

**EXHIBIT**

**OPC213**

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Sponsoring Party:

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Case No.:

ER-2016-0156

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Missouri Public  
Service Commission

**REBUTTAL TESTIMONY**

**OF**

**LENA M. MANTLE**

Submitted on Behalf of the Office of the Public Counsel

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

CASE NO. ER-2016-0156

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**Denotes Highly Confidential Information that has been Redacted**

August 15, 2016

**NP**

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

In the Matter of KCP&L Greater )  
Missouri Operations Company's )  
Request for Authority to Implement ) File No. ER-2016-0156  
a General Rate Increase for )  
Electric Service )

**AFFIDAVIT OF LENA M. MANTLE**

STATE OF MISSOURI )  
  ) ss  
COUNTY OF COLE        )

Lena Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena Mantle. I am a Senior Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
Lena M. Mantle  
Senior Analyst

Subscribed and sworn to me this 15<sup>th</sup> day of August 2016.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2017  
Cole County  
Commission #13754037

  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2017.

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**REBUTTAL TESTIMONY**

**OF**

**LENA M. MANTLE**

**KCP&L – GREATER MISSOURI OPERATIONS COMPANY**

**CASE NO. ER-2016-0156**

1 **Q. Please state your name.**

2 **A. My name is Lena M. Mantle.**

3 **Q. Are you the same Lena M. Mantle that filed direct testimony in this case?**

4 **A. Yes, I am.**

5  
6 **PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your rebuttal testimony?**

8 **A. The purpose of this testimony is:**

9 1) Modify the Office of the Public Counsel's ("OPC's") recommendation  
10 regarding the cost to be included in the fuel adjustment clause ("FAC") to include  
11 limited transmission costs;

12 2) Describe why it is inappropriate to recover transmission costs for KCP&L –  
13 Greater Missouri Operations Company's ("GMO's") Crossroads Energy Center  
14 ("Crossroads") but appropriate for transmission costs for the Empire District  
15 Electric Company ("Empire") Plum Point Energy Station ("Plum Point") be  
16 recovered from its customers;

17 3) Describe how GMO is defining purchased power and off-system sales  
18 differently than (a) the general definitions at the time the FAC statute, Section  
19 386.266 RSMo, became law, (b) required by Commission orders in other cases;  
20 and, (c) required by Federal Energy Regulatory Commission ("FERC") Order No.  
21 668;

- 1           4) Describe the costs GMO is requesting be included in its FAC that the  
2 Commission has previously denied;
- 3           5) Describe how the implementation of consolidating the MPS and L&P rate  
4 districts should be done with respect to the FAC rate; and
- 5           6) Request changes and an addition to the additional FAC reporting and filing  
6 requirements requested by the Missouri Public Service Commission Staff (“Staff”)  
7 in its *Revenue Requirement Cost of Service Staff Report*.

8

9           **MODIFICATION OF OPC’S FAC RECOMMENDATION**

10          **Q. What was OPC’s recommendation in your direct testimony regarding an**  
11           **FAC for GMO?**

12          A. OPC is recommending the Commission approve an FAC for GMO with the  
13 following features:

- 14           1. Only the following prudently incurred costs shall be included in GMO’s  
15 FAC:
- 16               a. Delivered fuel commodity costs including:
- 17                   i. Inventory adjustments to the commodities;
- 18                   ii. Adjustments to cost due to quality of the commodity; and
- 19                   iii. Taxes on fuel commodities;
- 20               b. The cost of transporting the commodity to the generation plants; and
- 21               c. The cost of power purchased to meet its native load.
- 22           2. These costs would be offset by:
- 23               a. Off-system sales revenues; and
- 24               b. Net insurance recoveries, subrogation recoveries, and settlement  
25 proceeds related to costs and revenues included in the FAC.
- 26           3. An incentive mechanism that requires changes in GMO’s fuel adjustment  
27 rates (“FARs”) to account for 90% of the difference between the actual prudently

1 incurred costs net of off-system sales and the net FAC costs included in its base  
2 rates. The other 10% would be absorbed or retained by GMO (“90/10 incentive  
3 mechanism”).

4 **Q. How is OPC modifying its FAC?**

5 A. OPC is modifying its recommendation to include transmission cost directly incurred  
6 for purchased power and off-system sales to the lists of costs to be included in  
7 GMO’s FAC.

