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Witness: Lena M. Mantle
Sponsoring Party: MO PSC Staff
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Case No.: ER-2009-0090
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2009-0090

**Jefferson City, Missouri
April 2009**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
KCP&L Greater Missouri Operations)
Company for Approval to Make Certain)
Changes in its Charges for Electric)
Service.)

Case No. ER-2009-0090

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 11 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M. Mantle

Subscribed and sworn to before me this _____ day of April, 2009.

Notary Public

Table of Contents

SURREBUTTAL TESTIMONY

OF

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KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2009-0090

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

GMO’s Generation and Capacity Position..... 2

Fuel Cost Allocation Between MPS and L&P..... 7

1
2
3
4
5
6
7
8
9
10
11
12

SURREBUTTAL TESTIMONY

OF

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CASE NO. ER-2009-0090

13
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Q. Please state your name and business address.

A. Lena M. Mantle, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena M. Mantle that contributed to Staff's Cost of Service Report filed on February 13, 2009 in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of KCP&L witness Burton L. Crawford in regards to several statements in his rebuttal testimony about what resources should be included in GMO's generation portfolio. In particular, I will describe why the Commission should adopt the Staff's recommendation that the cost of five 105 MW Combustion Turbines (CTs) installed at the South Harper site in 2005 (although GMO only installed three CTs there) be included in the rate base of MPS in this and future rate cases, and a short-term 100 MW purchased power agreement be included in GMO's revenue requirement for MPS in this case.

I am also responding to the concerns in the March 13, 2009 rebuttal testimony of GMO witness Tim Rush regarding the methodology for allocating fuel costs between L&P and MPS components of the Fuel Adjustment Clause (FAC) tariff of GMO.

1 **GMO's Generation and Capacity Position**

2 Q. Would you please briefly describe Staff's and GMO's positions regarding the
3 generation resources that should be included in GMO's revenue requirement for MPS?

4 A. Yes. Other than the facilities described below, the parties do not disagree as to
5 the generation resources that should be included in GMO's revenue requirement for MPS.
6 Based off of GMO's resource planning documents from 2003 and early 2004, it is Staff's
7 position that GMO's revenue requirement for MPS in this case should include the cost of a
8 100 MW short-term purchased power agreement (PPA) as an expense and GMO's least cost
9 plan in 2004 (i.e., five 105 MW CTs completed in 2005 at GMO's then new South Harper
10 plant site plus the cost of that site) in rate base. It is GMO's position that its rate base for
11 MPS should include the cost of three 105 MW CTs at the South Harper site completed in
12 2005 plus the cost of the South Harper site, as well as the cost of four existing 75 MW CTs at
13 the Crossroads, Mississippi site plus the cost of the Crossroads site. Great Plains Energy
14 transferred the Crossroads CTs and site, at net book value, to GMO from an unregulated
15 Aquila, Inc. affiliate when Great Plains Energy acquired Aquila, Inc. in 2008.

16 Q. Are these the same positions that Staff and GMO have taken in previous GMO
17 rate cases?

18 A. They are similar. In GMO's last two rate cases, Staff consistently took the
19 position that GMO should have built five 105 MW CTs at a single site designed for six such
20 CTs to meet its capacity needs for MPS in 2005. While Staff used GMO's costs of
21 constructing South Harper as the basis for the cost of the six 105 MW CT site with five CTs
22 installed, because of issues surrounding the legality of the South Harper site, Staff did not
23 literally include the South Harper CTs in GMO's rate base for MPS. With the Commission's
24 *Report and Order* in Case No. EA-2009-0118 having taken effect March 28, 2009, those

Surrebuttal Testimony of
Lena M. Mantle

1 | issues are resolved and the Staff is now literally including the South Harper six CT site with
2 | three installed 105 MW CTs in GMO's rate base for MPS. Due to load growth and the
3 | pending addition of additional capacity from Iatan 2, the Staff chose to include a short-term
4 | Purchased Power Agreement (PPA) in GMO's revenue requirement for MPS in this rate case.
5 | Therefore, Staff's position now in this case is the South Harper site with five 105 MW CTs
6 | installed by 2005 plus a 100 MW short-term PPA.

7 | In its last two rate cases, GMO included the South Harper site with three 105 MW CTs
8 | completed in 2005 in its rate base for MPS. Any shortfall in capacity needs that remained
9 | GMO met with PPAs. Some of the capacity shortfall was met through PPAs from Crossroads
10 | facility, which was owned by an affiliate at the time. This is the first rate case in which GMO
11 | has proposed including the 300 MW Crossroads facility in rate base for MPS.

