

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority to) File No. ER-2012-0175
Implement A General Rate Increase for Electric Service.)

**DOGWOOD ENERGY, LLC'S PROPOSED FINDINGS OF FACT AND
CONCLUSIONS OF LAW**

COMES NOW Dogwood Energy, LLC ("Dogwood") and respectfully submits its Proposed Findings of Fact and Conclusions of Law in this proceeding regarding KCP&L Greater Missouri Operations Company's (GMO) proposed rate increase, which are limited to the issues concerning the Crossroads generation plant. Dogwood has prepared this submittal based on an assessment of the Commission's potential decision on these issues, without prejudice to Dogwood's position on such issues as reflected in its Brief.

ISSUE: CROSSROADS

1. Crossroads: (GMO: Crawford, Hardesty, Ives, Rush & Blunk; Staff: Mantle & Featherstone; GMO Industrials: Meyer)

- a. What should be the value of Crossroads included in rate base?
- b. What amount of accumulated deferred taxes associated with Crossroads should offset the value of Crossroads in rate base?
- c. Should depreciation expense be based upon the authorized gross plant value for Crossroads?
- d. What transmission costs for energy from Crossroads should be included in revenue requirement?

11. FAC (GMO: Rush; Staff: Barnes; CCM&AARP)

d. Should GMO's FAC tariff be clarified to specify that the only transmission costs included in it are those that GMO incurs for purchased power and off-system sales, excluding the transmission costs related to the Crossroads Energy Center?

FINDINGS OF FACT:

As the Commission found in its Report and Order in Case No. ER-2010-0356, p. 88-89, and as shown again by the record in this case (Tr. p. 298 Blunk; Tr. p. 883-85, 888-89 Crawford):

- The Crossroads 300 MW combustion turbine generation plant is owned and operated by the City of Clarksdale, Mississippi, through the Clarksdale Public Utility Commission. The plant was built in 2001 pursuant to tax exempt municipal bond financing. GMO has an option to purchase the plant, but has not exercised it because of the adverse tax consequences that would result.

- GMO does not lease the Crossroads plant, which remains under the control of the Clarksdale PUC. Instead, pursuant to a long-term Generation, Operation and Maintenance Agreement and a related Power Sales Contract, GMO is entitled to purchase the generation output of the plant.

- Under these arrangements, GMO pays for the costs of operating and maintaining the plant. It has the right to review the annual operating plan and budget for the plant. It provides an incentive for efficient operation by paying an Availability Incentive Bonus Fee and a disincentive for inefficient operation by imposing Availability Liquidated Damages. The City must indemnify GMO against liability for third party claims.

It is not clear from the record whether the amounts GMO pays to the City of Clarksdale are included in its operating expenses for ratemaking purposes (and further whether such amounts already include return on investment and depreciation).

All other similar plants used by GMO are located in Missouri. (Tr. p. 894 Crawford).

The plant serves a peaking function for GMO's load and does not generate electricity very often. It is used during the summer. It has never been used in the winter. In 2012, it was in use on a partial basis on 45 different days. It is unlikely to be used for off-system sales, due to its inefficiency relative to other types of generation plants. (Crawford Rebuttal, p. 5; Tr. p. 298-99 Blunk; Tr. p. 885-90 Crawford; Ex 393, 394).

Electricity generated at the plant is transmitted more than 500 miles from Mississippi to GMO's service area in Missouri through a combination of Entergy and SPP-managed transmission facilities. (Tr. p. 890 Crawford). GMO witness Crawford testified that GMO has agreed to year-round firm transmission for Crossroads, at a cost of about \$5.2 million, but there would not be any such costs for a similar plant located at or near its South Harper facility in Missouri. (Crawford Direct, p. 13; Rebuttal, p. 7). In order to qualify Crossroads under SPP's peak capacity requirements, GMO actually only needs to have firm transmission in place for the four summer months, not all year. (Tr. p. 305-06 Blunk, Tr. p. 889-90 Crawford).