8 **Q. Why is OPC making this modification?**

9 A. In reviewing testimony and Commission orders regarding the FAC in other cases, I  
10 was reminded the Missouri Appeals Court concluded ‘the legislature intended the  
11 word “transportation” in Section 386.266.1 RSMo to encompass “transmission.”’<sup>1</sup>  
12 After confirming this with my attorney, OPC has adopted this position as well.

13 **Q. What is GMO’s position regarding transmission costs in the FAC?**

14 A. GMO witness Tim M. Rush requests that all costs for the transmission of electricity  
15 by others, with the exception of transmission costs related to the Crossroads  
16 previously disallowed by the Commission, be included in the FAC.

17 **Q. Is OPC recommending all of GMO’s transmission costs be flowed through  
18 the FAC?**

19 A. No. The transmission costs that OPC is recommending be included are limited  
20 based on Commission orders in previous cases.

21 **Q. To which Commission cases are you referring?**

22 A. On page 115 of its *Report and Order* in the Union Electric Company d/b/a Ameren  
23 Missouri (“Ameren Missouri”) rate case ER-2014-0258, the Commission stated:

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<sup>1</sup> Union Electric Company v. PSC, 422 S. W. 3d 358, 367 (Mo. App. 2013)

1 [Section 386.266.1] allows for recovery of transportation costs,  
2 which has been determined to include transmission costs, but such  
3 transmission costs are limited to those connected to purchased power  
4 costs.

5  
6 In its *Report and Order* in the Empire rate case ER-2014-0351, the Commission  
7 stated:<sup>2</sup>

8 Therefore, the costs Empire incurs related to transmission that are  
9 appropriate for the FAC, from a policy perspective and by statute,  
10 are:

- 11 1) Costs to transmit electric power it did not generate to its  
12 own load (“true purchased power”); or  
13 2) Costs to transmit excess electric power it is selling to third  
14 parties to locations outside of its RTO (“Off-system sales”).  
15

16 Finally, in its *Report and Order* in the Kansas City Power & Light Company  
17 (“KCPL”) rate case ER-2014-0370, the Commission stated:<sup>3</sup>

18 [I]t would not be lawful for KCPL to recover all of its [Southwest  
19 Power Pool (“SPP”)] transmission fees through the FAC. In  
20 addition, while KCPL’s transmission costs are increasing, those  
21 costs are known, measurable, and not unpredictable, so the costs are  
22 not volatile. The Commission concludes that the appropriate  
23 transmission costs to be included in the FAC are 1) costs to transmit  
24 electric power it did not generate to its own load (true purchased  
25 power); and 2) costs to transmit excess electric power it is selling to  
26 third parties to locations outside of SPP (off-system sales).  
27

28 Therefore, OPC is modifying its recommendation regarding GMO’s FAC consistent  
29 with Commission orders to include transmission costs directly tied to purchased  
30 power and off-system sales just as in GMO’s current FAC.

31 **Q. Is OPC’s recommendation consistent with Staff’s recommendation regarding**  
32 **the inclusion of transmission costs?**

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<sup>2</sup> Page 28

<sup>3</sup> Page 35

1 A. No, it is not. Staff is proposing that 39.82% of SPP transmission costs be included  
2 in GMO's FAC. Staff's proposal would include costs not directly associated with  
3 purchased power and off-system sales such as SPP Base Plan Funding.<sup>4</sup>

4 **Q. Are the Base Plan Funding costs necessary to make off-system sales or to**  
5 **purchase power to meet GMO's customer's current needs?**

6 A. No. It is my understanding that Base Plan Funding is used to build transmission.  
7 Once the line is built, then the users of that line are charged to recover the cost of  
8 building the transmission. At the time GMO uses these lines to purchase power or  
9 make off-system sales, charges due to usage of the lines may flow through GMO's  
10 FAC. In addition, revenues from the use of these lines will be provided to the  
11 utilities that funded these lines once they have been built and are being used.

12 Staff's recommendation should not be approved because base plan funding  
13 is the cost of building lines not using the lines and its recommendation is not  
14 balanced with an equal percentage of transmission revenues.

15 **Q. Does OPC's recommendation include any transmission expense from GMO's**  
16 **Crossroad's facility?**

17 A. No, it does not. Consistent with my direct testimony, OPC recommends the  
18 Commission find GMO's Crossroads facility an imprudent resource for GMO. The  
19 inclusion of the capital costs and expenses related to Crossroads, including  
20 transmission expenses, in base rates and in the FAC is imprudent due to actions by  
21 GMO's predecessor Aquila, Inc., GMO's parent holding company Great Plains  
22 Energy, and GMO.

