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Witness: Curtis D. Blanc
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Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0356
Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF

CURTIS D. BLANC

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
January 2011**

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OF

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Case No. ER-2010-0356

1 **Q: Please state your name and business address.**

2 A: My name is Curtis D. Blanc. My business address is 1200 Main Street, Kansas City,
3 Missouri, 64105.

4 **Q: Are you the same Curtis D. Blanc who prefiled direct and rebuttal testimony in this**
5 **matter?**

6 A: Yes.

7 **Q: What is the purpose of your surrebuttal testimony?**

8 A: The purpose of my surrebuttal testimony is to respond to the positions taken by certain
9 witnesses in their pre-filed rebuttal testimony. Specifically, I address (i) the rebuttal
10 testimony of Staff witness John Rogers and OPC witness Ryan Kind concerning their
11 proposal to increase the portion of GMO's net, incremental fuel costs that it is not
12 permitted to recover; (ii) the rebuttal testimony of Staff witness Lena Mantle concerning
13 the allocation of Iatan 2 between L&P and MPS; (iii) the rebuttal testimony of Staff
14 witness William Harris, alleging that GMO's off-system sales margins decreased because
15 of the acquisition of Aquila, Inc. ("Aquila") by Great Plains Energy Incorporated
16 ("GPE") and the incentives created by GMO's FAC; (iv) the rebuttal testimony of Staff
17 witnesses Lisa Kremer and Gregory Brossier concerning the appropriateness of providing
18 a performance incentive for utilities to provide better service than is strictly required

1 under Missouri law; (v) the rebuttal testimony of Staff witness Keith Majors's concerning
2 fees paid to Chris Giles; and (vi) issues concerning certain advertising costs.

3 **THE COMMISSION SHOULD NOT INCREASE THE PORTION OF GMO'S NET,**
4 **INCREMENTAL FUEL COSTS THAT IT IS NOT PERMITTED TO RECOVER.**

5 **Q: Do Mr. Rogers for Staff and Mr. Kind for OPC propose to increase the amount of**
6 **net, incremental fuel costs that GMO is not permitted to recover.**

7 A: Yes, both witnesses propose to increase from 5% to 25% the portion of GMO's net,
8 incremental fuel costs that GMO is not allowed to recover.

9 **Q: Do you agree with their proposal?**

10 A: Absolutely not. Staff and OPC both argue that such a change is necessary to provide
11 GMO with a greater incentive to control its fuel costs. The fundamental problem with the
12 logic of their proposal is that there is no evidence that GMO needs any additional
13 incentive. Staff "has filed two prudence review reports concerning its review of the costs
14 of the Company's FAC and found no evidence of imprudent decisions by the Company's
15 management related to procurement of fuel for generation, purchased power and off-
16 system sales." COS Report, at p. 193. That being the case, GMO does not need any
17 additional incentive to manage its fuel costs.

18 Increasing the portion of GMO's incremental, net fuel costs that it cannot recover
19 from 5% to 25% would only serve to penalize the Company by prohibiting it from
20 recovering even more of the fuel costs it has been found to have prudently incurred to
21 serve its customers. It would not alter how GMO manages its fuel costs, and there is no
22 indication that it would result in GMO paying less for fuel. Staff's prior FAC audits
23 confirm that GMO is prudently managing its fuel costs. That being the case, there is no

1 reason to change the FAC as filed by the Company. KCP&L witnesses Tim Rush and
2 Gary Rygh also address this issue in their surrebuttal testimony.

3 **Q: Do you agree with Mr. Kind's suggestion that GMO's decision not to rebase its fuel**
4 **costs is somehow relevant to his request to increase the portion of GMO's net,**
5 **incremental fuel cost that it is not permitted to recover?**

6 A: No, I do not. Mr. Kind appears to be mixing up two very different considerations. He
7 argues that because being denied recovery of 5% of its net, incremental fuel costs did not
8 force GMO to rebase its fuel costs in this rate case, then that must mean being denied
9 recovery of those costs fails to provide GMO an appropriate incentive to manage those
10 costs. The causal link Mr. Kind relies upon simply does not exist. GMO made the
11 decision not to rebase its fuel costs largely to mitigate the impact this rate case would
12 have on its customers, and also to avoid imposing on customers now speculative fuel cost
13 increases that might not come to pass. Being denied recovery of 5% of its net,
14 incremental fuel costs, which have been found to be prudently incurred, is another matter.
15 Simply put, being denied recovery of prudently incurred fuel costs is a penalty GMO
16 lives with under its FAC. As discussed above, being denied recovery of millions of
17 dollars of prudently incurred costs annually provides ample incentive to GMO to control
18 its fuel and purchased power costs. Perhaps most importantly, there is no indication that
19 requiring GMO to rebase its fuel costs would result in less costly fuel.