12 | Q. Do you agree with GMO witness Mr. Crawford's statement on page 4 at lines
13 | 19 to 20 of his rebuttal testimony that the Commission has never ruled on the issue of five
14 | CTs at the South Harper site?

15 | A. Yes, I do. The Commission approved stipulations and agreements reached by
16 | the parties in the prior two rate increase cases that included "black box" settlements which did
17 | not specify the addition of any specific generation resources to GMO's rate base for MPS.
18 | Staff's position of including five 105 MW CTs in these prior cases was favorable to GMO
19 | because the revenue requirement of including five CTs was greater than GMO's position of
20 | three 105 MW CTs plus short-term purchased power contracts. This is the first rate case
21 | where the inclusion of the five CTs in rate base results in a smaller revenue requirement than
22 | GMO's previous position of three 105 MW CTs plus short-term purchased power agreements.

Surrebuttal Testimony of
Lena M. Mantle

1 Staff witness Charles Hyneman describes this in greater detail in his rebuttal and surrebuttal
2 testimony.

3 Q. Did GMO witness Mr. Crawford correctly characterize GMO's preferred and
4 least-cost plans on page 5, lines 1-7 of his rebuttal testimony?

5 A. From a review of the resource planning information supplied to Staff by GMO
6 (then known as Aquila, Inc.) in 2003 and 2004, this is a correct characterization of GMO's
7 2004 preferred and least-cost plans to meet its 500 MW capacity need in 2005. It is not
8 GMO's current preferred plan.

9 Q. GMO witness Mr. Crawford states on page 5 at lines 8 to 10 of his rebuttal
10 testimony that GMO's 2004 preferred plan was chosen in order to "diversify its supply
11 portfolio additions." Was GMO's 2004 preferred plan more diversified than its 2004 least-
12 cost plan?

13 A. The two plans were largely the same (i.e., three 105 MW CTs). As for meeting
14 the rest of the capacity needs with an additional two 105 MW CTs or short-term PPAs, it was
15 not clear how they were diverse. If the energy supplied through the PPA was generated with
16 natural gas, then there was diversity in the generating facility but not in the fuel used to
17 generate electricity.

18 Q. With regard to diversity, what about the nine-year 75 MW baseload PPA
19 beginning in 2004 that Mr. Crawford mentions on page 7 at lines 15 to 16 of his rebuttal
20 testimony?

21 A. GMO first told Staff of its preferred plan of three 105 MW CTs plus short-term
22 PPAs for meeting its 2005 capacity shortfall in January 2004. After this meeting, Staff
23 expressed its concern about the lack of diversity in GMO's preferred plan in a letter to

Surrebuttal Testimony of
Lena M. Mantle

1 | GMO which expressed Staff's belief that GMO needed to be looking at base-load generation
2 | and the Staff's concern that GMO should not become overly dependent upon PPAs. In July
3 | 2004, GMO told Staff about the 75 MW base load PPA to which Mr. Crawford refers.

4 | Q. Has Staff included this 75 MW PPA in GMO's expenses for the cost of service
5 | of MPS in this rate case?

6 | A. Yes. Staff included this PPA in GMO's cost of service for MPS in this rate
7 | case, just as it did in GMO's last two rate cases.

8 | Q. So has Staff ignored this PPA as Mr. Crawford asserts on page seven, line 22
9 | to page eight, line 5 of his rebuttal testimony?

10 | A. No, it has not. Staff expects electric utilities to constantly be looking for
11 | advantageous energy sources. Even if GMO had built five 105 MW CTs in 2004, entering
12 | into the 75 MW base load contract, because of its low costs, would have been a good resource
13 | choice for GMO. This is why Staff included this contract in the cost of service for MPS each
14 | of GMO's previous two rate cases and in this rate case as well.

15 | Q. Did GMO enter into any other base load PPAs to diversify its supply side
16 | portfolio?

17 | A. No, it did not. GMO has consistently met its remaining capacity needs since
18 | 2005 through short-term PPAs, with CT capacity costs and energy costs tied to the cost of
19 | natural gas. This is the first case where GMO has proposed any "steel in the ground" for
20 | meeting these capacity needs. Putting the Crossroads natural gas CTs and site in GMO rate
21 | base for MPS will not result in any more "fuel diversity" than building two additional natural
22 | gas 105 MW CTs at the South Harper site.

Surrebuttal Testimony of
Lena M. Mantle

1 Q. Does Staff agree with Mr. Crawford that the preferred plan should not be
2 chosen merely because it is the least-cost plan?