The plant is fueled by natural gas, transported over a pipeline owned by Texas Gas Transmission, with some arrangements made through another entity called ProLiance Energy. GMO has firm gas transportation arrangements in place year-round to serve the plant, despite its limited seasonal operations. (Tr. p. 299-303 Blunk). These arrangements cost \$352,000 per year. (Crawford Rebuttal, p. 7). GMO provided estimates of the costs of year-round firm gas transportation costs at a plant located in Missouri

proximate to the South Harper¹ or Dogwood² plants, ranging from \$4.6 to \$10.2 million, and its witness estimated that there was an 80% chance of the lower figure applying. GMO did not provide any cost information regarding shorter-term firm arrangements, such as seasonal firm capacity or firm released capacity, which would be sufficient to support the operations of such a summer peaking plant. (Crawford Rebuttal, p. 7; Tr. p. 305-09, 311-12 Blunk; Tr. p. 889-90 Crawford). Further, GMO's fuel supply witness was unsure as to whether there would have been prior opportunities to share (and reduce) the cost of gas transportation facilities at such a Missouri peaking plant with the Dogwood plant or others. (Tr. p. 309-10 Blunk).

GMO witnesses asserted that the cost of the gas itself has recently generally been cheaper in Mississippi than in Missouri. (Blunk). The Commission previously found that at other times the reverse has been the case. (Report and Order, ER-2010-0356, p. 85). Such costs would in any event be addressed in GMO's FAC.

GMO (or rather its parent GPE) decided to try to include the plant in its rate base in 2007, instead of scrapping it. GMO conducted an analysis and decided that, in its opinion, the Crossroads plant represented the least cost option. However, some of the information it has developed shows that under many scenarios other sources were lower cost, such as the Dogwood plant. (Crawford Rebuttal, p. 2-3; Tr. p. 891-93 Crawford).

GMO did not actually acquire the plant in 2007. Instead, it assumed the liability to keep paying for the costs of operating the distressed plant, pursuant to the long-term contract with Clarksdale PUC, because no one else wanted that contract. (Tr. p. 964

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¹ The South Harper plant is a combustion turbine facility located near Peculiar, Missouri. (Featherstone Surrebuttal, p. 63).

² Dogwood's plant is a combined cycle facility located in Pleasant Hill, Missouri, that was originally known as the Aries plant. (Featherstone Surrebuttal, p. 63, Tr. p. 309 Blunk).

Featherstone, see also GMO Brief, ER-2010-0356, p. 9). After making the payments for six years, its predecessor in interest was thus able to move this liability to GMO.

GMO asserts that any analysis conducted after 2007 is irrelevant. (Crawford Surrebuttal, p. 7; Tr. p. 891 Crawford).

In the prior rate case, based on all the evidence in that proceeding, the Commission authorized GMO to include the Crossroads plant in its rate base at a value of \$61.8 million as of August 2008, and then adjusted for subsequent related depreciation. It also determined that transmission costs from Mississippi should be excluded from operating expenses as excessive and not just and reasonable. The Commission also applied deferred income taxes as an offset to rate base. (Report and Order, ER-2010-0356, p. 100; see also Order of Clarification and Modification).

CONCLUSIONS OF LAW:

Given that GMO does not own the Crossroads plant, but rather simply purchases power from it, ratepayers (including Dogwood) certainly could legitimately ask why it is included in rate base at all. When power is simply being purchased from a plant owned and operated by another entity, there is no investment or corresponding risk³ and no asset to include in rate base and generate a return (and depreciation). *See, e.g., State ex rel. Public Counsel v. PSC*, 274 SW3d 569, 580-81 (Mo. App. 2009)(affirming Report and

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³ The agreement GMO assumed with the City of Clarksdale places risk on the City, as found by the Commission in its prior Report and Order in Case ER-2010-0356 (p. 88-89).

Order, PSC Case ER-2007-0002, p.44 et seq); *State ex rel. Associated Natural Gas Co. v. PSC*, 706 SW2d 870, 875 (Mo. App. 1985).

It seems safe to assume that GMO finds it financially advantageous to include the plant in rate base, rather than simply as a purchase power expense, because of its continuing efforts to accomplish that end. If there are advantages from rate base treatment to ratepayers, it is not evident that they have ever been quantified. Moreover, such unique treatment of a monopoly utility's purchase power arrangement places alternative sources of supply to GMO like Dogwood at a significant disadvantage.

