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Witness: Featherstone
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Testimony
Sponsoring Party: MoPSC Staff
Case Nos.: EO-91-358 and EO-91-360

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

UTILICORP UNITED INC.
MISSOURI PUBLIC SERVICE DIVISION
CASE NOS. EO-91-358 AND EO-91-360

SUPPLEMENTAL REBUTTAL TESTIMONY
OF
CARY G. FEATHERSTONE

Jefferson City, Missouri
September, 1991

Denotes Proprietary

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SEP 16 1991
PUBLIC SERVICE COMMISSION

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1 SUPPLEMENTAL REBUTTAL TESTIMONY

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3 CARY G. FEATHERSTONE

4 UTILICORP UNITED INC.

5 MISSOURI PUBLIC SERVICE DIVISION

6 CASE NOS. EO-91-358 AND EO-91-360

7 Q. Please state your name and business address.

8 A. Cary G. Featherstone, Missouri State Office Building,
9 Suite 510, 615 East Thirteenth Street, Kansas City, Missouri.

10 Q. Are you the same Cary G. Featherstone who has
11 previously filed rebuttal testimony and supplemental rebuttal
12 testimony in this proceeding?

13 A. Yes.

14 Q. What is the purpose of your supplemental rebuttal
15 testimony?

16 A. The Staff has recently become aware of additional
17 pertinent information relating to possible offsets to the deferred
18 costs of the Sibley coal conversion project. It is my understanding
19 from discussions with Staff counsel that MoPub has no objection to
20 the filing of this supplemental rebuttal testimony.

21 This additional information relates directly to the Sibley
22 coal conversion project and potential fuel savings that may result
23 from that project. In my rebuttal testimony filed on August 16,
24 1991, I discussed on pages 44-45 the uncertainty surrounding what
25 overall fuel costs will be incurred once the coal conversion project
26 is completed. At that time, I was only aware of information that

1 MoPub had supplied to the Staff stating that "it is not clear that
2 the actual cost of fuel will increase significantly with a conversion
3 at Sibley to low sulfur western coal." (Response to Staff Data
4 Request No. 69).

5 Q. When did you become aware of this additional
6 information?

7 A. I became aware of this additional information through
8 discussion with MoPub personnel on Wednesday, September 11, 1991.
9 Subsequent to this discussion, the Staff submitted Data Request
10 Nos. 82 through 84 responses to which were supplied on Friday,
11 September 13, 1991.

12 Q. Has MoPub indicated that there will be fuel savings
13 relating to the coal conversion project?

14 A. Yes. MoPub in other contexts besides these applica-
15 tions has stated that it expects the coal conversion project will
16 result in substantial fuel savings. These fuel savings would be a
17 direct benefit resulting from this project. In addition to recently
18 announcing that a new rail line will be constructed to the Sibley
19 Generating Station, MoPub has said that substantial savings are to be
20 derived from this project which is related to the coal conversion
21 project. In a filing before the Interstate Commerce Commission
22 (ICC), Finance Docket No. 31927, MoPub states that "[b]ased on its
23 preliminary evaluation, coal delivered by Union Pacific will result
24 in a significant savings, on a delivered btu basis, to make the
25 investment in the proposed rail line economically feasible." (ICC
26 filing, page 7; emphasis added)
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MoPub states at page 4 of the ICC filing that:

. . . there is substantial evidence that access to more than one carrier or transportation mode results in lower delivered cost of coal. Thus, the construction and operation of a rail line by Sibley Railway will afford MPS the ability to not only purchase coal competitively, but to also increase its options in terms of meeting the requirements of the 1990 Clean Air Act Amendments. (Emphasis added).

Throughout the ICC filing, MoPub emphasizes substantial fuel savings. At pages 11 and 12 of the ICC filing MoPub states:

. . . With the construction of the proposed rail line, MPS will obtain the benefits of competition among several rail carriers and will have access to, and competition among, potentially a larger number of new coal suppliers. The benefits which result from this competition will continue for the remaining life of Sibley Station and will result in lower fuel costs for MPS customers.

.

. . . [C]onstruction of this rail line will ensure the development of a sound rail transportation system; one which is governed by effective competition. Competitive rail transportation is in the public interest in that it will lower fuel costs for MPS customers. (Emphasis added).

In a press release issued by MoPub sometime in September, 1991, Mr. Robert K. Green, MoPub Division President, states that:

We constantly look for opportunities to reduce costs and provide lower rates to our customers . . . Competition resulting from the new rail line will help Missouri Public Service reduce costs associated with purchase and transportation of low-sulphur western coal to the plant. (Emphasis added).

