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Purchased Power
Witness: Erin L. Maloney
Sponsoring Party: MO PSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

ERIN L. MALONEY

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

*Jefferson City, Missouri
September 2012*

**** Denotes Highly Confidential Information ****

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ERIN L. MALONEY

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

13 Q. Please state your name and business address.

14 A. My name is Erin Maloney. My business address is 200 Madison Street,
15 Jefferson City, Missouri 65101, Suite 700.

16 Q. Are you the same Erin Maloney that contributed to Staff's Revenue
17 Requirement Cost of Service Report ("Staff's Report") filed on August 2, 2012?

18 A. Yes, I am.

19 Q. What is the purpose of your rebuttal testimony?

20 A. The purpose of my rebuttal testimony is to discuss Kansas City Power &
21 Light's ("KCPL") requested treatment of certain costs and perceived lack of revenue that
22 they contend is related to the events that occurred in the summer of 2011 due to the
23 flooding of the Missouri river basin ("Missouri River Flooding") and to present Staff's
24 recommendation on this issue.

25 Q. What has KCPL requested?

26 A. KCPL is requesting an Accounting Authority Order ("AAO") to recover
27 costs and ungenerated revenues associated with the Missouri River Flooding.
28 Specifically, for the Missouri jurisdiction, KCPL has requested Commission
authorization to:

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1 1) Defer and record to a regulatory asset account non-fuel operating and
2 maintenance costs associated with the flooding,

3 2) Defer and record to a regulatory asset account an estimated amount of
4 incremental increase to fuel and purchased power costs and,

5 3) Defer and record to a separate regulatory asset account an amount they
6 had hoped to make in Off-System Sales (“OSS”) margins.

7 Q. Has any part of this request been addressed in Staff’s direct case?

8 A. Yes, the first element, to defer and record to a regulatory asset account
9 non-fuel operating and maintenance costs associated with the flooding, was addressed by
10 Staff witness Keith Majors who recommended the Commission include incremental
11 costs, as indicated in Staff’s Revenue Requirement Cost of Service Report filed on
12 August 2, 2012 (pages 76-77). This adjustment is recorded in Staff Adjustment E-248.2.

13 Q. Are other Staff witnesses filing rebuttal testimony concerning this request?

14 A. Yes, Staff witness Mark L. Oligschlaeger is filing testimony on the third
15 element discussed above, and recommends that KCPL not be authorized to defer and
16 record to a separate regulatory asset account an amount they had hoped to make in Off-
17 System Sales (“OSS”) margins.

18 Q. Which part of this request will you be addressing in your testimony?

19 A. I will be addressing the second part of the Company’s request, to defer and
20 record to a regulatory asset account the estimated incremental increase to fuel and
21 purchased power costs.

1 Q. What is Staff’s recommendation on KCPL’s request to defer and record to
2 a regulatory asset account estimated incremental increase to fuel and purchased power
3 costs?

4 A. Staff is recommending the Commission deny KCPL’s request to defer
5 estimated incremental increase to fuel and purchased power costs for the reasons set out
6 in this testimony.

7 Q. Is it possible to reasonably quantify any increase in KCPL’s fuel and
8 purchased power expenditures associated with the flood?

9 A. No. KCPL is asking for the incremental increase to fuel and purchased
10 power costs associated with the flood. An equation for this calculation might look
11 something like:

$$12 \quad (\text{Actual Costs that Occurred During the Flood}) - (\text{Costs that would have Occurred} \\ 13 \quad \quad \quad \text{Absent the Flood}) = \text{Incremental Costs}$$

14 Clearly without knowing what costs would have occurred absent the flood this
15 equation can only be estimated. The fuel and purchased power costs that are established
16 in a rate case are the best estimate of costs that would have occurred absent the flood.
17 These costs reflect normalized load, normalized outages, and are based on a “normal”
18 year’s data. No particular year can be expected to be “normal.” Regulation recognizes
19 that any particular year may have greater or lesser costs or revenues than were used in
20 setting the effective rates. Any attempt to calculate what expenses and revenues might

1 have occurred absent the flood would be speculative, and cannot be reasonably
2 quantified.¹

3 Q. How did KCPL calculate the incremental increase to fuel and purchased
4 power costs and Off System Sales (OSS) revenues that would have occurred absent the
5 flood to determine the amounts that they seek to include in an AAO?