The Commission's prior decision focused on the prudence of including the plant in GMO's generation fleet. But while the Commission acknowledged that the plant was owned by the City of Clarksdale, it did not fully explain why it should nonetheless be included in rate base.

GMO has declined to purchase the plant, because of the negative tax consequences which would result. Yet, it has been allowed to gain the benefits of treating the plant as its own property for ratemaking purposes. It would seem such conflicting approaches might well jeopardize the favorable tax aspects of the municipal financing and ownership of the plant, although that is not a matter within the Commission's jurisdiction. It would also seem questionable that GMO has been allowed to realize the benefits of ownership of the plant, even though the Commission could not have retroactively approved an acquisition pursuant to Sections 393.170 – 393.200 RSMo. had it actually occurred.⁴ *Stopaquila.org v. Aquila, Inc.*, 180 S.W.3d 24 (Mo. App. 2005), see also *State ex rel. Cass County v. PSC*, 259 S.W.3d 544 (Mo. App. 2008).

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⁴ The Commission expressly did not approve acquisition of the plant in the GPE merger case. See Report and Order, EM-2007-0374, p. 8, 147 and note 566.

GMO argues that there is no difference between Crossroads and the South Harper plant, in terms of these financial arrangements. However, while South Harper was also built with municipal financing, it is actually leased, controlled and operated by GMO. See *StopAquila.org v. City of Peculiar*, 208 SW3d 895 (Mo. 2006). In contrast, Clarksdale owns, controls and operates the Crossroads plant.

The Commission concludes that the arrangements at Crossroads are equivalent to a capital lease. Under FERC standards, when a lease is treated as a capital lease, and recorded as an asset in account 101.1,⁵ it is generally to be recorded “at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance and taxes to be paid by the lessor.” But the general rule is not to be followed “if the amount so determined exceeds the fair value of the leased property at the inception of the lease”. Instead, in such an instance “the amount recorded as the asset and obligation shall be the fair value.” See 18 CFR Part 101 – 20 Accounting for Leases.⁶

Because of the purchase power nature of GMO’s relationship with the City of Clarksdale, it is not evident that there are regularly recurring and predictable payments which would even lend themselves to a present value calculation.⁷ Nor is it evident that such present value would exceed “fair value”, so that the latter would be the appropriate amount to be used under FERC’s system of accounts. However, the only evidence presented concerns “fair value”, so the Commission will continue to proceed accordingly.

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⁵ In contrast, purchase power costs are reported to account 555. See 18 CFR Part 101.

⁶ See also 4 CSR 240-20.030, which adopts FERC’s system of accounts for intrastate purposes as well.

⁷ Presumably, GMO is not being allowed to double recover by also including such expenditures in its operating expenses. But that is not made clear in the record.

It is not at all clear that GMO has provided the evidence that would be required to enable the Commission to second-guess its prior decision concerning the Crossroads plant, which was to include the plant in rate base at a surrogate value with regulatory adjustments in an effort to assure that ratepayers do not pay more than prudently incurred costs. And in any event, there does not appear to be any good reason for the Commission to reconsider these issues. While the Commission is not bound by *stare decisis*, and collateral estoppel may not technically apply, that does not mean that it has to keep hearing the same issue over and over again just because someone does not like its prior decision. See, e.g., *In Re Home Tel. Co.*, (MoPSC 18 PUR NS 448); Mo Practice, Administrative Practice and Procedure, 13:8.

The Commission explained in its prior decision that it was placing a surrogate value on a purported transaction⁸ between affiliated parties, in accordance with its rules, because it was not an arms-length free market transaction. (ER-2010-0356, Report and Order, p. 98). Then, the Commission explained that it needed to treat the plant as if it were located in Missouri in order to derive a prudent surrogate value. (Id. p. 99). It stated: **If [Crossroads is] included in rate base at fair market value, rather than the higher net book value paid to [GMO's] affiliate, and except for the additional cost of transmission from Mississippi to Missouri ... [then GMO's] decision to add the Crossroads generating facility to the MPS generation fleet [was] prudent and reasonable.**" (Id., emphasis added). Conversely, the Commission found that a decision to add such a plant at the higher value