20 Ironically, GMO's decision not to rebase its fuel costs actually creates more of the
21 incentive Mr. Kind suggests the Company needs. If Mr. Kind is correct that increasing
22 the fuel costs the Company is not allowed to recover creates an incentive to better
23 manage costs, rebasing fuel cost would seem to largely mitigate that objective. By

1 rebasing, Mr. Kind's proposed 25% would be applied to a much smaller net, incremental
2 fuel cost, thus eliminating the incentive he argues justifies increasing the percentage in
3 the first place.

4 **GMO'S 153 MW INTEREST IN IATAN 2 SHOULD BE ALLOCATED AS FOLLOWS:**
5 **41 MW TO L&P AND 112 MW TO MPS**

6 **Q: Do you agree with Staff's proposal to reallocate L&P's and MPS's respective shares**
7 **of Iatan 2?**

8 A: No. As I explained in my rebuttal testimony, GMO owns an 18% interest in Iatan 2,
9 which based on a generating capacity of 850 MW equates to 153 MW. Of that 153 MW,
10 GMO allocated 41 MW to L&P and 112 MW to MPS. As discussed extensively in the
11 pre-filed testimony of KCP&L witness Burton Crawford, GMO based its allocation on a
12 balancing of the respective baseload capacity needs of the L&P and MPS service
13 territories, as well as the resulting rate impact. Staff's proposal disregards both of those
14 objectives by proposing to allocate 100 MW to L&P and 53 MW to MPS. Such an
15 allocation unnecessarily places too large of a burden on customers in the L&P service
16 territory.

17 **Q: Does Ms. Mantle provide additional rationale for allocating so much of Iatan 2 to**
18 **L&P?**

19 A: Ms. Mantle largely reiterates the position taken by Staff in its Cost of Service Report.
20 She does elaborate on one point, however, that warrants some discussion because it
21 succinctly captures the flaw in Staff's position. On the one hand, Ms. Mantle correctly
22 states that "No one can know what L&P would have done if it had not merged with
23 Aquila." Mantle Rebuttal, at pp. 6-7. I agree. However, Ms. Mantle goes on to attempt
24 to bolster Staff's position by speculating about what she just acknowledges "no one can

1 know.” She argues that “It is Staff’s position, given L&P’s high base load capacity
2 position in the recent past, that it would have acquired as much of Iatan 2 as it possibly
3 could.” Mantle Rebuttal, at p. 7.

4 Staff bases its proposed allocation of GMO’s share of Iatan 2 on what L&P might
5 have done had it not been acquired nearly a decade ago. Contrary to Staff’s conjecture,
6 the fact of that matter is that L&P is not a stand-alone utility. It has not been a stand-
7 alone utility for quite some time. It was acquired by Aquila nearly a decade ago, and
8 Aquila was subsequently acquired by GPE in July of 2008. It does not make sense to
9 speculate about circumstances that no longer exist by continuing to attempt to set L&P’s
10 rates as though it were a stand-alone utility. That simply does not reflect reality or
11 GMO’s cost to serve its customers in the L&P service territory.

12 GMO’s proposed allocation of Iatan 2—41 MW to L&P and 112 MW to MPS is
13 based on L&P’s and MPS’s respective capacity needs and takes into account the impact
14 of the allocation on customer rates. Staff’s proposal does not adequately consider either.
15 Instead, Staff’s proposal is based on a hypothetical situation that no longer exists and
16 results in rates that have a disproportionately detrimental impact on GMO’s customers in
17 the L&P service territory. As such, the Commission should reject Staff’s proposal.