6 A. KCPL did not calculate the incremental increase, instead, KCPL created
7 an estimate using software developed by Power Costs, Inc. called “Post Analysis”(PA”)
8 to simulate how its system operated during the flood and to perform a Lost Opportunity
9 (“LOP”) Study. First, KCPL used the PA model to simulate actual fuel and purchased
10 power costs and OSS revenues during the time period of July – October 12, 2011. Then,
11 KCPL changed some of those inputs, such as the plant availability, to estimate what fuel
12 and purchased power costs and OSS revenues might have been absent the flood.²
13 However, KCPL failed to likewise change other inputs, such as spot market energy
14 prices, to account for increase in those prices related to the flood. Also, in its modeling,
15 KCPL assumed that it would make an unrealistic level of sales. Instead of using its
16 actual fuel and purchased power costs and OSS revenues, KCPL used the LOP Study to
17 model the actual data that occurred during the flood and “available market data and
18 generating unit constraints and capabilities, to determine lost revenue if units had not

¹ Fuel Adjustment Clauses (“FAC”) function by having specifically tariffed base rates, for comparison to incurred costs. When an FAC is established, fuel and purchased power expenses which are normally expected to occur, absent extraordinary events, have been set with all parties involved in each step of the process, including negotiations on all of the inputs and the methodologies used to set base fuel and purchased power costs and the use of normalized values in an agreed upon 12 month test period. The parties would also have agreed on a tariff structure that indicates exactly what fuel and purchased power costs would be included in calculating base and actual costs as well as whether or not off-system sales would be included in the calculation as an offset to costs.

² The particular adjustments made to the plant availability will be discussed below.

1 | been constrained...”. (WM. Edward Blunk, Supplemental Direct Testimony, page 9,
2 | lines 11-14.)

3 | Q. Were the plant availability inputs KCPL used reasonable?

4 | A. No. KCPL assigned “cruise rates” to the coal turbines that were de-rated
5 | as a result of coal conservation for the LOP study. The unit capacity and availability
6 | used in the KCPL’s modeling have not been reached in any historical data that the Staff
7 | has analyzed in the time period –January 2007 – June 2012.³ This results in an inflated
8 | estimate of how much inexpensive coal generation is available to make OSS.

9 | Q. Why was the level of sales included in KCPL’s estimate unreasonable?

10 | A. In KCPL’s modeling they included all sales that were “economically
11 | feasible,” and did not consider transmission constraints, whether other utilities were also
12 | experiencing reduced generation capabilities and assumed that there would always be a
13 | buyer, regardless of the needs of other utilities. Taken together, all of these factors make
14 | KCPL’s level of sales an unrealistic, best case scenario.

15 | Q. What other fuel and purchased power related expenses and revenues is
16 | KCPL seeking to include in an AAO?

17 | A. KCPL is also seeking to include the estimated difference in:

- 18 | • Fuel and variable operation and maintenance expense due to the coal unit
19 | de-rates,
- 20 | • Purchased power expenses,
- 21 | • Other generation costs including startup cost, fuel and variable operation
22 | and maintenance expenses incurred by non-derated units,

³ Cruise rates are a term KCPL has used in this preceding to refer to unit capacity and availability.

1 d) KCPL's LOP Study looked at the time period between July 2nd and
2 October 12th of 2011. In the study it used actual purchased power prices and
3 actual loads that occurred during the summer of 2011. It is inappropriate to use
4 the actual values that occurred during the flood because these actual values were
5 not independent of the conditions which occurred during the flood.

6 e) Even if KCPL attempted to normalize the data as discussed, it is
7 inappropriate to look at just three months of data when determining a normalized
8 level of fuel and purchased power expenses. Just as a rate case considers a
9 12-month test year, an appropriate study period would include a full year's
10 amount of data. OSS and fuel and purchased power levels are set in a rate case
11 for an entire year, therefore sales made during the rest of the year should be
12 considered as offsets to those that may not have been generated during the flood.

