging KCPL and GMO into one electrical corporation.

19 **Capacity Assignment**

20 Q. What was GMO’s response to Staff’s recommendation that the Ralph Green
21 combustion turbine (“CT”) be assigned to the L&P rate district?

22 A. On page 9, line 21, of his rebuttal testimony GMO witness Burton L. Crawford
23 states that the assignment is “unnecessary.” On page 10, lines 3 through 6, he testifies as
24 follows:

1 **Q: Why has Staff proposed to assign what has historically been an MPS**
2 **facility to L&P?**

3
4 A: Per Staff’s cost of service report at page 126, this reassignment “will
5 minimize the rate impact on GMO’s customers in its L&P rate district of the
6 assignment of capacity and energy, while making up for GMO’s shortfall in
7 capacity for L&P that results by following the practice of relying on the
8 historical ownership of capacity...”

9 Then on page 10, lines 13 through 17, he testifies:

10 The revenue requirement for Ralph Green is greater than the cost of the 61
11 MW contract. As such, the assignment of Ralph Green to L&P increases
12 L&P’s revenue requirement more than it would be based on the historical
13 assignment to MPS. Therefore, assigning the 61 MW contract to L&P
14 minimizes the rate impact on L&P while meeting their share of the reserve
15 obligation.

16 Q. Is the revenue requirement for the Ralph Green CT greater than the revenue
17 requirement for the 61 MW contract as Mr. Crawford testifies?

18 A. Yes. Staff’s revenue requirement for the Ralph Green CT (\$1,065,576) is
19 slightly higher than its revenue requirement for the 61 MW contract (** _____ **).
20 However, Staff’s recommendation that the Ralph Green CT be assigned to the L&P rate
21 district is based on a long-term view, not just the revenue requirement in this case. ** _____

22 _____
23 _____
24 _____
25 _____

26 _____ ** However, a comparison of the variability can be made.
27 It is known that GMO’s revenue requirement for the Ralph Green plant will decrease each
28 year as it depreciates ** _____ **

29 Another consideration when comparing the cost of the Ralph Green CT to the 61 MW
30 contract is that ** _____ ** while

1 the Ralph Green capacity was, and is, available all year. When the per month cost of the
2 contract is compared to the per month revenue requirement for the Ralph Green CT, the
3 capacity contract cost is ** _____ ** the Ralph Green CT revenue requirement.

4 In addition, having capacity available during both the summer and winter months is
5 more important in the L&P rate district than in the MPS rate district because the L&P rate
6 district has a higher saturation of electric space heating customers than the MPS rate district.

7 Q. You testified above that Staff took a long-term view when deciding to assign
8 the Ralph Green CT to the L&P rate district for ratemaking purposes, not just the revenue
9 requirements for the MPS and L&P rate districts in this case. What did Staff consider and
10 rely on when it decided to assign the Ralph Green CT to the L&P rate district?

11 A. In addition to considering the revenue requirements, Staff had the following
12 reasons for assigning the Ralph Green CT to the L&P rate district.

- 13 • The 100 MW low-cost, long-term purchased power agreement (“PPA”) that had been
14 assigned to L&P ended just after the Commission assigned 53 MW of Iatan 2 to L&P.
15 The expiration of this PPA moved the L&P rate district from a position of having
16 enough capacity to meet its requirements to being short on capacity;
- 17 • With the assignment of 100 MW of Iatan capacity to MPS in GMO’s last rate case,
18 MPS had excess capacity;
- 19 • Assigning the Ralph Green CT to the L&P rate district assigns to L&P the capacity
20 needed to serve GMO’s retail customers in that rate district rather than being served
21 by short-term PPAs and energy from the lowest MPS assigned cost natural gas CT that
22 is available *after* the energy needs of GMO’s retail customer in its MPS rate district
23 are met;
- 24 • The 61 MW PPA is a smaller percentage of GMO’s capacity needs for the MPS rate
25 district than it is for the L&P rate district, based on the current capacity assignment
26 methodology;
- 27 • Reliance on short-term PPAs increases the risk surrounding the availability and cost of
28 capacity; and
- 29 • Reliance on short-term PPAs is a short-sighted strategy that increases GMO’s long-
30 term capacity costs.

