

Exhibit No.:
Issue: Rate Design on Base Rates and
Quarterly Cost Adjustment
Witness: Tim Rush
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: KCP&L Greater Missouri
Operations Company
Case No.: HR-2009-0092
Date Testimony Prepared: March 19, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: HR-2009-0092

REBUTTAL TESTIMONY

OF

TIM RUSH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
March 2009**

REBUTTAL TESTIMONY

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TIM RUSH

Case No. HR-2009-0092

1 **Q: Are you the same Tim Rush who submitted Direct Testimony in this case on behalf**
2 **of KCP&L Greater Missouri Operations Company (“GMO” or the “Company”) on**
3 **or about September 5, 2008?**

4 A: Yes, I am.

5 **Q: What is the purpose of your Rebuttal Testimony?**

6 A: The purpose of my testimony is to respond to the Direct Testimony of Anne Ross on
7 behalf of the Missouri Public Service Commission Staff (“Staff”) and Donald Johnstone
8 on behalf of Ag Processing Inc., a Cooperative (“AGP”) regarding their respective
9 positions on rate design for base rates and the Quarterly Cost Adjustment (“QCA”)
10 factor.

11 **Rate Design of the QCA Mechanism**

12 **Q: What is the position taken by Staff?**

13 A: In the Class Cost of Service and Rate Design report sponsored by Staff witness Anne
14 Ross, she states that they have no proposal to change the Company’s current fuel
15 adjustment rider. They are, however, interested in participating in future discussions on
16 the matter.

17 **Q: Do you agree with that position?**

1 A: Staff should address the merits of the Company's proposed QCA and provide their
2 position. I would not think that Staff is indifferent as to whether the Company has a
3 QCA. Additionally, as Staff wishes to participate in future discussions related to the
4 QCA, the Company believes Staff will provide its recommendation as the case develops.
5 The parties would benefit from having Staff's recommendations sooner rather than later.

6 **Q: What position has AGP taken?**

7 A: AGP recommends that the QCA be eliminated if the Commission accepts the proposal as
8 submitted by the Company. In the alternative, AGP recommends the current QCA
9 continue with minor adjustments.

10 **Q: What comment do you have regarding the elimination of the QCA?**

11 A: The continuation of the QCA, with modifications, is ***critical*** to the ongoing operations of
12 the steam business. As I will describe below, fuel costs are approximately 80% of the
13 ongoing Operations and Maintenance costs of the steam business. Price volatility of
14 natural gas, oil, and coal are significant. We are currently seeing swings in prices that are
15 unprecedented and the QCA allows for the recovery as well as the return of these
16 variations in fuel in a timely manner.

17 **Q: What are the adjustments to the QCA recommended by AGP?**

18 A: AGP wants the QCA to be continued in its present form with the exception of two
19 proposed adjustments: (i) a new base fuel cost set and (ii) an adjustment to the current
20 coal performance standard.

21 **Q: Does the Company agree with that stance?**

22 A: Yes and no. The Company wants to continue a fuel adjustment mechanism that allows
23 for it to recover the fuel costs incurred by the Company to provide steam service.

1 Additionally, the Company believes it is appropriate to set a new base fuel cost in the
2 rates. As stated in my Direct Testimony, fuel costs comprise approximately 80% of total
3 steam operating and maintenance expense. Fuel costs have more than doubled from 2004
4 to 2007, with significant increases in the cost of coal and natural gas. Because of the
5 increasing trend of fuel costs as well as the volatility world-wide for all types of fuel,
6 there is a definite need to continue a fuel adjustment mechanism in some form.

7 **Q: With what part of AGP’s proposal do you have concerns?**

8 A: I cannot agree with Mr. Johnstone’s thoughts regarding the 80/20 mechanism, whereby
9 the Company is only permitted to recover 80% of its fuel costs through the QCA. He
10 states that the risk-sharing 80/20 mechanism should be maintained because it provides an
11 incentive to encourage cost-effective operations, maintenance, and fuel procurement.

12 I disagree. The Company should be able to recover 100% of prudently incurred fuel
13 costs. The appropriate mechanism on which to model the Industrial Steam QCA would
14 be the natural gas industry Purchased Gas Adjustment mechanism that allows recovery of
15 prudently incurred natural gas purchases. However, I am open to moving to a similar
16 sharing mechanism in line with the current Fuel Adjustment Cost (“FAC”) mechanism
17 that is approved for three of the four electric utilities in the state of Missouri.

18 **Q: What detriment has this sharing caused the Company?**

19 A: As stated in my Direct Testimony, the 80/20 mechanism has resulted in the under
20 recovery of approximately \$1 million in prudently incurred fuel costs since the inception
21 of the QCA in 2006. This loss is significant with regard to the relatively small size of the
22 steam business.

23 **Q: What are your thoughts about continuing the coal performance standard?**

1 A: I am against it. As I stated in my Direct Testimony, increasing retail electric demand
2 over the past few years has shifted the mix of fuels used in our steam production. As we
3 reach the limits of steam production from coal, natural gas is used to meet incremental
4 load. Since 2004, the portion of the steam produced from natural gas has increased from
5 about 19% to over 32%.