18 **THERE IS NO CASUAL RELATIONSHIP BETWEEN GMO’S DECLINE**
19 **IN OFF-SYSTEM SALES MARGINS AND THE ACQUISITION OF AQUILA, BY GPE**
20 **OR ANY INCENTIVES CREATED BY GMO’S FAC.**

21 **Q: In his rebuttal testimony, Mr. Harris alleges that “both the acquisition [of Aquila by**
22 **GPE] and the subsequent implementation of an FAC have contributed to the**
23 **significant erosion in GMO’s OSS and OSS margins.” Harris Rebuttal, at pp. 3-4.**
24 **Do you agree?**

1 A: No. Mr. Harris makes a serious allegation without the necessary data to back it up. He
2 simply notes that GMO's off-system sales margins have declined and concludes that it
3 must be because of the acquisition and the incentives created by GMO's FAC. Mr.
4 Harris fails to note that natural gas prices are at historically low levels, and that natural
5 gas prices set the price for wholesale power sales in this region of the country. Mr.
6 Harris also fails to mention that the region has seen significantly less demand for
7 wholesale power as a result of the economic recession. Mr. Harris also fails to mention
8 that the Federal Energy Regulatory Commission clarified that it is not appropriate to use
9 network transmission service to facilitate wholesale sales, which largely eliminated
10 GMO's ability to purchase power for resale. These factors explain why GMO has seen a
11 decline in off-system sales margins.

12 There is no evidence that the acquisition of Aquila by GPE or incentives created
13 by GMO's FAC have anything to do with the decline in GMO's off-system sales
14 margins. To the contrary, Staff has twice reviewed GMO's off-system sales and found
15 there was no evidence of imprudent decisions. Specifically, Staff "has filed two
16 prudence review reports concerning its review of the costs of the Company's FAC and
17 found no evidence of imprudent decisions by the Company's management related to
18 procurement of fuel for generation, purchased power and off-system sales." COS Report,
19 at p. 193 (emphasis added). Mr. Harris's contention that the acquisition or any incentives
20 created by GMO's FAC has adversely impacted the Company's off-system sales appears
21 to be in direct conflict with Staff's prudence reviews of GMO's FAC.

**IT IS APPROPRIATE TO REWARD GMO
FOR STRONG CUSTOMER SERVICE AND RELIABILITY**

1
2
3 **Q: Do you agree with Ms. Kremer's and Mr. Brossier's claim that it is inappropriate to**
4 **provide a performance incentive for a utility with strong customer service and**
5 **reliability?**

6 A: No, I do not. Their argument is essentially two fold: (i) that a utility is required by law
7 to provide safe and adequate service and (ii) that GMO's rates include its costs to provide
8 customer service and maintain the reliability of its system. Neither argument supports
9 denying GMO's request for a 25 basis point adder to its authorized return on equity. To
10 the contrary, the issues highlighted by Ms. Kremer and Mr. Brossier support the
11 Company's request.

12 **Q: Please explain.**

13 A: GMO provides safe and adequate service, as do all of the utilities against which it is
14 compared for customer satisfaction and reliability, which is precisely the point. GMO
15 has achieved stronger customer satisfaction and reliability for its customers than its peers
16 at costs that are generally consistent with those peers. That is, all of the utilities have
17 customer service and reliability costs in their rates that a commission has deemed to be
18 prudently incurred and to result in just and reasonable rates. With that same level of
19 investment, GMO has achieved stronger performance. That is the type of management I
20 would think the Commission would want to reward. No one is suggesting that GMO is
21 passing along excessive costs to its customers to "gold plate" its system or to provide
22 unnecessarily good customer service.

23 The position advocated by Ms. Kremer and Mr. Brossier is potentially dangerous
24 in my mind. Rather than encourage utilities to excel to the highest level of customer

1 satisfaction and reliability that is possible at just and reasonable rates, their argument has
2 the potential to create the perverse incentive for utilities to provide the bare minimum of
3 what would be deemed safe and adequate under the law. Staff suggests bad things would
4 happen if a utility falls below the “safe and adequate” threshold, but rejects as
5 inappropriate an incentive for better performance. That policy effectively sets a minimal
6 level of service that Missouri utilities must provide. However, that policy does nothing to
7 incent Missouri utilities to provide service that is better than safe and adequate at rates
8 that continue to be just and reasonable.

