

1 **Q WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?**

2 A My testimony will discuss comments contained in the rebuttal testimonies of GMO
3 witnesses Burton Crawford and Tim Rush as it relates to the issue of recovery of
4 Crossroads transmission costs. In addition, I will briefly comment on Mr. Ives' rebuttal
5 testimony regarding KCPL's rate increases over the past 12 years. Finally, I will
6 address MEGC's position on Lake Road allocations.

7 The fact that I do not address a particular issue in this testimony should not be
8 interpreted as a tacit approval of a position taken by the Companies on that issue

9 **Crossroads Transmission Costs**

10 **Q MR. CRAWFORD TAKES ISSUE WITH YOUR STATEMENT ON PAGE 6,**
11 **LINES 13-14, OF YOUR DIRECT TESTIMONY THAT GREAT PLAINS ENERGY**
12 **DECIDED TO "SIMPLY ASSIGN" CROSSROADS TO GMO RETAIL CUSTOMERS,**
13 **WHEN A PURCHASE COULD NOT BE LOCATED. PLEASE COMMENT.**

14 A Mr. Crawford addresses the actions of GMO once it decided to include Crossroads in
15 its supply portfolio. My statement was intended to address events that ultimately led
16 up to the decision that this unit needed to be included in GMO's supply portfolio. As
17 the following shows, before and after Great Plains Energy's acquisition of Aquila,
18 Aquila Merchant and then Great Plains Energy attempted to sell Crossroads. Given
19 the failure to "monetize" the unit, Great Plains Energy decided to "utilize" it as a GMO
20 regulated unit.

21 **Q PLEASE DESCRIBE THOSE EVENTS.**

22 A First in response to a Staff Data Request in Case No. ER-2009-0090, the following
23 statement is included in the response: ** _____

1 As this demonstrates, like Aquila before it, Great Plains Energy’s “preference” was to
2 sell Crossroads. Only when that failed did Great Plains decide to “utilize” it as a
3 regulated unit.

4 **Q HAS THE COMMISSION PROVIDED ANY COMMENTS THAT WOULD SUPPORT**
5 **ITS BELIEF THAT CROSSROADS HAD BEEN UP FOR SALE PRIOR TO BEING**
6 **INCLUDED IN GMO’S PORTFOLIO?**

7 A Yes. In its Report and Order in Case No. ER-2010-0356, the Commission stated in
8 Paragraph 266 the following:

9 266. Aquila, Inc. attempted to sell Crossroads, but was unable to sell
10 it.³³⁵ It follows that, absent a write-down which GMO has not taken,
11 the market value of Crossroads is less than its booked value.
12 (Page 92, Footnote omitted.)

13 In addition, in Paragraph 271 of the same Report and Order, the Commission made
14 the following statement:

15 271. When conducting its due diligence review of Aquila’s assets for
16 determining its offer price for Aquila, GPE would have considered the
17 transmission constraints and other problems associated with
18 Crossroads.³⁴¹ It is incomprehensible that GPE would pay book value
19 for generating facilities in Mississippi to serve retail customers in and
20 about Kansas City, Missouri. And, it is a virtual certainty that GPE
21 management was able to negotiate a price for Aquila that considered
22 the distressed nature of Crossroads as a merchant plant which Aquila
23 Merchant was unable to sell despite trying for several years. Further, it
24 is equally likely that GPE was in as good a position to negotiate a price
25 for Crossroads as AmerenUE was when it negotiated the purchases of
26 Raccoon Creek and Goose Creek, both located in Illinois, from Aquila
27 Merchant in 2006. (Page 94, Footnote omitted.)

28 Clearly, the record shows that Aquila’s and Great Plains Energy’s initial
29 “preference” was to “monetize” the unit through sale and not to “utilize” it in GMO’s
30 supply portfolio. It was only after repeated attempts to sell the unit that GMO decided
31 to add Crossroads to its generation fleet.

1 Q MR. CRAWFORD THEN PROCEEDS TO PROVIDE AN ANALYSIS OF THE
2 VALUE OF CROSSROADS TO OTHER OPTIONS. DO YOU CARE TO
3 RESPOND?

