Exhibit No.

Issue: Revenue Requirement - Capacity

Witness: Robert Janssen

Sponsoring Party: Dogwood Energy, LLC

Type of Exhibit: Rebuttal Testimony

Case No.: ER-2009-0090

### BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of the Application of Aquila,	)	
Inc. d/b/a KCP&L Greater Missouri	)	
Operations Company for Approval	)	Case No. ER-2009-0090
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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ATTORNEYS FOR DOGWOOD ENERGY, LLC

March 13, 2009

Rebuttal Testimony of Robert Janssen on Behalf of Dogwood Energy, LLC ER-2009-0090 March 13, 2009

STATE OF	)				
COUNTY OF	) SS. )				
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION					
In the Matter of the Application of Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes to its Charges for Electric Service.	) ) Case No. ER-2009-0090 )				
AFFIDAVIT OF	ROBERT JANSSEN				
COMES NOW Robert Janssen, of I sworn, deposes and states:	awful age, sound of mind and being first duly				
	en; I am Senior Vice President for Kelson rood Energy, LLC, and President of Dogwood				
2. Attached hereto and made a Testimony in the above-referenced case.	a part hereof for all purposes is my Rebuttal				
3. I hereby swear and affirm testimony are true and correct to the best of	that my statements contained in the attached my knowledge, information and belief.  Robert Janssen				
SUBSCRIBED AND SWORN to be of <u>March</u> , 20 <u>09</u>	efore me, a Notary Public, this day  Patrofic  Notary Public				
My Commission Expires:  (SEAL)  Miroslava Notary Pu My Commis	Patrnogic  blic, District of Columbia  sion Expires December 14, 2012				

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

### I. QUALIFICATIONS

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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 of Dogwood Energy,
6		LLC since October 2008. From February 2007 to September 2008, I was a Vice
7		President with Kelson, and from October 2005 to February 2007, I was a Director
8		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 and
13		the Dogwood 625 MW combined cycle generating facility located in Aquila's
14		Missouri Public Service ("MPS") service territory, in Pleasant Hill, Missouri.
15		Dogwood employs 25 people at the plant and regularly obtains services and
16		supplies from Missouri businesses. It is also a state and local taxpayer. It
17		primarily supplies power to utilities serving the Kansas City region.

<sup>&</sup>lt;sup>1</sup> This facility was formerly owned by Calpine and known as the Aries facility. Dogwood acquired it at the end of 2006.

### Q. Please describe your educational background and professional experience.

2 A. I have attached a copy of my resume as Schedule RJ-1, which outlines my 3 relevant background and experience. In brief, my experience includes (a) 4 development and management of generating facilities, (b) analysis of electricity 5 markets and transmission systems, (c) analysis of, and development of testimony 6 regarding, utility rates and other filings before federal and state regulatory 7 commissions, (d) due diligence analysis of power purchase agreements and fuel 8 contracts, (e) financial analysis of utility and independent power producer assets 9 such as power plants and water supply systems, and (f) monitoring and reviewing 10 the results of power supply Requests for Proposals.

### 11 Q. What are your responsibilities?

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

### 16 Q. Have you testified in other regulatory proceedings?

A. Yes, I have submitted written testimony in proceedings before this Commission and the Federal Energy Regulatory Commission, the Louisiana Public Service Commission, the Oklahoma Corporation Commission, the Public Service Commission of Wisconsin, the City Council of New Orleans, and the Public Utility Commission of Texas.

### II. PURPOSE AND SUMMARY OF TESTIMONY

### 2 Q. What is the purpose of your testimony?

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Report") of the Missouri Public Service Commission ("Commission") Staff, which is jointly sponsored by Messrs. Featherstone and Wells in this proceeding, and to describe Dogwood's interests in this proceeding as both a retail power

The purpose of my testimony is to respond to the Cost of Service Report ("Staff

- 7 customer of and wholesale power supplier to KCP&L Greater Missouri
- 8 Operations Company ("KCP&L GMO").

### 9 Q. Please summarize your testimony.

10 Dogwood Energy's payments to KCP&L GMO for retail electricity service are a A. 11 significant portion of its fixed operating costs, and Dogwood is concerned about 12 KCP&L GMO's proposed 12-15% rate increase taking affect during a global 13 recession. While KCP&L GMO's asserted need for a rate increase is based on a 14 number of investments and increases in non-fuel operating costs, among other 15 things Staff does not agree with the inclusion of the Crossroads peaking facility in 16 KCP&L GMO's rates. Instead, Staff proposes to continue the historical treatment 17 for capacity requirements by maintaining a hypothetical or proxy "MPS Prudent 18 CT Site" in KCP&L GMO's rate base. While this adjustment would reduce costs 19 to KCP&L GMO's retail customers, like Dogwood, it would not meet Staff's 20 other goals for protecting consumers if KCP&L GMO nonetheless uses the 1 Crossroads Energy facility rather than looking for another real and more efficient 2 capacity solution.