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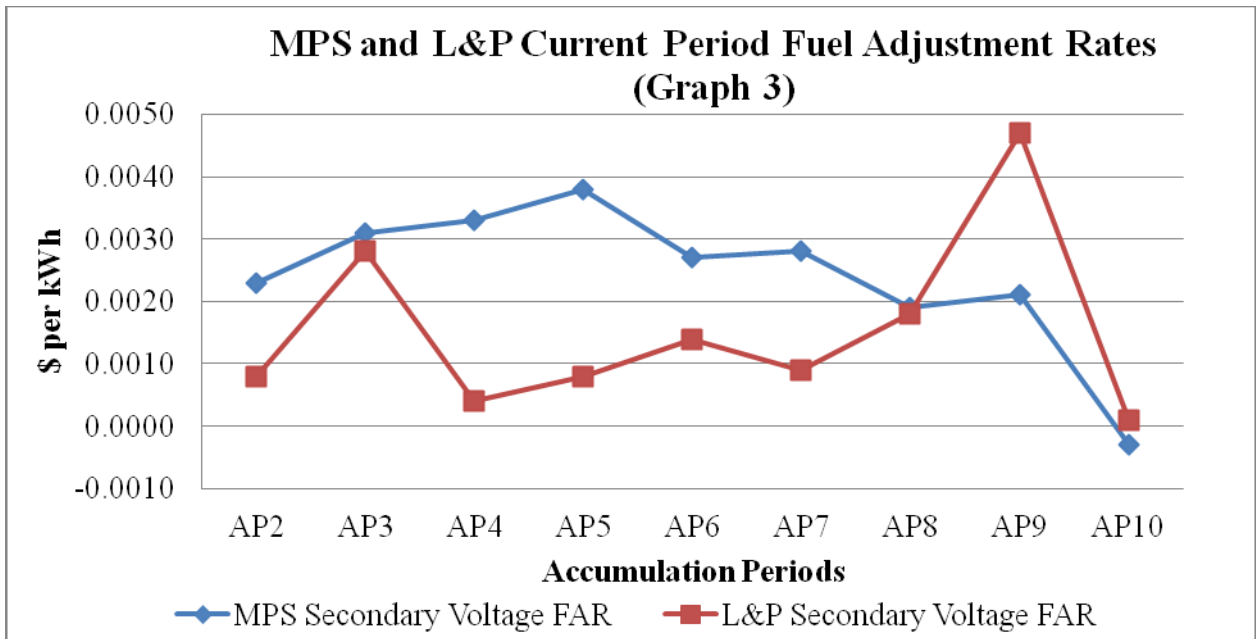
1 Because the L&P rate district's load is approximately one-third that of the MPS rate
2 district, 61 MW is a larger portion of L&P's assigned capacity. Meeting such a large portion
3 of the L&P rate district's load with short-term PPAs places more risk on GMO's L&P rate
4 district customers than it does on GMO's MPS rate district customers. In addition, there are
5 more MPS customers than L&P customers over which to spread costs.

6 Q. Did GMO address any of these other concerns?

7 A. No, it did not.

8 Q. Can Staff give an example of where the variability in the same-sized chunk of
9 capacity, and associated energy cost, has a bigger impact on the rates GMO's customers in its
10 L&P rate district pay than the rates GMO's customers in its MPS rate district pay?

11 A. Changes in the MPS and L&P fuel adjustment rates ("FARs") of GMO's Fuel
12 Adjustment Clause ("FAC") show how changes in the cost of energy impact GMO's
13 customers in its MPS and L&P rate districts. Graph 3 of the Staff's Cost of Service Report
14 filed on August 9, 2012, which shows historical FARs for secondary voltage customers in
15 GMO's MPS and L&P rate districts, is reproduced below:



1
2
3 Q. What does this graph have to do with how GMO's capacity should be assigned
4 between its MPS and L&P rate districts?

5 A. It gives some indication of the different sensitivities of the fuel and purchased
6 power costs¹ billed the customers through the FAC to changes in energy costs associated with
7 capacity for GMO's MPS and L&P rate districts.

8 Capacity assigned to the MPS rate district was reduced in Accumulation Period
9 ("AP") 9 by 60 MW due to a de-rate in the capacity of GMO's lowest cost generating unit,
10 Iatan 2, in July and August of 2011. The reduction in assigned capacity is approximately the
11 same amount of capacity as the short-term PPA that GMO entered into for the summer of
12 2012. Even with this reduction in capacity, the MPS rate district secondary voltage customer
13 FAR for AP 9 (June 2011 through November 2011) was lower than the same FAR for AP 7
14 (June 2010 through November 2010). This indicates a relative insensitivity of customers in
15 GMO's MPS rate district to a change in the price of energy associated with 60 MW.