The press release further states that:

New coal sources are being sought due to federally mandated restrictions on sulfur emissions, which are contained in the Clean Air Act Amendments legislated last year. Missouri Public Service is modifying its Sibley plant at a cost of \$40 million to allow use of western coal, which has a significantly lower sulfur content than the Illinois coal currently used there.

The MoPub newsletter "MPS Today," dated September 6, 1991, quotes Ken Jones, Vice President-Accounting and Controller, as stating that "[c]ompetition resulting from the new rail line will help reduce costs associated with purchase and transportation of low-sulphur western coal to Sibley."

Q. Why is MoPub considering constructing an additional rail line at its Sibley generating facility?

A. MoPub believes that construction of a 4.5 mile rail line addition at Sibley will enable it to access more coal supplies and transportation carriers. This will result in more competition, which should decrease the delivered price of fuel at Sibley. In its ICC filing at page 2, MoPub states:

In order to comply with the Clean Air Act Amendments of 1990 on a competitive basis, to bring about effective competition among the various carriers and, most importantly, to increase the number of potential coal suppliers, MPS has concluded that direct rail access to a Union Pacific main line, approximately four and one-half (4.5) miles from Sibley Station, is necessary.

Q. What is the estimate of the fuel savings relating to the coal conversion project?

A. The Staff believes, based on the filing before the ICC and Mr. Green's statement, that there will be substantial fuel savings resulting from the coal conversion project. In a financial analysis performed by MoPub in its decision to construct the rail line, MoPub computes that the **

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Q. Is there any other information that would indicate the existence of significant fuel savings?

1 A. Yes. In an article appearing in the September 2,
2 1991, issue of Compliance Strategies Review (attached as Schedule 1),
3 it is indicated that in 1990 MoPub had a test burn at Sibley of low
4 sulfur western coal which had a 148.77 cents/MMBtu or \$33.00 per ton
5 delivered cost. In comparison, the delivered cost of coal in May,
6 1991, for Sibley's current fuel supplier, Arch Mineral, was 158.51
7 cents/MMBtu or \$34.95 per ton. This equals a \$1.95 per ton
8 difference (\$34.95 - \$33.00). If this difference of \$1.95 per ton is
9 applied to the approximately 800,000 tons of coal burned at Sibley
10 per year, this amounts to a \$1.6 million expense reduction.

11 In MoPub's financial analysis of this matter, **

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18 Clearly, as the burn levels increase at Sibley, or if the
19 difference in the current price and the future price of delivered
20 fuel increases, the fuel savings will also increase.

21 Q. Has MoPub already received benefits from the coal
22 conversion project?

23 A. Yes. MoPub's test burn of low sulfur coal at Sibley
24 has already resulted in savings. MoPub test burned low sulfur coal
25 at Sibley twice in 1990. In both instances the price of coal on a
26 per ton basis burned for test purposes was below the price of coal on
27 a per ton basis purchased under MoPub's existing coal contract.

1 These savings have never been reflected in rates. They "flowed"
2 directly to the benefit of the shareholders in MoPub's 1990 earnings.

3 Q. What were the differences in price relating to the
4 test burn at Sibley?

5 A. MoPub received in excess of 17,000 tons of low sulfur
6 coal from Cyprus Coal Company (Cyprus) in May, 1990 for
7 148.77 cents/mmBTU or the \$33.00 per ton referred to earlier.

8 MoPub also received in excess of 18,000 tons of low sulfur
9 coal from Pittsburg & Midway Coal Company (P&M) in May, 1990 for
10 134.73 cents/mmBTU or \$35.10 per ton.

11 In contrast, MoPub's existing contract price from Arch
12 Mineral in May, 1990 was ** **

13 These coal prices are depicted in the following table:

	<u>c/mmBTU</u>	<u>\$/ton</u>
14 Arch Mineral	**	**
15 (contract		
16 coal)		
17 Cyprus	148.77	\$33.00
18 (test burn		
19 coal)		
20 Pittsburg &	134.73	\$35.10
21 Midway		
22 (test burn		
23 coal)		

24 There was an approximate cost difference between the 35,000 tons of
25 test burn coal (17,000 Cyprus tons + 18,000 P&M tons) and the coal
26 from the Arch Mineral contract of ** **