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I believe that instead of Staff's proposal, the Commission should consider the power and asset sales offers made by Dogwood in KCP&L GMO's 2008 RFP as a real alternative to the MPS Prudent CT Site in KCP&L GMO's rate base. These offers are real offers from an existing generating facility that meets Staff's criteria for the type of generating facility from which KCP&L GMO should purchase either capacity and energy, or a portion of the plant, consistent with KCP&L GMO's future capacity requirement needs.

# III. KCP&L GMO'S REQUEST FOR INCLUSION OF CROSSROADS ENERGY IN RATES

### 12 Q. Please briefly describe KCP&L GMO's application in this proceeding.

KCP&L GMO has requested the approval of this Commission to increase its retail rates for electric service in both its Missouri Public Service ("MPS") and Light and Power ("L&P") service territories in Missouri. KCP&L GMO asserts that since its rates were adjusted last, it has undertaken substantial additional investment in rate base. It indicates that these investments include environmental upgrades at Sibley Generating Station, Iatan Unit 1 and Jeffrey Energy Center as

well as adding peaking capacity with the Crossroads Energy Center.<sup>2</sup> KCP&L GMO also asserts that its non-fuel operating costs have increased, although they have been partially offset by recognition of synergy savings from its recent merger into the Great Plains organization. KCP&L GMO asserts that these investments and increased operating costs have resulted in a revenue deficiency.<sup>3</sup> Overall, GMO has requested a \$66 million rate increase for the MPS area.<sup>4</sup> Please briefly describe the Commission Staff's response to KCP&L GMO's application in this proceeding.

In its Direct Testimony in this proceeding, Staff filed testimony supported by a Cost of Service report that lays out Staff's positions on various issues. Overall,

Staff has recommended a \$46 million rate increase for KCP&L GMO for the

### 13 Q. What is Dogwood's interest in this proceeding?

A. First, Dogwood is a retail electricity customer of KCP&L GMO. Dogwood takes electric service from KCP&L GMO for station service purposes, which includes the start-up of its generating facilities and the electrical requirements of the administrative buildings and auxiliary equipment at its generating facility. Dogwood currently takes service under KCP&L GMO's Large Power Service – Real Time Pricing tariff (MO737). Dogwood's payments for retail electrical service from KCP&L GMO comprise a significant percentage of Dogwood's

MPS area.<sup>5</sup>

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<sup>&</sup>lt;sup>2</sup> See Application at Item 7.

<sup>&</sup>lt;sup>3</sup> Ibid.

<sup>&</sup>lt;sup>4</sup> Staff Report, p. 8

<sup>&</sup>lt;sup>5</sup> Ibid. p. 6.

1 annual fixed operating costs. The proposed 12-15% increase in KCP&L GMO's 2 rates during a global recession is a significant concern to Dogwood. 3 Second, Dogwood is a wholesale power supplier of KCP&L GMO. Therefore, 4 Dogwood has a particular interest and expertise to bring to this proceeding 5 regarding KCP&L GMO's choices for capacity and energy supplies that KCP&L 6 GMO wishes Dogwood and other customers to pay for through its retail electric 7 service rates. 8 Q. Are KCP&L GMO's choices regarding capacity and energy supplies at issue 9 in this proceeding? 10 A. Yes. Specifically, KCP&L GMO has presented in its application, as one reason 11 for its requested increase in rates regarding the MPS area, its investment in 12 additional peaking capacity at the Crossroads Energy Center. 13 Q. Please describe KCP&L GMO's proposal to include the Crossroads Energy 14 Center in its retail rates in this proceeding. 15 A. KCP&L GMO asserts in its Direct Testimony that it identified a need for 16 additional peaking capacity (approximately 225 MW in 2010) in its 2007 Electric Utility Resource Plan, also known as its "IRP".6 KCP&L GMO proposes to 17 18 include the Crossroads Energy Center ("Crossroads") in its rates in this proceeding to meet that identified need.<sup>7</sup> KCP&L GMO proposes to include 19

<sup>7</sup> Ibid. at p. 4, lines 9-10.

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<sup>&</sup>lt;sup>6</sup> See Rooney Direct at p. 4, lines 7-9 and at p. 24, lines 12-14.

