

Exhibit No.:
Issues: Base Rate Design &
Quarterly Cost Adjust.
Witness: Donald Johnstone
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: AGP
Case Number: HR-2009-0092
Date Testimony Prepared: April 9, 2009

Aquila, Inc. / dba
Kansas City Power & Light Company
Greater Missouri Operations

Case No. HR 2009-0092

Prepared Surrebuttal Testimony of

Donald Johnstone

On behalf of

AG PROCESSING INC, A COOPERATIVE

April 2009



Before the
Missouri Public Service Commission

Aquila, Inc. / dba
Kansas City Power & Light Company
Greater Missouri Operations

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Surrebuttal Testimony of Donald Johnstone

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Prepared Surrebuttal Testimony of Donald Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is Donald Johnstone and my address is 384 Black Hawk Drive, Lake Ozark,
3 Missouri, 65049. My qualifications and experience are set forth in Appendix A to my
4 direct testimony in this matter.

5 Q ON WHOSE BEHALF ARE YOU APPEARING?

6 A I am appearing on behalf of intervenor AG PROCESSING INC, A COOPERATIVE (AGP). I
7 have also been retained by Triumph and Omnium, each of whom is a steam customer
8 of the applicant utility.

9 SUBJECTS ADDRESSED

10 Q WHAT ARE THE SUBJECTS ADDRESSED IN YOUR TESTIMONY?

11 A I address the design of rates and the Quarterly Cost Adjustment mechanism. I support
12 the rate design proposed by Mr. Rush in his rebuttal in which he proposes an equal
13 percentage adjustment to the rates, excluding the cost of fuel. I oppose the QCA
14 proposal of Aquila dba KCPL/GMO ("Aquila" or "Company") as modified in the rebuttal

1 testimony of Mr. Rush and I recommend elimination of the QCA if Aquila's proposal
2 were to be the form.

3 It is my sense that my clients would accept the continuation of the current QCA
4 with the adjustments recommended in my earlier testimony to reflect the current
5 base cost of fuel and adjustments to the coal performance standards. It would also be
6 acceptable to include an appropriately designed provision to encourage reliable
7 service as outlined in this surrebuttal testimony.

8 **RATE DESIGN**

9 **Q DOES AQUILA PROPOSE TO CONTINUE THE CURRENT RATE DESIGN?**

10 **A** Yes.

11 **Q DO YOU AGREE WITH THE PROPOSAL?**

12 **A** The proposal is to change the rates on an equal percentage basis, excluding the cost of
13 fuel and I agree with the proposal. The cost of fuel is tracked separately in the QCA
14 so there is good reason to adjust only the base rates to accomodate any increase in
15 base rate revenues. The one other consideration is an adjustment to reflect the
16 current fuel cost as the base fuel amount in the rate and I agree with that proposal as
17 well.

18 **Q DOES YOUR AGREEMENT WITH THE EQUAL PERCENTAGE APPROACH IMPLY A**
19 **CONTINUATION OF THE AGP CONTRACT PROVISIONS?**

20 **A** Yes. The AGP contract provisions provide for a lower average unit cost than would
21 otherwise be the case and there are several reasons why that is appropriate. First, a

1 large portion of the AGP service is at the higher 850 pound pressure and this is unique
2 to AGP. Second, it is more economical to provide high pressure steam because fewer
3 facilities are needed. Third, the AGP facility at which the bulk of the service is
4 provided is literally across the fence from the Lake Road Plant so that less distribution
5 investment is necessary and distribution costs are substantially less. And fourth, the
6 high pressure service is more vulnerable to any operating problems at the Lake Road
7 Plant and the unfortunate and undesired result is less reliable, lower quality service.
8 All of these factors support the reasonableness of the current special contract. While
9 there has been no class cost-of-service study for either high or low pressure service,
10 there are these several factors that support the continuing justness and
11 reasonableness of the contractual rate design provisions.

12 **QCA RELIABILITY IMPLICATIONS**

13 Q HAS RELIABILITY BEEN A CONTINUING ISSUE?

14 A Yes, particularly for high pressure steam service. In my rebuttal testimony I addressed
15 this topic from the perspective of dealing with a major outage. I note that Mr. Rush
16 states in his rebuttal that he is open to additional changes to the QCA to align it with
17 approved Missouri electric FAC mechanisms. Perhaps this is a suggestion to move from
18 an 80/20 mechanism towards a 95/5 mechanism.

19 Q ARE ANY FURTHER ADJUSTMENTS TO THE QCA POSSIBLE IN ORDER TO INCENT AN
20 ADEQUATE LEVEL OF RELIABILITY?

21 A In my rebuttal testimony I suggested a provision that would accommodate major
22 outages that are required from time to time. I also explained that reliable service is

1 what is expected of a public utility while the QCA to a large extent addresses a
2 separate issue -- the ability to adjust rates more frequently to reflect cost changes
3 and to thereby improve the opportunity for Aquila to earn a fair return.

4 AGP has experienced significant steam outages that have caused expensive lost
5 production. In keeping with the theory that any fuel adjustment mechanism should
6 continue to align the interests of Aquila and its customers, my sense is that an
7 appropriately designed mechanism that enhanced the utility's incentive to provide
8 more reliable service could be an area for further discussion with Aquila.