4 A Mr. Crawford's analysis has been raised before and considered by the Commission.
5 This issue has been brought up before by Mr. Crawford and addressed extensively by
6 Staff witness Cary Featherstone. I do not have anything to add to the comprehensive
7 analysis and testimony provided by Mr. Featherstone. In addition, I do not believe the
8 Commission has been influenced by this discussion as it continues to support the
9 value of Crossroads that it established in Case No. ER-2010-0356 GMO rate case. In
10 fact, in Paragraph 268 of the Commission's Report and Order in Case No.
11 ER-2010-0356, the Commission made the following statement:

12 268. GMO claims that the fair market value of Crossroads is
13 established by an RFP conducted in March 2007, prior to the SEC
14 disclosures. GMO postulates that, the responses to this RFP,
15 demonstrate that fair market value is comparable to the proposed net
16 book value. GMO fails to explain, however, given the alleged results
17 of the RFP, why it announced to the Securities Exchange Commission,
18 mere months later, that fair value was only \$51.6 million. (Page 93)

19 The fact of the matter is that the Commission determined the asset value of
20 Crossroads based on the sale price of Raccoon Creek and Goose Creek – a sale
21 between a willing buyer (Ameren Missouri) and a willing seller (Aquila). Those were
22 the market conditions at the time of the sale and those conditions constituted a
23 reasonable surrogate for the Commission's valuation of a virtually identical
24 Crossroads unit. The issue of asset valuation and inclusion in rate base has been
25 accepted by GMO in this rate case. The only issue is whether the incremental
26 transmission costs should be included in cost of service.

27 As I mentioned in my direct testimony, the surrogate for the valuation of
28 Crossroads was the sale of Raccoon Creek and Goose Creek – a sale of a
29 generating station located in the same RTO as the AmerenUE service area.

1 Undoubtedly, AmerenUE would have paid much less, if anything, if those units had
2 not been located in MISO. Given this, as Staff and I have repeatedly argued, if the
3 Commission allows for any transmission costs, it should significantly reduce the
4 valuation of Crossroads in order to maintain the logic of the Raccoon Creek / Goose
5 Creek valuation.

6 **Q IN HIS REBUTTAL TESTIMONY, GMO WITNESS TIM RUSH CLAIMS THAT THE**
7 **POSITION THE COMPANY IS PRESENTING IS CONSISTENT WITH PRIOR**
8 **COMMISSION RULINGS. DO YOU AGREE WITH MR. RUSH?**

9 A Absolutely not. I find Mr. Rush's arguments to be very troubling and without merit.
10 The Commission has never indicated in any of its orders that it would consider an
11 incremental adjustment to the transmission costs of Crossroads in a future rate case.
12 In fact, the Commission has found quite the opposite. In its Report and Order in
13 Case No. ER-2010-0356, the Commission addressed the issue of transmission costs
14 and their ongoing nature.

15 246. This higher transmission cost is an ongoing cost that will be paid
16 every year that Crossroads is operating to provide electricity to
17 customers located in and about Kansas City, Missouri. GMO does not
18 incur any transmission costs for its other production facilities that are
19 located in its MPS district that are used to serve its native load
20 customers in that district. This ongoing transmission cost GMO incurs
21 for Crossroads is a cost that it does not incur for South Harper, and is
22 the cause of one of the biggest differences in the on-going operating
23 costs between the two facilities.

24 247. It is not just and reasonable to require ratepayers to pay for the
25 added transmission costs of electricity generated so far away in a
26 transmission constricted location. Thus, the Commission will exclude
27 the excessive transmission costs from recovery in rates. (Page 87)

28 It is clear from the above discussion that the Commission recognized the
29 ongoing nature of the Crossroads transmission costs when it originally disallowed
30 those costs. It is also clear that when the Commission disallowed those transmission

1 costs, they believed they were excessive. Certainly, given that they have more than
2 doubled in the last eight years makes them even more “excessive” today.