Crossroads in rate base at the depreciated net book value of the plant, and to 1 2 include its operating costs, including transmission service, based on current costs.8 3 4 Q. How did KCP&L GMO determine that the Crossroads facility was the right 5 option for meeting its capacity needs? 6 A. KCP&L GMO states in its testimony in this proceeding that its decision to include 7 Crossroads in rates was based on an RFP issued in the Spring of 2007 for its short and long-term resource needs. It indicates that Crossroads was bid into the RFP 8 by the corporate division of KCP&L GMO, and KCP&L GMO also submitted 9 self-build proposals into the RFP. 10 KCP&L GMO asserts that both of these 10 11 options beat all the other third-party offers bid into the 2007 RFP.<sup>11</sup> 12 Q. Has Crossroads previously been owned or operated by an affiliate of 13 KCP&L GMO? 14 A. An unregulated affiliate named Aquila Merchant Services held the tolling 15 agreement for the capacity and energy from Crossroads through 2032 with a right to extend up to ten more years. 12 This tolling agreement was transferred to 16

#### Please describe the Crossroads facility. 19 Q.

GMO witness Rooney.<sup>13</sup>

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Aguila, Inc. on March 31, 2007 and was bid into the RFP, according to KCP&L

<sup>&</sup>lt;sup>8</sup> Ibid. at p. 29, lines 5-8.

<sup>&</sup>lt;sup>9</sup> Ibid. at p. 24, lines 15-21. <sup>10</sup> Ibid. at p. 25, lines 2-6.

<sup>&</sup>lt;sup>11</sup> Ibid. at p. 25, lines 10-14.

<sup>&</sup>lt;sup>12</sup> Ibid. at p. 26, lines 9-23.

<sup>&</sup>lt;sup>13</sup> Ibid. at p. 27, lines 1-5.

1	A.	As stated by KCP&L GMO in its testimony, Crossroads is an approximately 300
2		MW gas-fired combustion turbine peaking facility built in 2002. The facility
3		consists of four General Electric 7EA turbines. The units are actually owned and
4		operated by Clarksdale Public Utilities and are located in the City of Clarksdale,
5		Mississippi. <sup>14</sup>
6	Q.	Will KCP&L GMO obtain the output of Crossroads under the tolling
7		agreement?
8	A.	It is not clear at this time. Subsequent to the tolling agreement being offered into
9		the RFP, a purchase option agreement was apparently obtained from the City of
10		Clarksdale. In its testimony KCP&L GMO states that it plans to "transfer"
11		Crossroads to its MPS division prior to the true-up date in this rate case. It is
12		unclear whether this means KCP&L GMO will exercise the ownership option and
13		purchase Crossroads from the City of Clarksdale, or will somehow obtain control
14		of the plant by assignment of the tolling agreement. <sup>15</sup>
15	Q.	Were any negative impacts of purchasing the Crossroads facility rather than
16		assuming the tolling agreement identified?
17	A.	Yes. KCP&L GMO stated in its testimony that if it elected to purchase the
18		Crossroads facility, favorable property tax treatment would be discontinued. 16 It
19		also mentioned that "certain existing agreements" would continue after the
20		purchase option is exercised, but may be discontinued for a buy-out payment. It

<sup>&</sup>lt;sup>14</sup> Ibid. at p. 26, lines 1-7. <sup>15</sup> Ibid. at p. 27, lines 5-13. <sup>16</sup> Ibid. at p. 27, lines 8-9.

1 does not provide any details in its testimony regarding those "certain existing 2 agreements". 3 Q. Does KCP&L GMO state in its testimony the adverse monetary impact it 4 would incur by discontinuing the favorable tax treatment and the existing 5 agreements? 6 A. No, it did not. 7 IV. COMMISSION STAFF RESPONSE 8 Q. What was the Staff's response to KCP&L GMO's request to put Crossroads 9 **Energy in rates?** 10 A. The Staff disagreed with the request and instead recommended an alternative, which was including a "MPS Prudent CT Site" in rates instead. Generally, the 11 12 Staff provided the following reasons for its position: 13 1. Affiliate transaction concerns; 14 2. Cost of transmission; 15 3. Location; and 4. Plant size.<sup>17</sup> 16 17 What did the Staff propose instead? Q. 18 A. The Staff Report states, "Staff is including a 'hypothetical' short-term contract to 19 bridge the need between the five CTs and GMO's next generation capacity

<sup>&</sup>lt;sup>17</sup> See Staff Report at pgs. 88 and 89.

addition for MPS. Therefore, the capital costs of five 105 MW CTs on a six 105 MW CT site are included in Staff's case for MPS, and the capacity costs of a generic 100 MW PPA are included in the expenses for MPS."