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⁸ Given that Crossroads involves an ongoing obligation to make payments, it is not clear why GMO's parent would consider it to be an asset, rather than an assumed liability. An executory contract typically is considered to have value as an asset to the payor only if the remaining obligation is less expensive than the cost of a replacement contract on the market. See, e.g., *Osborn v. Home Ins.*, 914 SW2d 35, 37-38 (Mo. App. 1996). There is no evidence that such conditions prevailed when the Crossroads contracts were assumed by GPE. From all appearances, it simply took on the future liabilities associated with a distressed asset.

and at the Mississippi location (i.e. without the Commission's adjustments) would not be prudent and reasonable.

The Commission stated: "It is incomprehensible that GPE [GMO's parent] would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And it is a virtual certainty that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years." (Id. p. 94).⁹

The Commission found and concluded that such a surrogate plant, as if acquired at a discount in Missouri, would be a prudent component of rate base. The Commission did not attribute any prudence to the actual Crossroads plant as it sits in Mississippi at the high values alleged by GMO. (Id.). Rather it found: "Paying the additional transmission costs required to bring energy all the way from Crossroads and including Crossroads at net book value with no disallowances is not just and reasonable." (Id. p. 91).

The testimony provided by Staff witnesses Featherstone and Mantle provides sufficient evidence in support (again) of the Commission's previous decisions concerning the dollar amounts of the values assigned to the Crossroads plant, depreciation and deferred income taxes, as well as the exclusion of transmission costs. But the Commission should not lose sight of the fact that Crossroads is really just a summer peak source of purchase power, and that GMO's peak supply needs could easily have been met by contract with (or acquisition of) a source in GMO's service area. GPE took on an additional liability with Crossroads in order to make the deal with Aquila; it did not gain an asset.

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⁹ See supra note 8.

GMO wants the Commission to reconsider the exclusion of the costs of 500+ miles of transmission from Clarksdale, Mississippi, to the Kansas City area, arguing that even though such costs are unusually high, they are effectively offset by savings in terms of natural gas transportation costs. But GMO concedes that such transmission costs would not be incurred at a similar plant located in its service area. (Crawford Direct, p. 13, Rebuttal, p. 7). Further, these transmission costs are inflated because they involve annual arrangements rather than the shorter term commitments that would be sufficient given Crossroads' role as a summer peaking plant. (Tr. p. 305-06 Blunk; Tr. p. 889-90 Crawford). So GMO has failed to provide grounds for the Commission to reconsider its previous decision that such transmission costs are not just, reasonable or prudent.

Likewise, GMO did not provide evidence of the costs of the short term gas transportation arrangements that would be sufficient to meet summer peak capacity requirements. Instead, it provided the much higher costs of unnecessary annual firm gas transportation arrangements for an alternative site in Missouri. While the costs for such annual arrangements in Mississippi may be quite low, there would be no need to incur the high costs that GMO describes for such arrangements in Missouri. (Tr. p. 299-312 Blunk, Tr. p. 889-90 Crawford).

GMO's arguments regarding gas transportation costs are undercut by its failure to provide any analysis of what such costs would have been in 2007, despite arguing elsewhere that analyses concerning subsequent periods are irrelevant. (Crawford Surrebuttal, p. 7, Tr. p. 891 Crawford). GMO was also unable to provide evidence as to whether it would have been able to reduce gas transportation costs by cooperating with other plants in the 2007 timeframe when it hypothetically could have placed a plant in Missouri rather than assume the Crossroads contract. (Tr. p. 309-10 Blunk).

Hence, GMO failed to prove that the excessive transmission costs that it incurs to deliver electricity from Mississippi to Missouri during the summer peak are justified by purported savings in gas transportation costs. As a result, GMO provides no basis for the Commission to reconsider its prior decision to exclude transmission costs related to Crossroads from GMO rates.

DECISION:

The Commission already resolved the issues concerning the Crossroads plant in its decision in the last GMO rate case (ER-2010-0356). The Commission has further explained that prior decision in this Report and Order. GMO has not provided any reason for the Commission to reconsider its ultimate conclusions.