13 f) KCPL included their estimate of the incremental increase in fuel costs
14 caused by using non-de-rated turbines to meet retail load instead of certain coal
15 plants. However, rates are based on normalized plant dispatch. A normalized
16 level and timing of full and partial outages is considered in setting fuel costs in
17 rate cases. For example, Wolf Creek refueling outages are normalized at a level
18 of 1/3 of an outage each year. In a given year, Wolf Creek may not experience a
19 refueling outage, which means KCPL's fuel costs would be less than what was set
20 in the rate case, all else being equal. Thus, it is inappropriate to pick and choose
21 specific instances in which actual dispatch may have varied from "normal"
22 dispatch as requested by KCPL.

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1 Q. Has Staff issued a data request to KCPL requesting information regarding
2 the purpose of the Dogwood Capacity Contract and whether or not it was entered into due
3 to coal conservation?

4 A. Yes, in response to Staff's Data Request # 272.7, KCPL submitted the
5 following response:

6 ** _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____ **

17
18 Therefore, according to this response, the Dogwood Capacity Contract was
19 entered into by KCPL at least in part because of the Wolf Creek outage.

20 Q. Is KCPL's inclusion of the capacity contract in this AAO request
21 appropriate?

22 A. No. First, KCPL's statement that the "bulk" of the contract was for KCPL
23 implies that at least a portion of the contract was entered into for the benefit of the GMO
24 system. It would be inappropriate to include those costs in a KCPL AAO, as requested
25 by KCPL. Further, it is inappropriate to include capacity costs related to the Wolf Creek
26 outage in a Flood AAO, as requested by KCPL. Finally, it is not clear that there was any
27 need for the capacity or energy in relation to the flood.

28 Q. Is it possible to reasonably assign capacity costs related to the Wolf Creek
29 outage versus capacity costs related to the flooding?

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1 A. No. KCPL stated that they entered into the contract initially because of
2 the Wolf Creek outage, this initial contract was entered into on June 3, 2011 for the term
3 of June 11 – July 31, 2011. However, KCPL has assigned only the costs incurred in June
4 to the Wolf Creek outage and has assigned the July costs to the flood. On July 8, 2011,
5 the contract was extended to August 31, 2011. KCPL assigned costs from July 2 –
6 August 31, 2011 to the flood, despite KCPL entering into the contract for July prior to the
7 onset of coal conservation measures.

8 Q. Did KCPL need the energy from Dogwood to meet its retail load?

9 A. No. While KCPL was buying energy from Dogwood it was also selling
10 energy to GMO. A review of the 4 CSR 240-3.190(1)(E) data submitted by KCPL
11 indicates that in the same hours KCPL purchased ** _____ ** of energy at a
12 total cost of ** _____ ** from Dogwood, KCPL sold over ** _____ ** of
13 energy at a total cost of ** _____ ** to GMO during the time frame of July 2, 2012
14 through October 12, 2012. This results in an average Dogwood/KCPL purchase price for
15 energy was ** _____ **, the average KCPL/GMO sale price for energy was
16 ** _____ **.

17 Q. Has or will GMO recover these costs through its FAC?

18 A. Yes, the fuel and purchased power costs incurred by GMO from the
19 accumulation period June 2011 - November 2011, are currently being collected during
20 the recovery period of March 2012-February 2013. Staff will examine these costs in its
21 prudence audit of that time period.

22 Q. What is Staff's recommendation regarding KCPL's Flood AAO request?

23 A. Staff recommends the following:

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- 1 1. The Commission grant authority to KCPL to defer the non-fuel operating and
2 maintenance costs associated with the flooding as described by Keith Majors in
3 the Staff's Cost of Service Report,
4 2. The Commission deny KCPL's request to defer its estimated incremental increase
5 to fuel and purchased power expenses for all of the reasons stated above. To the
6 extent the Commission would include an estimate of these costs, KCPL's estimate
7 is inaccurate in that:
- 8 a. An estimate of incremental changes to fuel and purchased power expenses
9 and losses to OSS revenues based on three months of data using actual
10 inputs which occurred during the time period of the estimate is unrealistic
11 and unreasonable,
12 b. The demand charges for capacity that KCPL is seeking to recover do not
13 appear to have resulted from the flood and may at least in some part have
14 been incurred to provide GMO with capacity,
- 15 3. The Commission deny KCPL's request to defer and record to a separate
16 regulatory asset account an amount they had hoped to make in OSS margin for the
17 reasons identified in this testimony regarding KCPL's modeling and for the
18 reasons set out in Mr. Oligschlaeger's testimony.

19 Q. Does this conclude your Rebuttal Testimony?

20 A. Yes.