3 In addition, in the Stipulation and Agreement in Case No. ER-2016-0156,
4 GMO stipulated to the exclusion of all transmission costs associated with Crossroads.
5 For instance, in discussing the surveillance reports, GMO agreed to the removal of
6 “all MISO transmission expenses related to the Crossroads Energy Center.”
7 Furthermore, in discussing the fuel adjustment clause, GMO expressly agreed that
8 “[t]he costs and revenues in GMO's FAC will not include transmission costs
9 associated with Crossroads Energy Center. . . .No Crossroads transmission costs will
10 be included in the FAC.” Clearly then, in previous cases, GMO interpreted previous
11 Commission decisions as excluding "all" Crossroads transmission expenses. This is
12 completely contrary to GMO's interpretation in this case that the Commission only
13 intended to exclude \$4.9 million of Crossroads transmission costs. The
14 Commission's previous decisions are clear that it is unreasonable to require GMO
15 ratepayers to have to pay the “excessive” costs associated with transmitting energy
16 from the Crossroads Energy Center in Mississippi (MISO) to ratepayers in Missouri
17 (SPP). In order to protect customers, the Commission should continue to exclude all
18 Crossroads transmission costs from GMO rates.

19 In summary, if the Commission determined that recovery of \$4.9 million of
20 transmission costs were “excessive” in the context of GMO's 2010 rate case, GMO's
21 request to recover \$6.5 million above the \$4.9 million is even more “excessive.” This
22 Commission recognized that transmission costs would be ongoing in nature and
23 determined that the original level of transmission costs were excessive. Simply
24 attempting to bifurcate the recovery of transmission costs now to a disallowed piece
25 (\$4.9 million) and an incremental piece (\$6.5 million) does not remove the “excessive”

1 nature of the costs. The Commission should continue to disallow all transmission
2 costs as it has in the past.

3 **KCPL/GMO Rate History**

4 **Q IN HIS REBUTTAL TESTIMONY, MR. DARREN IVES COMMENTS ON YOUR**
5 **RATE HISTORY ANALYSIS. MR. IVES ARGUES THAT KCPL/GMO'S RATES**
6 **HAVE BEEN IMPACTED BY THE LARGE CONSTRUCTION CYCLE THESE**
7 **UTILITIES HAVE EXPERIENCED. PLEASE COMMENT.**

8 A Much of Mr. Ives' arguments were from impacts that I identified in my direct
9 testimony. In his rebuttal testimony, Mr. Ives argues that the KCPL/GMO construction
10 cycle in the future will be less than that of its other electric peers. However, Mr. Ives
11 ignores or does not discuss the construction cycles of those peers from a historic
12 perspective.

13 I agree with Mr. Ives that the magnitude of a utility's construction cycle will
14 impact its customer rates. As Mr. Gorman discussed in his direct testimony, KCPL
15 has not been unique in its recent large construction cycle. As described by Mr.
16 Gorman, the electric industry has seen a steady increase in capital expenditures in
17 the last decade. Given this, the fact that KCPL has been involved in such a
18 construction cycle does not adequately explain why KCPL's rates were once below
19 the national average, but are now above the national average.

20 Ultimately, my argument is that KCPL/GMO must constantly be aware of its
21 customer's rates relative to those of other electric utilities in order to ensure the
22 competitiveness of its rates and the ability of the KC region to attract and retain new
23 and existing business customers. If rates continue to remain above the national

1 average, KCPL's electric rates will place the KC region at a distinct disadvantage
2 maintaining or growing its industrial/commercial base.

3 **Lake Road Plant Allocations**

4 **Q IN HIS REBUTTAL TESTIMONY, STAFF WITNESS CHARLES POSTON**
5 **PROPOSES TO CONTINUE THE LAKE ROAD ALLOCATORS AGREED TO IN**
6 **CASE NO. ER-2016-0156. PLEASE COMMENT.**

7 A In his rebuttal testimony, Mr. Poston agrees that the Lake Road Plant has been
8 subjected to conditions that have changed how it is dispatched for electricity.
9 However, Mr. Poston is not yet convinced that the Lake Road allocators need to be
10 changed to reflect this change as proposed by GMO witness Tim Rush. MCEG
11 agrees that the conditions under which the Lake Road unit operates have changed in
12 the last several years. Given this, MCEG believes that changes to the Lake Road
13 allocators may need to be modified in this case or in the very near future. MCEG will
14 review the surrebuttal testimony of both GMO and the Staff to keep abreast of this
15 issue.

16 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

17 A Yes, it does.

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