23  
24 **TRANSMISSION FOR PLUM POINT PLANT v. CROSSROADS**

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<sup>4</sup> Staff Report Rate Design, pg 39



1 | **Q. GMO witness Burton Crawford opines that GMO should be allowed to**  
2 | **recover Crossroads transmission costs because Empire is allowed to recover**  
3 | **the transmission costs for its Plum Point plant.<sup>5</sup> Do you agree with Mr.**  
4 | **Crawford?**

5 | **A.** No, I do not. Mr. Crawford states “[I]ike GMO, Empire is in SPP so Empire must  
6 | pay [Midcontinent Independent System Operator (“MISO”)] for transmission  
7 | service for their generation with MISO.” OPC takes exception to Mr. Crawford’s  
8 | statement “[I]ike GMO.” As I explained in my direct testimony, it is imprudent to  
9 | include Crossroads in GMO’s cost to serve its customers. It is a natural gas  
10 | combustion turbine facility that is over 500 miles from the GMO service territory. It  
11 | was built as a merchant plant to take advantage of a restructuring wholesale market.  
12 | GMO’s predecessor was unable to sell to Crossroads to other parties – even at a  
13 | price below its book value. This plant is rarely used.

14 | On the other hand, Plum Point is a 720 megawatt (“MW”) supercritical coal  
15 | fired steam plant in Osceola, Arkansas that became operational in 2010. It is located  
16 | about 350 miles from Joplin. Empire owns 50 MW of this plant and has a long-  
17 | term purchased-power agreement for another 50 MW. Empire expects to receive  
18 | about ten percent of its customers’ energy needs from Plum Point over the next four  
19 | years.

20 | There is a vast difference between Plum Point and Crossroads. While they  
21 | are both in MISO territory, Plum Point is a prudent plant and Crossroads is not.

22 |  
23 | **DEFINITION OF PURCHASED POWER AND OFF-SYSTEM SALES**

24 | **Q. Why is a definition of purchased power necessary?**

25 | **A.** Since the advent of regional transmission organizations (“RTOs”), utilities have  
26 | begun to use the term purchased power differently than it did before. Before RTO’s

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<sup>5</sup> Crawford Direct, page 18

1 purchased power was the energy purchased from other suppliers to meet the utility's  
2 customers' requirements. Now, with RTOs, the term "purchased power" is  
3 sometimes used to describe the payment to the RTO based on the load of the utility.  
4 In its *Report and Order* in the Ameren Missouri rate case ER-2014-0258, the  
5 Commission described this change in definition and the problems with the RTO  
6 concept of purchased power when it stated:<sup>6</sup>

7 The evidence demonstrated that for purposes of operation of the  
8 MISO tariff, Ameren Missouri sells all the power it generates into  
9 the MISO market and buys back whatever power its needs to serve  
10 its native load. From that fact, Ameren Missouri leaps to its  
11 conclusion that since it sells all its power to MISO and buys all that  
12 power back, all such transactions are off-system sales and purchased  
13 power within the meaning of the FAC statute. The Commission does  
14 not accept this point of view.

15  
16 The drafters of the FAC statute likely did not envision a situation  
17 where a utility would consider all its generation purchased power or  
18 off-system sales. In fact, the policy underlying the FAC statute is  
19 clear on its face. The statute is meant to insulate the utility from  
20 unexpected and uncontrollable fluctuations in transportation costs of  
21 purchased power. At the time the statute was drafted, and even in our  
22 more complex present-day system, the costs of transporting energy  
23 in addition to the energy generated by the utility or energy in excess  
24 of what the utility needs to serve its load are the costs that are  
25 unexpected and out of the utility's control to such an extent that a  
26 deviation from traditional rate making is justified.

27  
28 Similarly, SPP pays GMO for each megawatt-hour ("MWh") GMO generates and  
29 charges GMO for each MWh of its customers' requirements. However, the  
30 payment that GMO makes to SPP is not "purchased power" as the Commission  
31 opined drafters of the FAC likely envisioned and likewise, revenue received from  
32 SPP for generation is not off-system sales.

33 **Q. Why is it important to understand this distinction?**

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<sup>6</sup> Page 115

1 A. For FACs in Missouri, it is important to understand there is now more than one  
2 definition of purchased-power and off-system sales.<sup>7</sup> Care should be taken,  
3 especially in light of the FAC statute, how fuel and purchased power costs,  
4 including transportation<sup>8</sup> are included in an FAC. Therefore it is important to  
5 have a correct understanding of what purchased power and off-system sales mean  
6 in each context to get a clear understanding of those costs.