27 Q. What is the significance of the fuel savings as it
28 relates to the requested accounting orders?

1 A. MoPub's requests for deferral of costs respecting the
2 coal conversion project, as well as the purchase capacity, are based
3 on MoPub's estimates of increased costs, i.e., deferred costs
4 resulting from plant additions and betterments and an increase in
5 price per megawatt (MW) for purchase capacity. The amounts of fuel
6 savings discussed in this supplemental rebuttal testimony are MoPub's
7 estimates of decreasing costs. The coal conversion project enables
8 MoPub to seek alternatives to its present coal supplies and
9 transportation carriers. These fuel expense reductions are just as
10 significant and material as MoPub's requested increases relating to
11 the deferrals.

12 Q. Has MoPub requested an accounting order to capture the
13 related fuel savings associated with the coal conversion project?

14 A. No. MoPub's request for accounting orders only relate
15 to deferrals of costs that will result in increases to rates. MoPub
16 has not requested an accounting order to "defer" any type of cost
17 savings.

18 Q. What is the significance of MoPub not requesting an
19 accounting order to defer cost savings?

20 A. MoPub is attempting to protect its earnings from cost
21 increases, while at the same time it wants to ignore decreases to
22 costs. This process shifts the entire risk of these projects to the
23 ratepayers, while at the same time not giving those same ratepayers
24 benefits, i.e., savings related to the projects.

25 MoPub has crafted a proposal to ensure that the increases
26 in the revenue requirement resulting from the coal conversion project
27 are fully recovered. The deferred accounting treatment of these
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1 increases commences upon the completion of the construction of the
2 plant addition, once Allowance for Funds Used During Construction
3 (AFDC) ceases. Hence the utility is made whole for every dollar
4 expended, including depreciation and related carrying charges. Thus,
5 there is no negative effect to MoPub's earnings.

6 On the other hand, MoPub has no such proposal to capture
7 the fuel savings, or any other savings for that matter. The only way
8 any savings would be considered is at the time of a rate case filing.
9 None of the fuel-related savings associated with the coal conversion
10 project would have a carrying charge applied to give effect to the
11 exact moment that the savings occurred. This is also true of any
12 other savings that might occur.

13 MoPub in effect is saying to its customers, make us whole
14 for every dollar spent at the moment the dollars are incurred, but to
15 the extent that savings exist, wait for the next rate case. MoPub's
16 proposed accounting orders eliminate the impacts of regulatory lag in
17 total for increases to cost of service but ignore the related
18 regulatory lag for any such benefits or savings. This is a patently
19 unfair and completely unreasonable position.

20 Q. When will the related fuel savings occur?

21 A. MoPub's current fuel contract expires May, 1992. In
22 the ICC filing, MoPub states that it "is undertaking to arrange for
23 the delivery of new coal supplies beginning in the fall of 1992."
24 (ICC filing, page 16)

25 Q. Does MoPub have a current rate case filed before this
26 Commission?

1 A. No. Much uncertainty surrounds when MoPub intends on
2 filing its next rate case. If MoPub is unable to determine when it
3 will file its next rate case, certainly it is unable to know when it
4 will file a rate case which will reflect the above noted fuel
5 savings. In any event, it would be unlikely that MoPub would match
6 the rate case filing with the "exact" moment the fuel savings are
7 achieved.

8 Q. Is MoPub considering a delay in the coal conversion
9 project?

10 A. Yes. This matter was addressed at page 38 of my
11 rebuttal testimony. MoPub is considering delaying the coal
12 conversion project a second time until April, 1994. (Response to
13 Staff Data Request No. 44). If the project is delayed, then the
14 incurrence of costs relating to the project will correspondingly be
15 delayed. Much uncertainty continues to surround the coal conversion
16 project.

17 Q. Do these fuel savings relate to the single issue
18 ratemaking principle?

19 A. Yes. MoPub's position of only considering deferring
20 cost increases and ignoring cost decreases or savings is a classic
21 example of single issue ratemaking. Whenever a party proposes to
22 address single, isolated cost increases, which in these proceedings
23 are the deferred costs at issue in the applications, other parties in
24 the regulatory process respond to such single issue ratemaking
25 efforts by attempting to determine the "true" impacts of the
26 increases by examining other cost factors or components, for example,
27 in this instance, fuel savings, which is a decreasing cost. The
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Supplemental Rebuttal Testimony of
Cary G. Featherstone

1 debate usually escalates, with each party broadening the number of
2 items to be considered. This resulting situation is one of the
3 reasons why the Staff is opposed to accounting orders being used to
4 selectively protect a utility's earnings from cost increases. To
5 fully determine and completely understand the impact that cost
6 increases have on a utility's earnings, all items, both increases and
7 decreases, must be examined, not single items in isolation.