9 Q CAN YOU SUGGEST A CONCEPT FOR THE MODIFICATION TO THE QCA THAT WOULD
10 INCENT MORE RELIABLE SERVICE WHILE ACCOMMODATING THE DESIRE OF AQUILA
11 FOR GREATER PASS THROUGH?

12 A Yes. Since Aquila has been clear that it would prefer more than 80% pass through of
13 fuel cost variations, I have given consideration to an approach that would provide up
14 to 90% pass through of cost variations above the base when reliable service is provided
15 on a continuing basis. The pass through could be more favorable to Aquila when
16 service is more reliable and less favorable when service is less reliable. An analogous
17 approach on the downside would maintain the pass through of lower cost at 80% when
18 service is more reliable and increase pass through to 90% when service is less reliable.

19 From a customer perspective it is important for Aquila to maintain adequate
20 reliability. This enables the uninterrupted operation of the customer's process and
21 avoids costly down time. Reliability must be translated into an unambiguous reliability
22 standard that would be based on steam pressure being continuously maintained at
23 levels adequate for reliable service.

1 To provide the reliability incentive I suggest that the pass through percentage
2 adjusted by 2.5% in the direction favorable to Aquila in each quarter in which the
3 reliability standard is met. I further suggest pass through percentages be limited to a
4 range of no lower than 80% and no higher than 90%.

5 **Q IS THIS MODIFICATION IS SOMETHING THAT THE PSC COULD OR SHOULD DIRECT?**

6 **A** No, I don't believe that would likely work well. Setting aside for a moment the
7 question of whether unilateral changes could be directed, it is fair to say that the
8 parties have been in discussion about modifications for some time and some progress
9 has been made. I am not at all certain, however, that having the Commission step
10 into the mix would be helpful at this point.

11 **Q WHAT IS IT THEN THAT YOU WOULD SUGGEST AT THIS POINT?**

12 **A** First, my clients are certainly prepared to participate in confidential settlement
13 discussions. Beyond that, I think the Commission could certainly establish a time
14 period within the confines of this case and encourage the parties to develop an
15 appropriate and mutually agreeable mechanism. Absent any QCA agreement, the
16 issue will be placed before the Commission in due course.

17 **Q COULD YOUR CLIENTS SUPPORT THE CONTINUATION OF THE CURRENT QCA WITH**
18 **ADJUSTMENTS TO INCLUDE A RELIABILITY INCENTIVE?**

19 **A** Obviously, the final decisions would have to be made by the clients, but I believe that
20 an appropriately designed mechanism that encouraged reliable service would be
21 considered. This would involve the development of an acceptable and mutually
22 agreeable measure for the reliability standard. Of course, my rebuttal testimony also

1 makes suggestions for revisions to the performance thresholds and support for further
2 modifications to the QCA would also be conditioned on the adoption of those
3 modifications.

4 Q BY THIS TESTIMONY ARE YOU SUGGESTING THAT THE 80/20 PASS THROUGH
5 APPROACH IS SOMEHOW DEFICIENT?

6 A No. It remains a solid approach for the reconciliation of competing objectives.
7 However, in the circumstances of the steam business the customers also perceive a
8 need to encourage Aquila to provide improved reliability and in that context I suggest
9 adjustment to the pass through for the purpose of providing an additional incentive.

10 **SUMMARY**

11 Q PLEASE SUMMARIZE THE ADJUSTMENTS YOU SUGGEST FOR THE QCA MECHANISM.

12 A The base cost of gas should be reset. Also, the coal performance standard should be
13 reset at a levels illustrated on Schedule 2 of my rebuttal testimony for the 3-month
14 and 12-month production levels while eliminating the 6 and 9-month standards. I also
15 suggest changes to the coal performance standards to accommodate the impact of a
16 major outage and the impact of changing levels of customer loads. In this testimony I
17 further recommend a mechanism to encourage more reliable service - service that
18 could also be characterized as safe and adequate.

19 Q PLEASE SUMMARIZE YOUR RATE DESIGN RECOMMENDATIONS.

20 A I support an equal percentage adjustment to base rates, excluding fuel cost, and a
21 continuation of the AGP contract provisions.

1 Q DOES THIS CONCLUDE YOUR TESTIMONY?

2 A Yes it does.

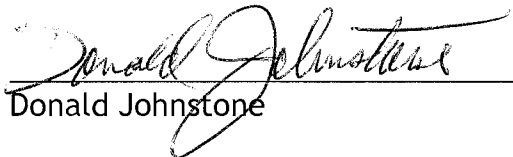
BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)	
Aquila, Inc. d/b/a KCP&L Greater)	
Missouri Operations Company for)	Case No. HR-2009-0092
Approval to Make Certain Changes in its)	
Charges for Steam Heating Service)	

Affidavit of Donald Johnstone

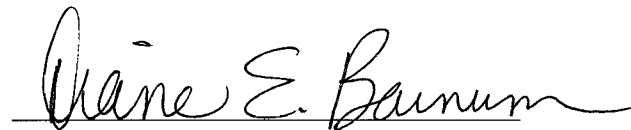
State of Missouri)	
)	ss
County of Camden)	

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.



Donald Johnstone

Subscribed and sworn before me this 9th day of April, 2009



Notary Public



DIANE E. BARNUM
My Commission Expires
October 12, 2009
Camden County
Commission #05782068