7 **Q. Would you provide an example where it may be confusing?**

8 A. Schedule TMR-5 attached to the direct testimony of GMO witness Tim M. Rush  
9 shows in the account titled "Purch Pwr-Energy & Cpcty Pur-Al" an amount of  
10 \*\* \*\* and an amount of \*\* \*\* in the account labeled  
11 "SFR Off System Sales (bk20)". It would be easy to infer from this schedule  
12 these were purchased power and off-system sales amounts. However, Staff's fuel  
13 model results shows normalized purchased power for GMO of \*\* \*\*  
14 and off-system sales of \*\* \*\*. Therefore, I do not believe that the  
15 amounts shown on Schedule TMR-5 are a correct representation of GMO's  
16 purchased power cost or off-system sales revenue but instead are the amount paid  
17 and received from SPP.

18 **Q. Has FERC provided guidance on how these costs and revenues should be**  
19 **recorded?**

20 A. Yes. FERC provided guidance on the recording of off-system sales and purchased  
21 power in its Order No. 668. This is consistent with the methodology Staff used to  
22 determine purchased power and off-system sales. In his rebuttal testimony in this  
23 case, OPC witness Charles Hyneman discusses how GMO should record these  
24 costs and revenues and recommends the Commission order GMO to account for

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<sup>7</sup> While the FAC statute is silent with respect to off-system sales revenues, the Commission rules contemplate the inclusion of off-system sales revenues in FACs. 4 CSR 240-20.090(1)(B)

<sup>8</sup> Section 386.266.1

1 purchased power and off-system sales in the manner prescribed by FERC in its  
2 Order No. 668.

3  
4 **COSTS COMMISSION HAS PREVIOUSLY DENIED FOR FACS**

5 **Q. In your direct testimony, you provide some examples of costs GMO is**  
6 **requesting be included in its FAC that the Commission has not allowed in**  
7 **other electric utilities FACs.<sup>9</sup> Would you expand on this discussion?**

8 **A. Yes. The largest cost that KCPL is asking to be included in its FAC that the**  
9 **Commission has determined should not be included in FACs is transmission cost.**  
10 **In his direct testimony, Mr. Rush proposes that all costs for the transmission of**  
11 **electricity by others, with the exception of certain transmission costs related to the**  
12 **Crossroads generation station that have been disallowed by the Commission, be**  
13 **included in GMO's FAC.<sup>10</sup>**

14 **Q. Why is GMO asking for all transmission costs to be included in its FAC?**

15 **A. On page 10 of his direct testimony, GMO witness Darren R. Ives states:**

16 Due to the continual increase in transmission cost levels during this  
17 expansion, the Company is requesting that all transmission of  
18 electricity costs by others be included in the Company's FAC  
19 requested in this rate case.

20  
21 **Q. Has the Commission previously issued any orders regarding ratemaking**  
22 **treatment of increasing transmission costs?**

23 **A. Yes. In its *Report and Order* in KCPL's last rate case ER-2014-0370, the**  
24 **Commission directly addressed changes in transmission costs when it found:**

25 [W]hile KCPL's transmission costs are increasing, those costs are  
26 known, measurable, and not unpredictable, so the costs are not  
27 volatile.<sup>11</sup>

<sup>9</sup> Direct testimony of Lena M. Mantle, page 10

<sup>10</sup> Direct testimony of Tim M. Rush, page 4

<sup>11</sup> Page 35

1  
2 **Q. How is “all costs for the transmission of electricity by others” as requested by**  
3 **GMO different from transmission costs for purchased power and off-system**  
4 **sales recommended for inclusion in the FAC as proposed above by OPC?**

5 A. Despite the Commission ordering that no transmission cost for Crossroads be  
6 recovered from customers in GMO’s last rate case, GMO is asking for Crossroads  
7 transmission expense above \$4.9 million<sup>12</sup> be included in the FAC. OPC  
8 recommends the Commission find Crossroads an imprudent resource and continue  
9 to not allow recovery of any transmission expense for this plant in rates and in the  
10 FAC.