GMO did not buy the Crossroads plant in an arm's length transaction – it has actually never acquired the plant. GMO simply has a contract giving it the right to purchase the plant's output. There is no evidence that suggests the contract is even favorable on the market. Certainly no one else seemed to want it. Moreover, the unusually long and expensive transmission from Mississippi to Missouri would seem to make the plant unattractive for GMO's purposes. Taking all pertinent factors into account, the Commission was more than fair to GMO when it decided to allow the plant to be included in rate base using a surrogate value and excluding transmission costs.

The Commission stands by its prior decision on Crossroads issues. The Commission continues to authorize GMO to include the Crossroads plant in its rate base at a value of \$61.8 million as of August 2008, and then adjusted for subsequent related depreciation. Transmission costs from Mississippi should continue to be excluded from operating expenses as excessive and not just and reasonable, and GMO's FAC tariff

should be clarified consistent with such exclusion. Accumulated deferred income taxes should continue to apply as an offset to rate base as previously determined, with the amount adjusted as recommended by Staff witness Featherstone.

Staff is directed to ensure that any and all payments from GMO to or for the City of Clarksdale or its Public Utility Commission, which are equivalent to lease payments that are being capitalized into rate base, are not also included in GMO's operating expenses for rate making purposes.

CURTIS, HEINZ,
GARRETT & O'KEEFE, P.C.

/s/ Carl J. Lumley

Carl J. Lumley, #32869
130 S. Bemiston, Suite 200
Clayton, Missouri 63105
(314) 725-8788
(314) 725-8789 (Fax)
clumley@lawfirmemail.com

Attorneys for Dogwood Energy, LLC

CERTIFICATE OF SERVICE

A true and correct copy of the foregoing was emailed, faxed or mailed by U.S. Mail, postage paid, this 28th day of November 2012, to the persons shown on the attached list.

/s/ Carl J. Lumley

SERVICE LIST for ER-2012-0175

Missouri Public Service Commission

Office General Counsel
200 Madison Street, Suite 800
P.O. Box 360
Jefferson City, MO 65102
GenCounsel@psc.mo.gov
Phone: 573-751-2690
Fax: 573-751-9285

Office of the Public Counsel

Lewis Mills
200 Madison Street, Suite 650
P.O. Box 2230
Jefferson City, MO 65102
opcservice@ded.mo.gov
Phone: 573-751-1304
Fax: 753-751-5562

AARP

John B. Coffman
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
john@johncoffman.net
Phone: 573-424-6779

AG Processing, Inc

Stuart Conrad
3100 Broadway, Suite 1209
Kansas City, MO 64111
stucon@fcplaw.com
Phone: 816-753-1122
Fax: 816-756-0373

City of Kansas City, Missouri

Mark W. Comley
601 Monroe Street, Suite 301
Jefferson City, MO 65102-0537
comleym@ncrpc.com
Phone: 573-634-2266
Fax: 573-636-3306

Consumers Council of Missouri

John B. Coffman
871 Tuxedo Blvd.
St. Louis, MO 63119-2044
john@johncoffman.net
Phone: 573-424-6779

Federal Executive Agencies

Steven E. Jones
1104 SE Talonia Drive
Lees Summit, MO 64081
sejcaj@kc.rr.com
Phone: 816-926-1658

KCP&L Greater Missouri Operations Company

Lisa A. Gilbreath
4520 Main, Suite 1100
Kansas City, MO 64111
Lisa.gilbreath@srdenton.com
Phone: 816-460-2655
Fax: 816-531-7545

KCP&L Greater Missouri Operations Company

James M Fischer
101 Madison Street, Suite 400
Jefferson City, MO 65101
jfischerpc@aol.com
Phone: 573-636-6758
Fax: 573-636-0383

KCP&L Greater Missouri Operations Company

Heather A. Humphrey
PO Box 418679
1200 Main
Kansas City, MO 64141-9679
Heather.Humphrey@kcpl.com
Phone: 816-556-2335

KCP&L Greater Missouri Operations

Karl Zobrist
4520 Main Street, Suite 1100
Kansas City, MO 64111
karl.zobrist@srdenton.com
Phone: 816-460-2545
Fax: 816-531-7545