9 **FEES PAID TO CHRIS GILES WERE PRUDENTLY INCURRED**
10 **AND SHOULD BE RECOVERED**

11 **Q: Do you agree with Mr. Majors’s proposal to remove “from GMO’s rate case**
12 **expense, Mr. Giles’ independent contractor payments”?** **Majors Rebuttal, p. 22.**

13 **A:** No, I do not. Mr. Majors presents two rationales for this adjustment, both of which are
14 flawed. First, Mr. Majors argues that it is appropriate to exclude fees paid to Mr. Giles
15 because his salary was included in the rates that resulted from KCP&L’s and GMO’s
16 prior rate cases. That logic represents the very definition of single-issue ratemaking, and
17 as such, should be rejected. The Commission must look at all relevant factors when
18 setting a utility’s rates—not the change in employment status of a single individual.
19 KCP&L witness John Weisensee also addresses this issue in his surrebuttal testimony.

20 Second, Mr. Majors incorrectly suggests that Mr. Giles has the same job duties
21 that I have, and therefore customers are paying two people to do the same job. That is
22 not the case. While Mr. Majors is correct that I have “assumed the former duties of Mr.
23 Giles,” Majors Rebuttal, at p. 22, that does not mean that Mr. Giles continues to perform
24 those same duties as well. Mr. Giles provides support to me in the same manner as any

1 contract employee or KCP&L employee in the Regulatory Affairs Department. Staff
2 does not provide a substantive basis for denying GMO recovery of the fees it has paid
3 Mr. Giles.

4 **ADVERTISING COSTS**

5 **Q: Please discuss the advertising cost issue.**

6 A: Staff and GMO, in their respective revenue requirement schedules, have different
7 approaches to advertising expense. Neither party addressed this issue in its respective
8 rebuttal testimony.

9 **Q: What is Staff's approach?**

10 A: Staff proposes two reductions to the amount of advertising costs included in GMO's cost
11 of service (i) a reduction of general advertising costs pertaining to energy efficiency
12 programs (\$28,630 and \$8,942 for MPS and L&P, respectively); and (ii) elimination of
13 50% of the Company's cost of its Connections Program (\$117,500 and \$35,500 for MPS
14 and L&P, respectively). For both of these items, Staff proposes transferring the costs to
15 the deferred DSM regulatory asset for recovery over a ten-year amortization period.

16 **Q: Do you agree with Staff's proposal?**

17 A: No, I do not. These costs were incurred to benefit our customers currently as well as in
18 the immediate future. We expect costs of a similar nature to be incurred on an ongoing
19 basis. Consequently it is not appropriate to delay recovery of these costs over a ten-year
20 period; these costs should be allowed in current cost of service.

21 **Q: Please describe the Staff's energy efficiency-related adjustment**

22 A: Staff's reduction was comprised primarily of two items: energy efficiency kiosks and an
23 energy efficiency website.

1 **Q: Please describe the Company's Connections Program.**

2 A: The Connections Program helps customers access a variety of resources that can make
3 their life easier in the current tough economic environment. The program includes
4 products and services to help customers save energy and money, information about a
5 range of payment options available to them, and ways for them to connect to assistance
6 programs in the community.

7 **Q: Does Staff have any substantive concerns with the Connections Program?**

8 A: No. In fact, Staff states on page 151 of its Staff Report that it desires the Company to
9 "Continue to conduct as many as feasible Connections campaign Energy Resource Fairs
10 on an annual basis." Therefore, it does not make sense to encourage GMO to continue
11 the Connections campaign while at the same time requiring it to defer the recovery of the
12 associated costs for many years.

13 **Q: If the Commission would agree that these costs should be included in current cost of
14 service, how would this affect Staff's deferred DSM costs?**

15 A: If the Commission agrees that it is proper to include these costs in current cost of service,
16 the Staff would need to remove these costs from its DSM regulatory asset.

17 **Q: Does that conclude your testimony?**

18 A: Yes, it does.

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

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its) Docket No. ER-2010-0356
Electric Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF CURTIS D. BLANC

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Curtis D. Blanc, being first duly sworn on his oath, states:

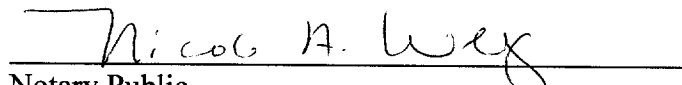
1. My name is Curtis D. Blanc. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Director – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of ten (10) pages, 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.


Curtis D. Blanc

Subscribed and sworn before me this 12th day of January, 2011.


Notary Public

My commission expires: Feb. 21, 2011