11 In addition, under the guise of “transmission costs,” GMO is asking SPP  
12 scheduling, system control, dispatching services, reliability, planning, standard  
13 development costs and NERC fees recorded in FERC account 561400 and 561800  
14 be included in its FAC.<sup>13</sup> GMO is also asking that SPP market facilitation,  
15 monitoring, and compliance services recorded in FERC account 575700 be included  
16 in its FAC.

17 **Q. Are these transmission expenses for purchased power or off-system sales?**

18 A. No, they are not. These expenses support the operation of SPP and are not directly  
19 linked to fuel and purchased power costs. As the Commission found in KCPL’s rate  
20 case ER-2014-0370:

21 SPP Schedule I-A fees are for SPP expenses associated with  
22 administering its Open Access Transmission Tariff. These expenses  
23 cover regional scheduling, planning, and market-monitoring services  
24 provided to facilitate the transportation of energy on the transmission  
25 system. (footnote omitted)<sup>14</sup>  
26

<sup>12</sup> Direct testimony of Burton Crawford, page 18

<sup>13</sup> Direct testimony of Tim M. Rush, Schedule TMR-3, exemplar tariff sheet 127.4

<sup>14</sup> Page 35

1                   These fees support the operation of SPP and are not needed for  
2                   KCPL to buy and sell energy to meet the needs of its customers.  
3                   These fees are neither fuel and purchased power expenses nor  
4                   transportation expenses incurred to deliver fuel or purchased power.  
5                   The Commission concludes that including such fees would be  
6                   unlawful under Section 386.266.1, RSMo.<sup>15</sup>  
7

8     **Q.     Are these costs currently included in GMO's FAC?**

9     A.     They should not be.  GMO's current tariff sheets listing the costs included in its  
10           FAC do not include any cost recorded in FERC account 561400, 561800 or 575700.

11    **Q.     Did KCPL make a similar request to include these costs in its FAC in its**  
12           **recent rate case ER-2012-0370?**

13    A.     Yes, it did.  The Commission summarized KCPL's request in its *Report and*  
14           *Order*.<sup>16</sup>

15                   KCPL argues that all of its SPP transmission fees should be included  
16                   in the FAC because those fees are mandatory, increasing in amount,  
17                   and volatile.  In addition, KCPL states that since all of its power  
18                   generation is sold into the SPP market and purchased from that  
19                   market, all SPP expenses and revenues related to those individual  
20                   sales and purchases of transmission service must be included in the  
21                   FAC.  
22

23    **Q.     Did the Commission allow the inclusion of these costs in KCPL's FAC?**

24    A.     No, it did not.  The Commission goes on to say in its *Report and Order*.<sup>17</sup>

25                   The evidence shows in this case that on a daily basis, KCPL sells all  
26                   of the power it generates into the SPP market and purchases from  
27                   SPP 100% of the electricity it sells to its retail customers.  However,  
28                   based on the Commission's analysis in the two cases cited above, it  
29                   would not be lawful for KCPL to recover all of its SPP transmission  
30                   fees through the FAC.  In addition, while KCPL's transmission costs  
31                   are increasing, those costs are known, measurable, and not  
32                   unpredictable, so the costs are not volatile.  The Commission

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<sup>15</sup> Page 36

<sup>16</sup> Page 34

<sup>17</sup> Page 35

1 concludes that the appropriate transmission costs to be included in  
2 the FAC are 1) costs to transmit electric power it did not generate to  
3 its own load (true purchased power); and 2) costs to transmit excess  
4 electric power it is selling to third parties to locations outside of SPP  
5 (off-system sales).  
6

7 **Q. Is this consistent with OPC's recommendation regarding transmission costs**  
8 **in this case?**

9 A. Yes, it is.

10 **Q. How was this implemented for KCPL?**

11 A. For KCPL, a percentage<sup>18</sup> of SPP Schedules 7 through 11 is allowed to flow through  
12 KCPL's FAC. Schedule 11 is SPP's Base Plan Zonal Charge and Region Wide  
13 Charge. These are charges by SPP to pay for construction of transmission projects.  
14 These charges are based on GMO's load, not the amount of purchased power and  
15 off-system sales. Base Plan funding is the largest SPP charge and is responsible for  
16 much of GMO's expected increase in SPP costs. OPC witness Hyneman also  
17 discusses these charges in his rebuttal testimony.