3 A. Yes. Staff still believes that utilities should carefully conduct risk and
4 contingency analyses of their resource plans, and choose a resource plan that is robust across
5 many scenarios of possible future events, including but not limited to cost of capital, changes
6 in construction costs, and SO₂ and other environmental-related laws.

7 Q. Did GMO's preferred plan in 2004 minimize the risks associated with the
8 natural gas market as asserted by GMO witness Mr. Crawford at page 6, lines 9-11 of his
9 rebuttal testimony?

10 A. Since the short-term PPAs in GMO's preferred plan were all from natural gas
11 CT facilities the risks associated with natural gas markets were the same for both GMO's
12 2004 preferred plan and GMO's 2004 least-cost plan.

13 Q. Does that mean the risks of GMO's preferred plan in 2004 were the same as
14 the risks of GMO's least-cost plan in 2004?

15 A. No. Even in 2004, before Staff knew what type of PPAs would be available to
16 GMO, Staff believed that GMO's preferred plan of acquiring short-term PPAs to meet its
17 capacity needs was very risky. Every year GMO would have to go out to the market to obtain
18 capacity to meet its capacity needs for the next summer. This resulted in great uncertainty
19 about the cost and deliverability of capacity for that next summer. The Staff believes that
20 prudently building and owning generation, whether it is baseload, intermediate or peaking,
21 provides stability for Missouri consumers. PPAs are useful tools, but they should not be
22 relied upon as long-term solutions to capacity needs in the planning process, without a firm
23 long-term contract in hand.

1 Q. In schedule BLC-1 to his rebuttal testimony, GMO witness Mr. Crawford
2 shows the Crossroads facility in GMO's 2007 preferred plan. It is steel in the ground. Why
3 shouldn't it be included in rate base?

4 A. In short, the full cost of that facility should not be included in the ratebase of
5 MPS now because it was imprudent of GMO to rely on short-term PPAs to meet its capacity
6 shortfall needs in 2005 rather than building two additional 105 MW CTs at its South Harper
7 site. Therefore, the appropriate cost for the power needs GMO plans to meet now with the
8 Crossroads facility should be based on two 105 MW CTs GMO built in 2005 plus a short-
9 term 100 MW PPA. GMO made a short-term resource planning decision in 2004 that, from
10 that time on, would result in higher costs and less stability for its customers. As pointed out
11 by Mr. Crawford on page 5 of his rebuttal testimony, Commissioners expressed concerns
12 about GMO's resource portfolio in Case No. ER-2005-0436. In this case, Staff stated its
13 concerns in both the Staff Cost of Service Report and in Staff witness Hyneman's rebuttal
14 testimony about including the costs of the Crossroads facility in rate base. Even if Crossroads
15 is now a part of GMO's preferred plan and is a least-cost choice, the cost of Crossroads that
16 GMO seeks to include in rate base for MPS is much more than the cost to GMO of building
17 two additional 105 CTs for use by the summer of 2005. GMO's shareholders should not be
18 insulated from, and its customers should not bear the cost of, poor resource planning decisions
19 by GMO.

20 **Fuel Cost Allocation Between MPS and L&P**

21 Q. Why do fuel and purchased power costs for the FAC need to be differentiated
22 for L&P and MPS?

23 A. When Aquila, Inc. (Aquila) merged with St. Joseph Light and Power Company
24 (SJLP) in 2001, the costs and resulting rates of Aquila's pre-merger Missouri service territory

Surrebuttal Testimony of
Lena M. Mantle

1 | (MPS) were much higher than those of SJLP. Therefore separate rates have been maintained
2 | for the areas, and costs for each are booked separately. References to MPS and L&P in this
3 | testimony refer to the operations supporting customers in, and service territory of, what were
4 | formerly MPS and SJLP, respectively.

5 | Q. Did any other party propose a methodology to allocate fuel to MPS and L&P?

6 | A. The only testimony containing any other methodology is in the direct testimony
7 | of Mr. Rush. On page 6, line 21 through page 7, line 6 of his direct testimony, Mr. Rush
8 | stated that GMO used the 0.81/0.19 split (81% and 19% of fuel costs assigned to MPS and
9 | L&P) agreed to in the last rate case, but stated that GMO believe that further study needed to
10 | be done.

11 | Q. Would you briefly summarize Mr. Rush's concerns regarding the Staff's fuel
12 | cost allocation methodology?