The report also states that, "Even though it is Staff's position that the best resource for an electric utility is 'steel-in-the-ground,' i.e. utility constructed and owned generation, Staff recognizes that short-term PPAs are appropriate in circumstances where the electric utility is adding capacity in the near future."

### Q. How did the Staff explain its proposal?

As stated in the Staff Report, "In September 2003, Staff testified in Case No. EF-2003-0456 to its concerns regarding Aquila's lack of planning to replace the 500 megawatts ('MW') of summer power it was then obtaining from the exempt wholesale generator ('EWG') Aries plant." Continuing, the Staff states, "in Aquila's first general electric rate increase case in Missouri after the Aries PPA expired, Case No. ER-2005-0436, the Staff asserted that, given the information available from the resource planning process at the time Aquila decided how it would replace the power it was obtaining through the Aries PPA, Aquila should have built five 105 MW CTs in time to meet the capacity need resulting from the expiration of the Aries PPA in May 2005. ... It was and still is the Staff's position that, instead of relying on short term PPAs, Aquila should have built and had

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<sup>&</sup>lt;sup>18</sup> Ibid. at p. 89

<sup>&</sup>lt;sup>19</sup> Ibid. at p. 89.

<sup>&</sup>lt;sup>20</sup> Ibid. at p. 85.

available by the summer of 2005 five 105 MW CTs ... to serve its customers."<sup>21</sup>

### V. DOGWOOD RESPONSE TO STAFF

### 3 Q. What is your response to Staff's recommendation regarding Crossroads?

A. First, I would like to state that I appreciate the Staff's efforts to protect Dogwood and other KCP&L GMO's customers' interests by challenging KCP&L GMO's proposed capacity requirement solutions. However, I do believe that there is a better alternative to consider rather than simply limiting KCP&L GMO's rate

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

recovery on Crossroads to that of the proxy MPS Prudent CT Site.

Staff's proxy peaker is intended to mimic the costs and benefits that KCP&L GMO's customers would obtain if KCP&L GMO had built peaking facilities in 2005 as preferred by Staff. But if KCP&L GMO is willing to limit its recovery on Crossroads to that allowed by Staff for the proxy peaker, KCP&L GMO's customers will still not be getting the benefits of local generation that the Staff is attempting to obtain through the use of the proxy MPS Prudent CT Site.

As mentioned above, Staff stated in its Cost of Service Report that one issue it was concerned about with Crossroads Energy is that it is not located to meet KCP&L GMO's load. The location of a power plant relative to a utility's load is

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<sup>&</sup>lt;sup>21</sup> Ibid. at p. 86-87.

1 important because a generator situated in or near the load can provide the 2 following power supply benefits: 3 1. Reduced losses on supply of real power; 4 2. Reactive power can be supplied to the load; and 5 3. Supply is more reliable due to less risk for transmission service 6 curtailment. 7 Further, the prices of natural gas for fueling the plant are different between where 8 Crossroads is located and where KCP&L GMO's load is located, with generation 9 located in the area of KCP&L GMO's load generally being able to obtain cheaper 10 natural gas supplies. A typical differential today between those two regions is 11 approximately \$1.50 per mmbtu, which is a very sizable amount in light of the 12 currently low prices for natural gas. 13 Finally, from an economic development perspective, a power plant located in or 14 near KCP&L GMO's service territory brings jobs and business to the region 15 whereas a power plant remote from KCP&L GMO's service territory does not. 16 Q. Please describe the Dogwood alternatives to which you have referred. 17 A. The alternatives are power supply and asset sale offers Dogwood provided to 18 KCP&L GMO in response to its 2008 RFP during Fall 2008. These offers 19 provide KCP&L GMO with real opportunities for power supplies from an 20 existing facility that meets the needs Staff put forth for KCP&L GMO's power 21 supplies, including a good location, the right size, a lack of affiliated company