18 **Q. Is OPC recommending that the transmission costs to be included in GMO's**  
19 **FAC be determined similarly?**

20 A. No. OPC agrees with the Commission in GMO's ER-2012-0175 rate case that the  
21 appropriate transmission costs to be included in the FAC are 1) costs to transmit  
22 electric power it did not generate to its own load (true purchased power); and 2)  
23 costs to transmit excess electric power it is selling to third parties to locations  
24 outside of SPP (off-system sales). Therefore, OPC recommends the Commission  
25 not adopt the transmission cost language proposed by Staff in its *Rate Design*

---

<sup>18</sup> The percentage was set in the last case based on normalized purchased power and off-system sales for KCPL.

1        *Report*<sup>19</sup> and leave the transmission cost language as it is on the current GMO FAC  
2        tariff sheet no. 126 as follows:

3                The following costs reflected in FERC Account Number 565  
4                (excluding Base Plan Funding costs and costs associated with the  
5                Crossroads generating station): transmission costs that are necessary  
6                to receive purchased power to serve native load and transmission  
7                costs that are necessary to make off system sales.  
8

9        With this definition of transmission costs there is no need to calculate a percentage  
10       that would be applied to certain SPP schedules. GMO can continue its current  
11       practice of including 100% of the costs of transmission for purchased power and  
12       off-system sales while not including costs that are not necessary for purchased  
13       power or off-system sales.

14    **Q.    Are there other costs that GMO is requesting be included in its FAC the**  
15    **Commission did not allow for KCPL?**

16    A.    Yes. GMO is asking that its FERC assessment fee recorded in FERC account  
17    928000 be included in its FAC.

18    **Q.    Has the Commission previously issued an order regarding the inclusion of**  
19    **FERC assessment fees in the FAC?**

20    A.    Yes. In the KCPL rate case *Report and Order*, the Commission determined that  
21    these fees were administrative in nature and not directly linked to fuel and  
22    purchased power costs and should not be included in KCPL's FAC.<sup>20</sup>

23    **Q.    Are these the only costs requested by GMO to be included in its FAC the**  
24    **Commission has previously determined should not be included in an FAC?**

25    A.    I do not know. As I explained in my direct testimony, the explanation of the costs  
26    and revenues that GMO is requesting be included in its FAC is limited. Therefore, I

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<sup>19</sup> Page 39

<sup>20</sup> ER-2014-0370, *Report and Order*, page 36



1 cannot say with certainty that these are all of the costs that GMO has requested be  
2 included in the FAC that the Commission has determined should not be in an FAC.

3 **Q. Would OPC's recommendation to limit the costs and revenues in GMO's**  
4 **FAC reduce this uncertainty?**

5 A. Yes, it would. Limiting and carefully defining the costs and revenues allowed  
6 would greatly reduce the uncertainty that costs and revenues not intended would be  
7 included in GMO's FAC.

8  
9 **CONSOLIDATION OF RATE DISTRICTS AND THE FAC RATE**

10 **Q. What is GMO's proposal regarding the FAC rate if the Commission**  
11 **approves the consolidation of the MPS and L&P rate districts?**

12 A. On page 4 of his direct testimony, Mr. Rush states it is GMO's proposal to  
13 consolidate the two FAC rates to one rate consistent with GMO's overall proposal  
14 that MPS and L&P rate district be consolidated.

15 **Q. Does OPC disagree with this recommendation?**

16 A. No. It is logical there should be only one FAC rate if the MPS and L&P rate  
17 districts are consolidated. However, unlike the base rates, it will take some time  
18 before there is one FAC rate.

19 **Q. Would you please explain?**

20 A. OPC agrees with setting one FAC base rate for GMO customers. However, that  
21 will not occur until the effective date of a Commission order in this case. Until that  
22 time, FAC costs and revenues should be accounted for MPS and L&P separately  
23 based on the Commission order in the last GMO rate case, ER-2012-0175. The  
24 FAC rate charged is based on MPS and L&P historical costs resulting in different  
25 FAC rates for MPS and L&P customers. Since these historical costs are recovered

1 over a 12 month time period, the FAC rate will not be the same for MPS and L&P  
2 until September 2018.

3 **Q. Why?**

4 **A.** This is a result of the structure of GMO's FAC. GMO has filed in case ER-2017-  
5 0001 to change its FAC rates ("FARs") effective September 1, 2016 to return 95%  
6 of the difference between its actual fuel costs and the costs that it recovered in its  
7 base rates from December 2015 through May 2016. The structure of GMO's FAC,  
8 which GMO is asking to continue in this case, requires GMO return revenue that it  
9 collected in base rates that is greater than the actual costs incurred to its customers in  
10 the recovery period of September 1, 2016 through August 31, 2017. The FARs for  
11 this recovery period is different for MPS and L&P customers.