13 | A. Mr. Rush has three concerns:

- 14 | 1) The Staff's methodology in the Staff Cost of Service Report (Staff
15 | Report) for allocating fuel and purchased power costs only allocates
16 | fuel and purchased power costs and not other variable costs such SO₂
17 | allowance purchases as associated with fuel. (Rush rebuttal, p. 3, l. 20
18 | through p. 4, l. 3)
- 19 | 2) The lost "market opportunity" of transferring energy at cost between
20 | rate jurisdictions. (Rush rebuttal p. 4, l. 4-12)
- 21 | 3) The methodology will require GMO to determine the allocation of
22 | future generation assignments to each of the jurisdictions. (Rush
23 | rebuttal, p. 4, l. 13-14)

1 Q. Does the methodology proposed by Staff take into account any costs other than
2 fuel and purchased power costs?

3 A. The methodology could if the information was available on an hourly basis.
4 However, the allocation factors in the Staff Report were calculated using only the hourly fuel
5 and purchased power outputs from the Staff's production cost model. These outputs do not
6 include the other variable costs related to fuel. The methodology was created to allocate the
7 fuel and purchased power costs for the rate case. It may or may not be appropriate for
8 allocating other variable costs. Staff will update the allocation factors during true-up using
9 outputs from the up-dated production cost model runs.

10 Mr. Rush is concerned that all costs be included if the methodology is used on an
11 ongoing basis to allocate fuel and purchased power costs. If the fuel adjustment clause is
12 implemented as proposed by Staff and GMO, there will need to be a way to allocate GMO's
13 fuel costs between L&P and MPS. GMO, Staff and the other parties to the case have been
14 working together to develop refinements to the methodology to allocate purchased power
15 sales between L&P and MPS. Some of the other costs that Mr. Rush is concerned about could
16 be included in that discussion.

17 Q. Does this methodology for allocation of costs for the fuel adjustment factor
18 need to be determined in this rate case?

19 A. No, it does not. All costs have been allocated in this case. While fuel and
20 purchased power costs are incurred on a real-time basis, the allocation of costs is an after the
21 fact accounting process. I believe that the parties can come to an agreement outside of this
22 case on how GMO should allocate these costs and revenues for the FAC, but it is appropriate
23 for the parties and the Commission to acknowledge in this case that these matters must be

1 addressed on a going forward basis. Thus, I recommend that the Commission order the
2 parties to attempt to reach an agreement regarding the allocation of GMO's purchased power
3 sales and measurable variable environmental costs (e.g., SO₂ allowance purchases) between
4 MPS and L&P prior to the filing of the first change to the Cost Adjustment Factor of the Fuel
5 Adjustment Clause (FAC) after rates go into effect, which will be January 1, 2010. If the
6 parties have not come to an agreement by that time, then the parties can bring it to the
7 Commission for resolution when GMO requests a change to its Cost Adjustment Factor.

8 Q. Will the adoption of this methodology require GMO to determine the
9 allocation of future generation assignments to MPS and L&P as Mr. Rush discusses on page
10 4, lines 13-14 of his rebuttal testimony?

11 A. There is a need for an allocation methodology because GMO is dispatching its
12 generating units to meet the combined loads of MPS and L&P. The generation resources of
13 MPS and L&P are based on cost and operating requirements, regardless of whether the
14 generating unit is assigned to MPS or L&P. Currently GMO's dispatchers make no
15 differentiation between whether a generating unit is assigned to L&P or MPS. This is one of
16 the cost savings resulting from the merger between Aquila and SJLP.

17 Mr. Rush's concern arises because all of the generation resources that have been
18 added since the merger have been needed to meet MPS's load. At the time of the merger, and
19 since, SJLP/L&P has had adequate capacity to meet its needs through 2010. As described in
20 above, MPS has needed additional capacity in 2005 and every year since. The addition of
21 Iatan 2 will be the real driver for the decision on whether generation gets assigned to MPS or
22 L&P or becomes GMO generation to be used by both. I believe that the fuel methodology
23 can be revised to take into account either of these two situations.

Surrebuttal Testimony of
Lena M. Mantle

1 Q. What recommendations do you make to the Commission regarding allocation
2 of fuel costs to MPS and L&P?

3 A. I recommend that the Commission adopt the Staff's methodology as described
4 in Staff Report for allocating the true-up fuel and purchased power expense estimated from
5 the production cost model. I also recommend that the Commission order the parties to
6 attempt to come to an agreement regarding the allocation of purchased power sales and
7 measurable variable environmental cost (e.g., SO₂ allowance purchases) between MPS and
8 L&P prior to the filing of the first change to the Cost Adjustment Factor of the FAC after
9 rates from this case go into effect, which will be January 1, 2010. If the parties have not come
10 to an agreement by that time, then the parties can bring it to the Commission for resolution in
11 the FAC case in which GMO requests a change to its CAF.

12 Q. Does this conclude your surrebuttal testimony?

13 A. Yes, it does.