8 Q. Does this conclude your supplemental rebuttal
9 testimony?

10 A. Yes, it does.
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In the matter of the application of Missouri)
Public Service for the issuance of an accounting) Case No. EO-91-358
order relating to its electrical operations.)

In the matter of the application of Missouri)
Public Service for the issuance of an accounting) Case No. EO-91-360
order relating to its purchase power commitments.)

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing supplemental rebuttal testimony in question and answer form, consisting of ____ pages to be presented in the above case; that the answers in the foregoing supplemental rebuttal testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this _____ day of September, 1991.

My Commission expires _____

Strategies

REVIEW

AN EXECUTIVE BRIEFING ON THE CLEAN AIR ACT

VOL. 2, NO. 16 • SEPTEMBER 2, 1991

SHORTLINE CONSTRUCTION...

MOPUB WILL BURN WESTERN COAL AT SIBLEY

Utilities that are captive to one rail carrier, and would rather not scrub for acid rain compliance, may consider construction of a shortline railroad to another carrier to obtain rail competition and/or to access more coal sources. In theory, carrier competition should result in a decrease in the delivered price of coal, and new access to lower sulfur coals would be beneficial to the utility as well.

UtiliCorp-owned Missouri Public Service (MoPub) has taken this strategy to heart, and should be burning western coal at Sibley 3 in 1993 if construction of the Sibley Railway proceeds as planned. Newly-created UtiliCorp subsidiary Sibley Railway Company is petitioning the Interstate Commerce Commission (ICC) for an exemption to construct a 4.5-mile rail line from Sibley to a line of the Union Pacific Railroad (UP).

Sibley is currently captive to the Atchison, Topeka & Santa Fe Railway (AT&SF). Direct service by the UP will allow MoPub access to UP-origin coals in the Hanna and Green River basins, as well as origins from mines in the Powder River Basin (PRB) served by the Chicago & North Western, a UP ally.

As Sibley 1 and 2 are too small to be affected by the Clean Air Act; the 400 Mwe Sibley 3 is MoPub's only Phase I affected unit. Currently the plant burns approximately 800,000 tons of Union Pacific origin Illinois Basin coal annually. Most of this high sulfur coal (more than 5 lbs. SO₂ per mmBtu) is supplied by Arch Mineral Corporation mines under contract, although Sibley also burns Union Pacific origin spot coal. In May, the delivered price of the Arch coal was 158.51 cents/mmBtu (\$34.95/ton).

Hanna and Raton Coals Seem Favored

With the direct UP connection, MoPub will have access to four low sulfur coal regions, including AT&SF origin mines in the Raton Basin of New Mexico. The utility will not say which coal it will burn for compliance, however, it has tested coals only from the Hanna and Raton basins thus far.

Approximately 17,000 tons of UP-origin spot coal from Cyprus Coal Co.'s Shoshone No. 1 mine in the Hanna Basin was tested at Sibley in 1990. The Btu content of this coal was similar to the Illinois Basin coals (11,090 Btu), but had a much lower sulfur content (1.01 lbs. SO₂ per mmBtu). The Shoshone coal also had a lower delivered price, at 148.77 cents/mmBtu (\$33.00/ton).

More than 18,000 tons of AT&SF-origin coal from Pittsburg & Midway Coal Co.'s Cimarron mine in the Raton Basin was also tested last year. This coal had a lower delivered price (134.73 cents/mmBtu), higher Btu content (13,025) and lower sulfur content

(continued on page 7)

WHO GETS HOW MANY ALLOWANCES?

FLORIDA UTILITIES DEBATE HIGH-GROWTH ALLOCATION

Stakes are high in a Florida dispute over the formula for allocating rapid growth allowances for the states' utilities. At issue is the method to be used in determining each utility's share of 40,000 extra allowances provided in the 1990 Clean Air Act. This special reserve of allowances is for states whose population growth

during the 1980s exceeded 25 percent; Florida is the only state that qualifies. The Florida allowances will be included in the proposed nationwide allocation of Phase II allowances that the Environmental Protection Agency (EPA) plans to publish in December and make final a year later, after reviewing comments.

