

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

In the Matter of the Application of KCP&L)	
Greater Missouri Operations Company for)	<u>File No. ER-2010-0356</u>
Approval to Make Certain Changes in its)	Tariff No. JE-2010-0693
Charges for Electric Service.)	

STAFF'S RESPONSE TO ORDER DIRECTING RESPONSES AND DIRECTING FILING

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and, for its Response to the Commission's *Order Directing Responses and Directing Filing* issued May 17, 2011, states:

1. In its *Order Directing Responses and Directing Filing* the Commission ordered Staff to do the following:

Further, the Staff of the Commission shall specifically respond to paragraph 72 of the GMO pleading and explain why or why not the capacity contract is not sufficient.

and

Further, GMO, the Staff of the Commission, the Office of the Public Counsel, and Ag Processing, Inc., a Cooperative, shall address the legal authority of the Commission to require either GMO or Kansas City Power & Light Company to provide electricity to the L&P district at cost from their portion of Iatan 2 as a condition of approving the allocation of Iatan 2 as requested by GMO.

2. Paragraph 72 of GMO's pleading, in full, follows:

72. The Commission's decision is also incomplete in that it ignores the GMO capacity allocation between MPS and L&P. GMO had proposed to provide 60 MW of capacity to the L&P district from MPS's available capacity in the form of a capacity contract as well as the 41 MW of Iatan 2. The Order does not address whether GMO is supposed to provide this capacity to L&P. If the Commission were to utilize the Company's allocation, the impact of adding 85 MW of capacity to L&P from MPS would have been a transfer of \$1.3 million in revenue requirement from MPS to L&P.

3. Before addressing each of these directives, Staff believes an analogy to explain the difference between capacity and energy will aid the Commission in better understanding the implications and ramifications of Staff's responses to the Commission's directives. The analogy Staff is using is the purchase and operation of a car. The purchase price of the car is analogous to the capacity cost of a generation unit. The fuel and other costs incurred to maintain and run the car to use it for transportation are analogous to what are called the energy costs of a generation unit—the fuel, operations and maintenance and other costs incurred to generate electricity.

4. Staff has reviewed the initial and reply briefs of GMO on the GMO specific issues, the proposed findings of fact and conclusions of law GMO filed, Volume 36 of the transcript in this case, and the pre-filed direct, rebuttal and surrebuttal testimony of company witnesses Curtis Blanc, Tim Rush and Burton Crawford. Based on that review Staff was unable to find any instance where "GMO proposed to provide 60 MW of capacity to the L&P district from MPS's available capacity in the form of a capacity contract as well as the 41 MW of Iatan 2." Staff did find the following sentence in the surrebuttal testimony of GMO witness Burton Crawford on page four at lines 8-10:

While it is true that ** _____

_____ . **

In her rebuttal testimony Staff witness Lena Mantle criticized GMO's allocation of Iatan 2 for leaving L&P with ** _____ ** capacity in 2011. Burton Crawford's statement that GMO's cost of service reflected transfer of capacity from MPS to L&P at an estimated market capacity price was made in his surrebuttal testimony to support GMO's position the Commission should

3. No gas corporation, electrical corporation, water corporation or sewer corporation shall make or grant any undue or unreasonable preference or advantage to any person, corporation or locality, or to any particular description of service in any respect whatsoever, or subject any particular person, corporation or locality or any particular description of service to any undue or unreasonable prejudice or disadvantage in any respect whatsoever.

7. The Commission should avoid creating a situation similar to that the court described in *State ex rel. City of Joplin v. Public Service Commission*, 186 S.W.3d 290 (2005), where the Commission set rates for the Joplin water district of Missouri American Water Company above the cost to serve that district to the benefit of Missouri American Water Company's other water districts without justifying why the disparate treatment was not unlawfully discriminatory.

8. If Staff has correctly perceived the Commission's inquiry, Staff opines that, given that rates in Missouri are cost based, the capacity and energy in question are from the same generating unit—Iatan 2, and Staff sees no basis for using a different methodology for assigning the capacity of new GMO generating units—Crossroads and Iatan 2—than is used to allocate their operating costs to the MPS and L&P rate districts. Staff does not see how the Commission could in this case lawfully impose the condition that the cost of the energy GMO gets from Iatan 2 be allocated to MPS and L&P independently of how it assigns the capacity of Iatan 2 to MPS and L&P.

9. By expanding on the analogy of the purchase price and cost to operate a car to generation capacity cost and generation energy cost provided above to view Iatan 2 similar to a hybrid car may make Staff's opinion more understandable. Like Iatan 2 a hybrid car has a high initial cost, but also like Iatan 2 it is inexpensive to run. Including the capacity cost of Iatan 2 in the costs used for setting MPS rates, but then including the energy costs of Iatan 2 in the costs used for setting L&P rates, is analogous to MPS customers paying for a brand new, very efficient hybrid car and giving it to L&P customers to drive with the requirement they only pay MPS

customers for the gasoline they use when they drive it.

10. GMO is obligated to serve the loads of both MPS and L&P, and it has sufficient generating capacity to do so. The issue is how, between MPS and L&P, the costs of that generating capacity are assigned and the costs of the energy produced by that capacity are allocated. To meet the combined loads of MPS and L&P, GMO dispatches each of the generating units it owns in the least cost manner, and without distinction as to whether the unit is assigned to MPS or L&P. After the units are dispatched to meet the combined loads of MPS and L&P, the associated energy costs are allocated to MPS and L&P on an hourly basis, based on the assignment (to MPS and/or L&P) of the capacity of the units dispatched during that hour and the load in each rate district (MPS and L&P) during the hour. If the generating capacity assigned to L&P is insufficient to generate all the electrical energy L&P needs to serve its load in that hour, then the shortfall is treated as being supplied by the highest cost generating capacity assigned to MPS that is dispatched to serve all of GMO's load. Iatan 2 is GMO's lowest operating cost generating unit, and the Commission has assigned it to both MPS and L&P. It is Staff's opinion it would be unduly discriminatory to GMO customers in the MPS rate district if the cost of that electrical energy shortfall be based on the lowest operating cost generating units assigned to MPS, since the customers in the MPS rate district are paying for the relatively higher capacity cost of Iatan 2 being used to generate that electrical energy.

11. Because Kansas City Power & Light Company is a legal entity separate and apart from GMO, it is Staff's opinion that to impose a condition on Kansas City Power & Light Company that it be ordered to provide energy to GMO at cost to serve L&P's load at any time would invade the province of the Federal Energy Regulatory Commission, so long as this Commission continues to regulate GMO and Kansas City Power & Light Company as distinct entities.

12. Staff has limited its response here to those items to which the Commission has

directed it to respond. GMO has made other statements and representations in its *Motion for Clarification and/or Reconsideration and Application for Rehearing of KCP&L Greater Missouri Operations Company* that Staff may address in a separate pleading. Staff requests an extension of time for it to file such a separate pleading.

WHEREFORE, Staff's response to the Commission's the Commission's *Order Directing Responses and Directing Filing* issued May 17, 2011, is set forth above, and Staff requests additional time to further respond to KCP&L Greater Missouri Operations Company's pleading.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 20th day of May, 2011.

/s/ Nathan Williams