¹ Net of off-system sales.

1 There were significant changes in the cost of the energy assigned to the L&P rate
2 district in AP 9 which greatly affected the FAR billed to GMO's L&P rate district customers.
3 Capacity assigned to the L&P rate district was reduced due to the de-rating of both Iatan 1 and
4 Iatan 2 for coal conservation measurements due to Missouri River flooding in the summer of
5 2011. The change in available capacity was much greater for L&P—ranging from 200 to 330
6 MW—as compared to the reduction of 60 MW for MPS.

7 Q. Since the magnitude of the capacity reductions of the resources assigned to the
8 L&P rate district was much greater than the 61 MW short-term PPA that GMO wants to
9 assign to it, is the change in the FAR for AP 9 a fair comparison of the potential impact of the
10 changes in the cost of a short-term PPA on GMO's customers in its L&P rate district?

11 A. No. The actual impact would be less than what GMO's L&P rate district
12 customers saw for AP 9. However, because the L&P rate district has fewer resources
13 assigned to it, the same change in capacity costs for the same amount of capacity will impact
14 GMO's L&P rate district customers more than it will GMO's MPS rate district customers;
15 therefore, assigning to L&P ** _____ **
16 will result in more variability on the rates charged to L&P rate district customers than it
17 would on rates charged to MPS rate district customers.

18 **Joint Capacity Planning**

19 Q. What is Mr. Rush's concern regarding Staff's recommendation that the
20 Commission not allow GMO and KCPL to conduct joint capacity planning?

21 A. Mr. Rush touts the benefits of joint capacity planning and does not see the need
22 for the Companies to merge to achieve these benefits. It appears that he understands Staff's
23 concerns regarding how the costs identified pursuant to joint capacity planning would flow to

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1 the various rate jurisdictions, however, he does not see a need to resolve these details prior to
2 undertaking joint planning.

3 Q. Why are the details of how generation resources would be assigned among rate
4 jurisdictions important?

5 A. Generation resources are very capital intensive, and the addition of generation
6 resources to rate base typically has a very significant impact on customer rates. If GMO and
7 KCPL are allowed to go forward with joint capacity planning without identifying how
8 resources will be assigned, the Commission will be facing the same type of decision that it
9 faced in the last case when it had to determine the assignment of Iatan 2 between the L&P and
10 MPS rate districts. If it had been predetermined how the amount should be assigned prior to
11 the rate case based on separate resource planning processes for each rate district, then all the
12 parties and the Commission would have had more information on which to base the decision
13 on the assignment of Iatan 2.

14 Q. Did Staff request analysis be conducted before the last rate case regarding the
15 assignment of Iatan 2 between L&P and MPS?

16 A. Yes, it did. Initially GMO was going to assign all of Iatan 2 to the MPS rate
17 district because MPS had such a great need for base load capacity. However, Staff raised its
18 concern regarding the long-term impact on the L&P rate district of assigning all of the Iatan 2
19 capacity to MPS knowing that the long-term contract that L&P had with the Nebraska Public
20 Power District was ending soon after Iatan 2 was to be completed and that St. Joseph Light
21 and Power Company's partial ownership of Iatan 1 played a role in GMO being allowed
22 partial ownership in Iatan 2. Despite GMO's assurance that it would work with Staff in
23 developing the assignment of Iatan 2 between its rate districts, GMO did not work with Staff
24 in developing its filed position in Case No. ER-2010-0356.

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1 Q. Are you aware of other instances where GMO agreed to work with Staff and
2 parties to develop a process or procedure for allocation among rate districts and it did not
3 occur?

4 A. Yes. In the *Stipulation and Agreement as to Certain Issues* filed on
5 April 4, 2007, in Case No. ER-2007-0004, GMO agreed to “within 90 days of a Commission
6 order approving this Stipulation and Agreement, begin working with the parties to determine
7 how the joint dispatch of fuel and purchased power will be allocated in the next general rate
8 increase or rate complaint case.” There was a limited attempt by GMO to determine a
9 different method of allocating the fuel and purchased power costs to the rate districts but no
10 substantial discussions with all the parties were held prior to the next rate case.² In its next
11 rate case, Case No. ER-2009-0090, GMO continued to use the same allocation basis as agreed
12 to in Case No. ER-2007-0004.³ Tim Rush, in his direct testimony in Case No. ER-2009-
13 0090,⁴ stated:

14 The Company believes that further study needs to be done through the process
15 period of this case. The Company expects that discussions with the parties to
16 this proceeding will help in addressing the overall proper allocations.