(continued on page 2)

Inside

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- 5 APS Seeks Scrubber Pre-Approval By Year-End
- 6 RDI Releases "Acid Rain Handbook"
- 8 CIPS Compliance Strategy Filed With SEC

MOPUB & WESTERN COAL
(continued from page 1)
(0.68 lbs. SO₂/mmBtu) than the Shoshone coal.

However, the Sibley Railway filing indicates that UP origins are preferred. MoPub states that based on a preliminary evaluation, "coal delivered by Union Pacific will result in a significant savings, on a delivered Btu basis, to make the investment in the proposed rail line economically feasible."

In addition, the filing states that "the origin of the coal supply to be delivered to Sibley station is located along the Union Pacific," and that MoPub now is "engaged in negotiations concerning coal supplies."

As stated in the filing, however, MoPub is looking for competition between carriers and coal producers in pursuing least-cost compliance. That is, UP origins will not be the only coals MoPub will consider. A MoPub attorney said that he expects the AT&SF to offer much more competitive rates as a result of the shortline construction, and that this could tip the balance in favor of Raton Basin coal.

However, PRB coal is not completely out of the picture. A MoPub source said that the utility may consider blending PRB coal with higher-Btu western coal in blends of up to 40% PRB. The source said PRB coal may be attractive because of its price, however, he added that since Sibley 3 is a load follow unit

(running between 160 and 360 Mwe on a daily basis), higher percentages of PRB coal may cause problems.

Four More Shortlines Expected This Year

By the end of the year, the ICC expects to see four more shortline construction applications submitted by utilities. Although these will likely be compliance-related, some are constructed largely to obtain competition between carriers and coal suppliers, and are not necessarily for compliance purposes.

For example, Southern Company constructed a seven-mile shortline to CSX to obtain competition at its Gaston plant. Iowa Power also seriously pursued access to the UP for its Council Bluffs Energy Center by constructing a shortline, but put those plans on hold when it settled rail rate disputes with its serving carrier, the Burlington Northern Railroad (BN).

Southwestern Electric Power is also considering construction of shortlines to alternate carriers for coal deliveries to its Flint Creek and Welsh plants to lower its delivered fuel price.

However, carrier competition can drive a utility's compliance strategy. In MoPub's case, although the AT&SF had compliance coal origins, the railroad may not have been motivated to offer lower rates since as the sole carrier serving the plant,

it would have received revenue regardless of whether it originated the coal.

With competition, however, MoPub increases its coal and transportation options, thereby reducing its compliance cost. If competition did not exist, compliance alternatives other than a switch to western coal may have been more attractive.

A similar situation existed with Electric Energy Inc.'s (EEI) Phase I-affected Joppa plant in Illinois. Captive to the UP, EEI decided to build a shortline, named the Joppa & Eastern Railroad, to a nearby BN line. As a result, EEI is now served by one eastern and two western railroads, and plans to burn a blend of low sulfur PRB and eastern high sulfur coals for compliance.

According to John Molm, an attorney with the Atlanta, Georgia-based firm of Troutman, Sanders, Lockman and Ashmore, the development of a shortline involves several steps. Utilities must get ICC approvals for construction and for the environmental impact of the shortline. There are also the acquisition of the necessary right-of-way and negotiations with the carrier to be serving the plant to consider.

According to Molm, "The bottom line for railroads is to stay nimble and not try to charge too much because if they do, utilities will, if able, change strategies."

- Jay C. Kumar

RDI's Acid Rain Handbook: Impact of Clean Air Legislation

Cost of SO₂ Removal

Phase I

	Affected Capacity (MWe)	Coal Consumption (000's of tons)	Tons SO2 Removed	Credits Traded Deficit/ Excess	Total Annual Cost (000's)	Cost Per Ton Removed/ Purchased
Switch	56,843	135,234	2,785,240	(83,876)	\$898,573	\$313
Scrub	5,948	14,207	803,966	288,990	\$155,291	\$302
Trade for Allowances	12,252	26,658	62,055	(288,030)	\$92,102	\$263
Trade Allowances Out	<u>11,913</u>	<u>18,449</u>	<u>(94,860)</u>	<u>126,447</u>	<u>\$0</u>	<u>\$0</u>
Phase I – Total/Avg.	86,956	194,548	3,651,261	43,531	\$1,145,966	\$307

Notes: Tons SO₂ removed -- negative figure reflects allowances available for trade.

Credits traded -- Total reflects a surplus remaining after trading.

Source: Resource Data International, Inc.