KCP&L Greater Missouri Operations Company

Roger W Steiner
1200 Main Street, 16th Floor
P.O. Box 418679
Kansas City, MO 64105-9679
roger.steiner@kcpl.com
Phone: 816-556-2314
Fax: 816-556-2787

KCP&L Greater Missouri Operations Company

Charles W. Hatfield
230 W. McCarty Street
Jefferson City, MO 65101-1553
chatfield@stinson.com
Phone: 573-636-6263
Fax: 573-636-6231

Midwest Energy Consumers Group

David Woodsmall
807 Winston Court
Jefferson City, MO 65101
david.woodsmall@woodsmalllaw.com
Phone: 573-797-0005
Fax: 573-635-7523

Midwest Energy Users' Association

Stuart Conrad
3100 Broadway, Suite 1209
Kansas City, MO 64111
stucon@fcplaw.com
Phone: 816-753-1122
Fax: 816-756-0373

Missouri Department of Natural Resources

Jessica L Blome
221 W. High Street
P.O. Box 899
Jefferson City, MO 65102
Jessica.Blome@ago.mo.gov
Phone: 573-751-3640
Fax: 573-751-8796

Missouri Gas Energy

Dean L Cooper
312 East Capitol
P.O. Box 456
Jefferson City, MO 65102
dcooper@brydonlaw.com
Phone: 573-635-7166
Fax: 573-635-3847

Missouri Gas Energy

Todd J Jacobs
3420 Broadway
Kansas City, MO 64111
todd.jacobs@sug.com
Phone: 816-360-5976
Fax: 816-360-5903

Missouri Industrial Energy Consumers (MIEC)

Diana M. Vuylsteke
211 N. Broadway, Suite 3600
St. Louis, MO 63102
dmvuylsteke@bryancave.com
Phone: 314-259-2546
Fax: 341-259-2020

Missouri Public Service Commission

Nathan Williams
PO Box 360
200 Madison Street, Suite 800
Jefferson City, MO 65102
Nathan.Williams@psc.mo.gov

Natural Resources Defense Council

Shannon Fisk
1617 John F. Kennedy Blvd., Suite 1675
Philadelphia, PA 19103
sfisk@earthjustice.org
Phone: 212-791-1881 Ext 8239

Natural Resources Defense Council

Henry B. Robertson
705 Olive Street, Suite 614
St. Louis, MO 63101
hrobertson@greatriverslaw.org
Phone: 314-231-4181
Fax: 314-231-4184

Renew Missouri

Shannon Fisk
1617 John F. Kennedy Blvd., Suite 1675
Philadelphia, PA 19103
sfisk@earthjustice.org
Phone: 212-791-1881 Ext 8239

Renew Missouri

Henry B. Robertson
705 Olive Street, Suite 614
St. Louis, MO 63101
hrobertson@greatriverslaw.org
Phone: 314-231-4181
Fax: 314-231-4184

Sierra Club

Shannon Fisk
1617 John F. Kennedy Blvd., Suite 1675
Philadelphia, PA 19103
sfisk@earthjustice.org
Phone: 212-791-1881 Ext 8239

Sierra Club

Henry B. Robertson
705 Olive Street, Suite 614
St. Louis, MO 63101
hrobertson@greatriverslaw.org
Phone: 314-231-4181
Fax: 314-231-4184

Union Electric Company

James B. Lower
PO Box 918
111 South Ninth Street, Suite 200
Columbia, MO 65205-0916
lowery@smithlewis.com
Phone: 573-443-3141
Fax: 573-448-6686

Union Electric Company

Thomas M. Byrne
PO Box 66149 (MC 1310)
1901 Chouteau Avenue
St. Louis, MO 63166-6149
AmerenMOService@ameren.com
Phone: 314-554-2514
Fax: 341-554-4014

United States Air Force-Whiteman AFB

Steven E. Jones
1104 SE Talonia Drive
Lees Summit, MO 64081
sejcaj@kc.rr.com
Phone: 816-926-1658

United States Department of Energy

Therese LeBlanc
PO Box 419159
2000 E. 95th Street
Kansas City, MO 64141
tleblanc@kcp.com
Phone: 816-997-7149