12 Currently GMO is accumulating FAC costs and revenues for the  
13 accumulation period of June 1, 2016 through November 30, 2016. These costs and  
14 revenues are being tracked separately for GMO's MPS and L&P customers. Under  
15 the current structure, GMO will file to change its FARs for this accumulation period  
16 before January 1, 2017. The recovery period for this accumulation period is March  
17 2017 through February 2018.

18 Finally, the current FAC tariff sheets will remain in effect until the effective  
19 date of rates in this case, December 22, 2016. This means that the costs should  
20 continue to be recorded separately for the MPS and L&P rate districts through  
21 December 21, 2016. If the Commission approves the consolidation of MPS and  
22 L&P rate districts, the FAC costs after December 21, 2016 will be GMO-combined  
23 and will be compared to the combined GMO FAC base rate set in this case.  
24 However, because GMO has two different FAC base rates through December 21,  
25 2016, there will be different FARs for the MPS and L&P district for the  
26 accumulation period ending May 31, 2016 that will be recovered in the September

1 2017 through August 2018 recovery period. This time schedule is shown on  
2 Schedule LM-R-1.

3 **Q. Why is this an issue?**

4 A. While it is GMO's testimony there be only one FAR, GMO did not provide  
5 testimony detailing how this would be accomplished. The Legislature stated in  
6 Section 386.266.4(2) RSMo that true-ups of FAC should "accurately and  
7 appropriately remedy any over- or under-collections". After discussion with our  
8 attorneys, it is OPC's position that this standard also be upheld in the consolidation  
9 of the MPS and L&P FARs and the consolidation should occur as detailed in this  
10 testimony.

11  
12 **FAC REPORTING REQUIREMENTS**

13 **Q. Have you reviewed Staff's additional FAC reporting requirements<sup>21</sup>?**

14 A. Yes. Some of the requested additional requirements would continue to be included  
15 in the monthly FAC reporting that is provided to OPC but some of the requirements  
16 are for GMO to notify Staff under certain circumstances. OPC request that it also be  
17 notified when the Staff is notified.

18 **Q. Is there a reporting requirement that you find confusing?**

19 A. Yes. On page 192 of the Revenue Requirement Cost of Service Staff Report, Staff  
20 recommends the Commission order GMO to suspend all of its hedging activities  
21 associated with natural gas. However, Staff recommends retaining language that  
22 will allow GMO to resume its natural gas fuel hedging activities should the market  
23 conditions change. Staff requests in its report that GMO should notify the  
24 Commission and Staff if it decides to resume hedging.

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<sup>21</sup> Revenue Requirement Cost of Service Staff Report, page 194

1           The additional reporting requirement requested by Staff is for GMO to  
2           notify Staff within 30 days of any material change in GMO's fuel hedging policy  
3           and provide the Staff with access to new written policy.

4           OPC is not sure how those two recommendations work together. Therefore,  
5           OPC recommends replacing Staff's fourth additional reporting requirement with the  
6           following:

7                     4.     Notify the Staff and OPC 14 days before GMO resumes  
8                     natural gas fuel hedging activities. The notification will consist of  
9                     the analysis conducted that shows why natural gas fuel hedging  
10                    should resume, how the hedging is in the customer's benefit, and  
11                    GMO's hedging policy. Once GMO begins natural gas hedging, it  
12                    will provide, within 14 days of the changes to the policy, the nature  
13                    of the changes and the new policy to Staff and OPC.

14  
15   **Q.     Is this OPC recommendation only required if hedging costs are included in**  
16   **the FAC?**

17   A.     No. It is still OPC's recommendation hedging costs not be included in GMO's  
18   FAC. Even so, it is important for Staff and OPC be notified if GMO begins natural  
19   gas fuel hedging because natural gas hedging is likely to impact natural gas costs  
20   even if the hedging costs are not included in the FAC.

21   **Q.     Is there any additional reporting requirement that OPC recommends?**

22   A.     Yes. OPC recommends the Commission order GMO to include in its monthly  
23   FAC submission, the FAC cost or revenue by FERC major and minor account for  
24   that month, and the twelve months ending that month.