6 **Q: Has the coal performance standard resulted in a financial detriment to the**
7 **Company?**

8 A: Yes. Past experience has shown that the performance standard has resulted in under-
9 recovery for the Company of approximately \$2.4 million since 2006 until the time my
10 Direct Testimony was filed in this case. In late fall of 2008, the Company undertook an
11 extended outage on its coal boiler to upgrade the control equipment. This outage was
12 designed to help maintain and improve the performance of the boiler. As a result of the
13 outage, the Company did not meet the coal standards as set out in the tariff. This resulted
14 in the QCA mechanism reducing actual costs to be recovered by steam customers by over
15 \$1 million. This is another example of why the coal performance standard does not
16 address the proper attributes of the steam operation.

17 **Q: What has been the impact on the Company regarding the 80/20 fuel recovery basis**
18 **and the coal performance standard?**

19 A: Since the initial development of the QCA in the 2006 rate case, the Company has lost
20 recovery of over \$4.4 million. This is over a period of less than three (3) years.

21 **Q: In the current case, what is the return on investment the Company is requesting?**

22 A: In the initial filing by the Company, the after tax return on investment request by the
23 Company is less than \$1.4 million on an annual basis. This will be updated to reflect the

1 true-up levels, but as one can see, the average unrecovered amount in the QCA nearly
2 equals the requested earnings in this case.

3 **Q: Do you agree with AGP's argument that the coal standard serves to hold the**
4 **Company financially accountable for the operating performance of the coal-fired**
5 **boiler?**

6 A: No. The standard does not measure the performance of Boiler 5; it measures the amount
7 of coal that is allocated to Steam. Changing the standard does not fix the inherent
8 problem. The Company needs to be able to utilize the output from Boiler 5 to provide
9 both industrial steam and provide electricity through the operation of Turbines 1, 2 and 3.
10 Coal allocated to industrial steam cannot be analyzed in isolation. Even if the coal
11 standard is changed, the allocation of coal to Steam varies based on actual production for
12 both Electric and Steam. This leads to varying amounts of coal production allocated to
13 Steam while the standard stays static. As a result, rather than measuring the performance
14 of Boiler 5, the coal standard measures the allocation of coal between steam and
15 electricity production. If electricity production is higher, a greater portion of the steam
16 produced from coal is allocated to the electric operation and thus a smaller amount to
17 industrial steam. The result of this is not an incentive to maximize Boiler 5 for steam
18 operations, but more of a disincentive to utilize Boiler 5 to produce electricity.

19 **Q: Please summarize your Rebuttal Testimony.**

20 A: The Company is strongly in favor of keeping the QCA with changes made to the
21 computation through the elimination of the coal standard, recovery of 100% of the fuel
22 costs, and the establishment of a new base rate. The QCA would then recover 100% of
23 prudently incurred fuel costs.

1 **Q: Is the Company requesting any additional changes to the QCA mechanism?**

2 A: Yes. The Company is requesting that the current Reconciliation Factor be eliminated
3 from the QCA calculation and that any over- or under-collection of dollars be added to
4 the next current quarterly cost adjustment recovery period. Thus, a separate
5 reconciliation factor is not needed.

6 **Rate Design of Base Rates**

7 **Q: Did any party file testimony regarding the proposed rate design of base rates?**

8 A: Yes. Staff filed testimony recommending an equal percentage increase applied to all
9 components of the steam service rates. AGP did not file a recommendation on rate
10 design of base rates.

11 **Q: Do you agree with Staff's position?**

12 A: No. I am proposing that an equal percentage increase be applied to all the rate
13 components of each tariff for the non-fuel portion of the rate increase. I am also
14 proposing to rebase the fuel costs to equal the expected costs for fuel expenses filed in
15 this case to be reflected as a per unit increase to the rates. Using Staff's approach will not
16 reflect the impact of fuel costs and the QCA in rate design. Further, in addition to the
17 tariff change clarifying the use of fuel inputs in the QCA Rider calculation, and as set
18 forth in my Direct Testimony, I am recommending the elimination of the "Standby or
19 Supplementary Service" tariff contained in the industrial steam tariffs, because no
20 customer takes service under that schedule.

21 **Q: Does this conclude your testimony?**

22 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

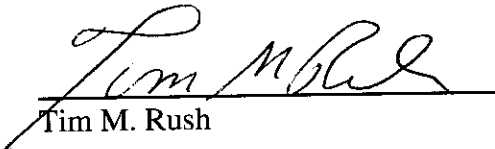
In the Matter of the Application of Aquila, Inc. dba)
KCP&L Greater Missouri Operations Company to) Case No. HR-2009-0092
Modify Its Steam Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF TIM M. RUSH

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

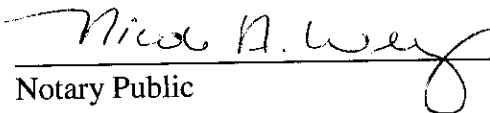
Tim M. Rush, being first duly sworn on his oath, states:

1. My name is Tim M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of Six (6) pages and Schedule(s) _____ through _____, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Tim M. Rush

Subscribed and sworn before me this 1st day of March 2009.



Notary Public

My commission expires: Feb 4 2011