- 1 concerns, and reduced transmission costs. Dogwood is also willing to discuss
  2 modifications to such offers, or alternative offers, with both KCP&L GMO and
  3 Staff.
- 4 Q. Please describe the KCP&L GMO RFP for power supplies in 2008.
- 5 A. KCP&L GMO issued its RFP on September 18, 2008, approximately two weeks 6 after KCP&L GMO's Direct Testimony was filed in this proceeding on 7 September 5, 2008. The RFP requested proposals to provide capacity and energy 8 from sources other than wind generation, including, but not limited to, base-load 9 capacity resources, intermediate peaking, conventional peaking, and renewable 10 resources. The RFP stated that KCP&L GMO had identified a need for 150 MW 11 beginning in June 2009, and 450 MW of additional capacity needs (total of 600 12 MW) by the 2011-2013 time frame, and 200 MW of additional capacity needs 13 (total of 800 MW) in the 2014-2017 time frame. To fill these needs, the RFP 14 stated that KCP&L GMO was interested in receiving both short and long-term 15 proposals. The short-term proposals were requested to be for supplies in 2009 16 and 2010, and the long-term proposals were requested to be for a minimum of 20 17 years starting June 1, 2009 or later.
- Q. Did KCP&L GMO receive any offers in its 2008 RFP that would compare favorably against its current proposal to include the Crossroads facility in its rates?
- 21 A. Yes, I believe so. Dogwood submitted both short and long-term offers into 22 KCP&L GMO's 2008 RFP that I believe should compare quite favorably against

1 the Crossroads peaking plant option for meeting both the short and long-term 2 capacity and energy needs of KCP&L GMO's retail customers. 3 Q. Please describe the offers provided by Dogwood. 4 A. The details of the offers provided by Dogwood in response to KCP&L GMO's 5 2008 RFP are summarized in documents attached hereto as Schedule RJ-2 (HC). 6 In summary, Dogwood offered through Westar (as Dogwood's energy manager) 7 and on its own, offers consistent with the terms of the RFP. There were six (6) 8 indicative, negotiable power purchase agreement ("PPA") offers of varying 9 configurations, for either combined cycle peaking or base capacity and energy, 10 terms of one to three years, and either summer peak-period or year-round 11 supplies. In lieu of long-term PPA offers, Dogwood submitted several asset sale 12 offers. However, if long-term PPAs would be more attractive, Dogwood would 13 certainly be willing to promptly develop and provide such offers. 14 Q. Do you believe that the Commission should consider offers Dogwood, or any other party, made in response to KCP&L GMO's 2008 RFP as an alternative 15 16 to Staff's recommended proxy peaker methodology? 17 A. Yes, I do. I believe that selection of a real offer or resource rather than use of a 18 MPS Prudent CT Site would encourage the full set of results that Staff desires. 19 Q. As a retail customer of KCP&L GMO, what is Dogwood's position on the 20 proposed inclusion of Crossroads in its retail rates? 21 A. As a standard principle, I believe that if Dogwood Energy is going to pay KCP&L

GMO for additional capacity and energy supplies, then KCP&L GMO should

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obtain the most cost-effective (from the perspective of balancing both supply risk and cost) supplies that are available. If it is found that KCP&L GMO has selected a suboptimal supply option, then its shareholders should bear the risk of that decision and retail customers, such as Dogwood, should only pay rates that are based on the most cost-effective supply option that was available.

### VI. SUMMARY AND CONCLUSIONS

A.

### 7 Q. Please summarize your testimony and conclusions.

Dogwood Energy's payments to KCP&L GMO for retail electricity service are a significant portion of its fixed operating costs, and Dogwood is concerned about KCP&L GMO's proposed 12-15% rate increase during a global recession. While KCP&L GMO's asserted need for a rate increase is based on a number of investments and increases in non-fuel operating costs, among other things, Staff does not agree with the inclusion of the Crossroads peaking facility in KCP&L GMO's rates. Instead, Staff proposes to continue its historical treatment for capacity requirements by maintaining a hypothetical or proxy MPS Prudent CT Site in GMO's rate base. While this would reduce costs to customers like Dogwood, it would not meet Staff's other goals if KCP&L GMO nonetheless acquires the capacity from the Crossroads Energy facility rather than looking for another real capacity solution.

Rebuttal Testimony of Robert Janssen on Behalf of Dogwood Energy, LLC ER-2009-0090 March 13, 2009

1 I believe that as an alternative, the Commission should consider using the power 2 and asset sales offers made by Dogwood in response to KCP&L GMO's 2008 3 RFP instead of including the MPS Prudent CT Site in KCP&L GMO's rates. 4 These offers are real offers from an existing generating facility that meets Staff's criteria for the type of generating facility from which KCP&L GMO should 5 6 purchase capacity and energy, or a portion of the plant, consistent with KCP&L 7 GMO's future capacity requirement needs. 8 Q. Do you hold the opinions you express in this testimony to a reasonable degree 9 of certainty as an expert regarding electrical power generation and 10 transmission? 11 A. Yes. 12 Q. Does this conclude your testimony? 13 A. Yes.