25   **Q.     Why is this monthly information important?**

26   A.     This information would provide, on a regular basis, more detailed information  
27   regarding the costs and revenues that GMO is flowing through the FAC. It may  
28   provide enough detail so that Staff or OPC might prevent GMO having to file

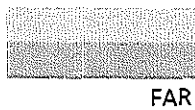
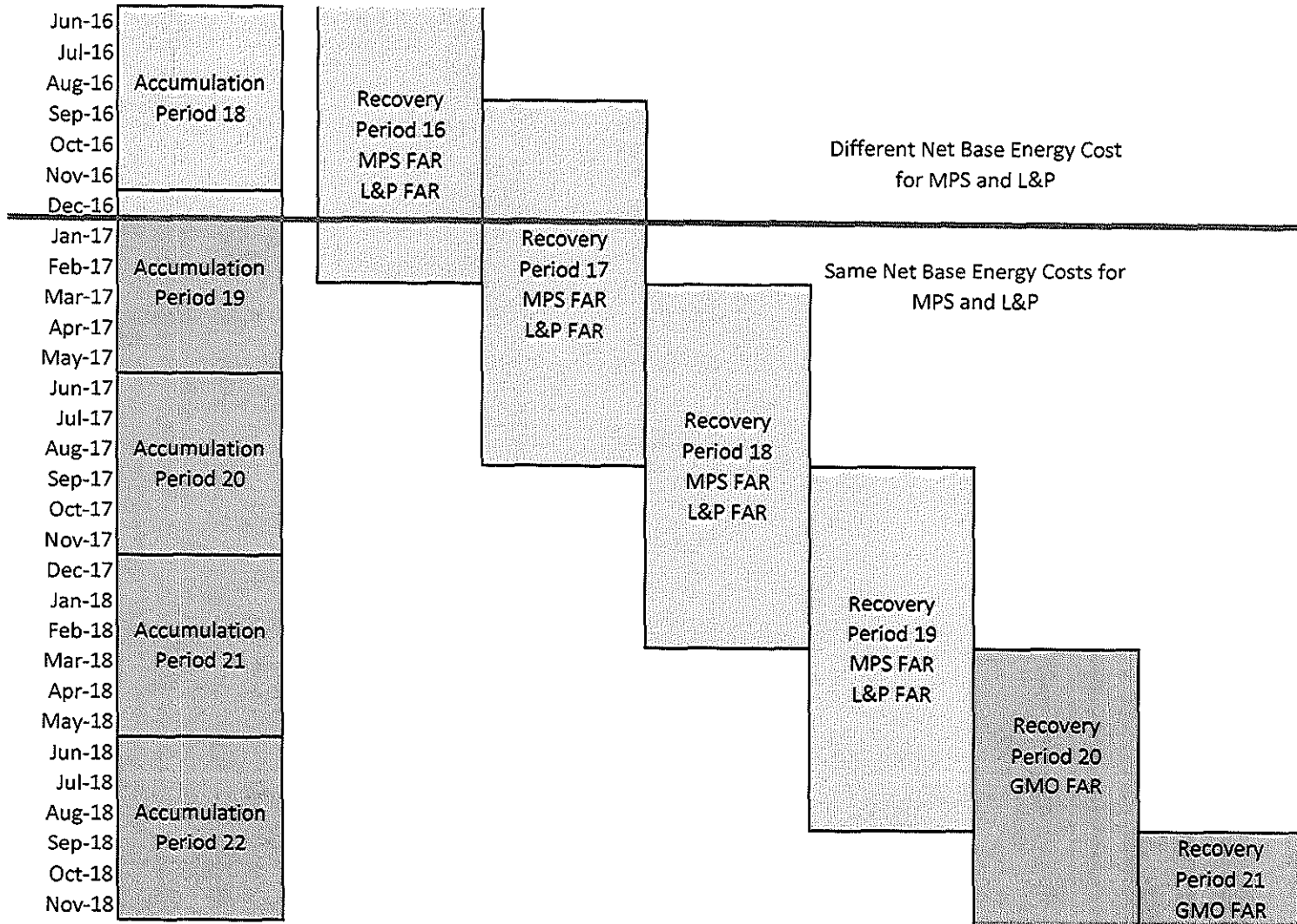
1            corrections to its FAC rate calculation such as it filed in its FAC true-up case ER-  
2            2017-0002.

3            **Q.    Does this conclude your rebuttal testimony?**

4            **A.    Yes.**

# GMO Fuel Adjustment Clause

Timing of Consolidation of FAC rates



Current FAC  
 FAC effective with Commission order in ER-2016-0156  
 Fuel Adjustment Rate