17 Even though the need for a better methodology of allocating fuel cost had been
18 realized and memorialized in a stipulation and agreement in the prior case and GMO had
19 agreed to work with the parties in developing a methodology for allocating fuel, and
20 purchased power costs, and off-system sales revenues among the rate districts before the next
21 case, discussions regarding the allocation of fuel costs did not occur until settlement
22 discussions in the next case.

² Rebuttal testimony of GMO witness Tim Rush, page 2, lines 11 through 13, in ER-2009-0090 filed on March 19, 2009.

³ Direct testimony of GMO witness H. Davis Rooney, page 9 lines 8 through 9, in ER-2009-0090 filed on September 5, 2008.

⁴ Direct testimony of GMO witness Tim Rush, page 9 lines 8 through 9, in ER-2009-0090 filed on September 5, 2008.

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1 Q. Mr. Rush states on page 34, lines 9 through 10, of his rebuttal testimony in this
2 case, Case No. ER-2012-0175, that “In some ways this issue is a ‘chicken and egg’ issue.
3 What comes first, the plan or the allocation of cost?” How would you answer his question?

4 A. The allocation of costs should come first. This ensures that the best
5 information is available for the Commission to make decisions regarding the fair allocations
6 of costs among rate jurisdictions, and to help ensure that neither KCPL, nor GMO, nor either
7 rate district within GMO, unfairly benefits from costs allocated to another jurisdiction.

8 Q. Mr. Rush on page 36, lines 3 through 5 states:

9 The companies could enter a purchased power agreement or a transfer payment
10 agreement, or other forms such as ownership agreements. For example,
11 currently KCP&L and GMO have an ownership agreement with Iatan 2.

12 Does Staff agree with Mr. Rush?

13 A. Yes, it does. This is similar to what Staff suggested on page 248, lines 4
14 through 5, of its Staff Report. The difference between what Mr. Rush suggests and what Staff
15 proposes is that Staff’s recommendation is that KCPL and GMO should enter into a long-term
16 contract only after GMO issues a Request for Proposals (“RFP”) for a long term PPA, GMO
17 evaluates the responses it receives, and KCPL’s bid is a low cost solution. If KCPL’s bid
18 would be the chosen solution after a thorough evaluation of all of the bids, then a contract
19 between KCPL and GMO would be a reasonable arrangement. While the *Report and Order*
20 in Case No. EM-2007-0374⁵ appears to allow for such transactions to take place outside of the
21 Affiliate Transaction Rule, Staff still recommends an RFP procedure as the most reasonable
22 means of acquiring capacity for GMO.

⁵ *In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Aquila, Inc., for Approval of the Merger of Aquila, Inc., with a Subsidiary of Great Plains Energy Incorporated and for Other Related Relief.*

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1 Q. Would that resolve Staff's concerns regarding how the costs of resources
2 developed pursuant to joint capacity planning would flow to the various rate jurisdictions?

3 A. It would resolve the concern regarding how costs would flow between KCPL
4 and GMO. However, it would not resolve the concerns regarding how costs would flow
5 between GMO's L&P and MPS rate districts. Due to the previous unfulfilled commitments
6 from GMO to work with parties between rate cases to resolve such issues, it is Staff's
7 recommendation that such a contract not be signed until the concerns regarding how costs
8 would flow between GMO's rate districts is resolved.

9 Q. Does Mr. Rush respond to Staff's recommendation that the Commission not
10 make a determination regarding joint capacity planning in this rate case?

11 A. No, he does not.

12 Q. Is it still Staff's position that the Commission's determination regarding
13 acknowledgement of joint capacity planning be made in the KCPL and GMO resource
14 planning cases currently before the Commission in Case Nos. EO-2012-0323 and
15 EO-2012-0324?

16 A. Yes, it is. Staff and other parties' reports regarding deficiencies and concerns
17 with these resource plan filings were filed on September 6, 2012, and a joint agreement to
18 remedy all deficiencies and concerns is due by November 5, 2012. These resource planning
19 cases are the correct cases for the Commission to make a determination regarding joint
20 capacity planning.

21 Q. Does this conclude your surrebuttal testimony?

22 A. Yes, it does.