

Exhibit No.:
Issue: Fuel Allocations
Witness: Tim Rush
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Sponsoring Party: KCP&L Greater Missouri
Operations Company
Case No.: ER-2009-0090
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0090

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. ER-2009-0090

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 Missouri Public Service Commission
7 Staff (“Staff”) positions concerning fuel allocations as they are used to determine the fuel
8 and purchased power costs between the L&P and MPS rate jurisdictions of GMO. L&P
9 is the rate jurisdiction that was previously St. Joseph Light & Power Company. MPS is
10 the rate jurisdiction that was previously Missouri Public Service. Specifically, I will
11 address the Allocation of Fuel & Purchased Power Cost as found in the Staff Report Cost
12 of Service provided by Staff expert Erin Maloney.

13 **Fuel Allocations between L&P and MPS**

14 **Q: Please explain the position of GMO regarding the fuel allocations between L&P and**
15 **MPS in this proceeding.**

16 A: As I presented in my Direct Testimony in this proceeding, GMO has used a fuel
17 allocation split between the two rate jurisdictions of 81% to MPS and 19% to L&P. The

1 percentages represent averages that were agreed to in the Company's last case rate case
2 (ER-2007-0004) when the Fuel Adjustment Clause ("FAC") was first established. The
3 parties from that case agreed to address alternatives to the fuel allocation methodology in
4 the next case.

5 GMO filed in this case an adjustment of \$6 million between L&P to MPS to reflect my
6 thoughts that an adjustment is necessary to increase the cost at MPS, while reducing the
7 costs for L&P customers. I went on in my direct testimony to recommend GMO and the
8 other parties needed to work in this case to address a refinement to the current
9 methodology.

10 **Q: Have the parties met and discussed fuel allocations?**

11 A: Yes. The Staff met with the Company after the filing to discuss fuel allocation.
12 Additionally, during the settlement conference in March, the Staff and other parties
13 participated in a discussion about fuel allocations.

14 **Q: Has any party presented a proposal to address the fuel allocations between L&P
15 and MPS?**

16 A: Yes. The Staff has presented a proposed change to the current methodology which does
17 not use the 81/19 percentage split. While the outcome of the analysis prepared by Staff
18 appears to closely approximate the percentage over time, it does not "force" a result to a
19 defined percentage.

20 **Q: Are you supportive of the position Staff has presented?**

21 A: Generally, I am supportive of the proposal. In order to insure that this methodology will
22 work, it is necessary to make sure that the Company can develop the operational changes,
23 including software changes, necessary to model Staff's proposal on an ongoing basis in

1 order to properly assign the costs to the two rate jurisdictions. The Company expects to
2 meet with the Staff and other parties to further understand the method and determine the
3 changes necessary to properly model the costs on an actual and ongoing basis.

4 **Q: Do you have any concerns about the proposed methodology?**

5 A: Yes. I have several concerns.

6 In order to understand these concerns, I think it is important to discuss the
7 allocation methodology a little further. The allocation methodology is based on each rate
8 jurisdiction's assignment of generating resources and purchased power contracts. For
9 example, the Sibley plant is assigned to MPS. MPS has the plant and all associated costs
10 in its rates. Iatan is assigned to L&P. MPS has first rights to Sibley and L&P has first
11 rights to Iatan. The retail load of the customers in each rate jurisdiction receives first
12 rights for the assigned generation and purchased power contracts. If MPS does not need
13 all of the Sibley output and L&P needs energy for its retail load, then MPS will provide
14 the energy from Sibley to the L&P rate jurisdiction. Likewise, if L&P does not need all
15 of the output of Iatan and MPS needs energy, then L&P will provide the energy needs of
16 MPS from Iatan. The transfer of energy happens at the variable energy cost. The same
17 holds true with purchased power contracts. Each rate jurisdiction is assigned specific
18 purchased power contracts and has the rights to those contracts. If power is transferred to
19 the other rate jurisdiction, it is done at the variable energy costs.

20 The current and proposed method does not charge other variable costs, like
21 emission costs to the other rate jurisdiction if it transfers power to that jurisdiction. It
22 also does not charge demand charges, or a portion of the fixed charges. It also does not
23 look at the opportunity that each rate jurisdiction gave up by providing energy to the

1 other jurisdiction at the variable energy costs. As we move into more and more
2 environmental regulations, like costs or fee structures attributable to reducing NOx and
3 Carbon, the allocation methodology will need to be adjusted to reflect these costs.

4 Another concern regarding the allocation methodology pertains to the two step
5 assignment of plant capacity and purchased power contracts. The rate jurisdiction which
6 is assigned the capacity and contracts has first rights and the other jurisdiction has
7 “second” rights. This method results in the jurisdiction which is short of energy
8 “leaning” on the jurisdiction that is long. Since the other rate jurisdiction has rights to the
9 energy prior to looking at other opportunities in the market, the method provides benefits
10 to that jurisdiction without considering market opportunities for the assigned rate
11 jurisdiction. It may also provide benefits in other ways such as capacity reserve margins
12 where the reserve margin is considered on a total utility basis, not a rate jurisdictional
13 basis. The current method will require GMO to determine the allocation of future
14 generation assignment to each of the jurisdiction.

15 **Q: Do you have a recommendation on how to address these concerns?**

16 A: I believe that the emissions and other variable costs associated with the each unit should
17 be included with the transfer costs. I think for purposes of this case, that Staff’s
18 recommendation is reasonable. However, I believe in the long run, that we need to work
19 with Staff and other parties and evaluate options which consider consolidating these rate
20 jurisdictions into one.

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

22 A: Yes, it does.

