

ER-2001-672

**FILED<sup>3</sup>**

JAN 25 2002

Missouri Public  
Service Commission

**STEPHEN L. FERRY**

**SUPPLEMENTAL REBUTTAL**

**O R I G I N A L**

Exhibit No.:

Issues: Aries Purchase  
Power Contract

Witness: Stephen L. Ferry

Sponsoring Party: Missouri Public  
Service

Case No.: ER-2001-672

Before the Public Service Commission  
of the State of Missouri

Supplemental Rebuttal Testimony

of

Stephen L. Ferry

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SUPPLEMENTAL REBUTTAL TESTIMONY OF STEPHEN L. FERRY  
ON BEHALF OF MISSOURI PUBLIC SERVICE,  
A DIVISION OF UTILICORP UNITED INC.  
CASE NO. ER-2001-672**

1 Q. Please state your name and business address.

2 A. My name is Stephen L. Ferry. My business address is 10750 East 350 Highway, Kansas  
3 City, Missouri.

4 Q. Are you the same Stephen L. Ferry who submitted direct, rebuttal and surrebuttal testimonies  
5 in this case?

6 A. Yes.

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

8 A. The purpose of this testimony is to rebut testimony in this case of Missouri Public  
9 Service Commission Staff ("Staff") witness Mark B. Oligschlaeger on the issue of the  
10 capacity purchase from MEP Pleasant Hill ("MEPPH").

11 Q. Regarding Mr. Oligschleger's supplemental direct testimony in this case on the MEPPH  
12 purchase, what issue are you addressing?

13 A. I am addressing Mr. Oligschlaeger's proposed disallowance of some \$10 million of  
14 properly incurred annual capacity charges from cost of service in this case. At page 15,  
15 line 9 through page 17, line 14 of his supplemental direct testimony, Mr. Oligschlaeger  
16 lays out three alternatives for the Missouri Public Service Commission ("Commission")

1 to follow to disallow properly incurred expenses associated with the MEPPH purchase.

2 Q. Please describe Mr. Oligschlaeger's first alternative.

3 A. This first option is the same as Mr. Oligschlaeger proposed in his direct testimony. I  
4 responded to this in my rebuttal testimony in this case. Essentially, Mr. Oligschlaeger  
5 states that Missouri Public Service ("MPS") is buying 350 MW of average capacity from  
6 the project, and therefore MPS should only receive cost recovery on 350/580 of the  
7 project. This argument ignores the fact that MPS is buying 200 MW for 12 months, and  
8 an additional 300 MW for April through September. Clearly, the 300 MW is intended for  
9 use during the summer, but Mr. Oligschlaeger ignored that fact in his direct testimony.

10 Q. What is Mr. Oligschlaeger's second alternative?

11 A. For the second alternative, Mr. Oligschlaeger postulates that MPS, if it had control of the  
12 entire 580 MW Aries plant output, could have sold 80 MW through the summer months  
13 at the MEPPH contract price for April through September, and 380 MW for the MEPPH  
14 contract price for January through December. This line of reasoning ignores the fact that  
15 MPS does not and never did have control of the Aries project, and therefore does not and  
16 never did have access to the full 580 MW of capacity. Mr. Oligschlager's reasoning also  
17 ignores the fact that the value of capacity in the winter and shoulder months has very little  
18 value and it would be impossible to sell it at the values assumed in Mr. Oligschlaeger's  
19 calculations. Based on my experience in the industry, there is little market demand for

1 off-peak capacity, and its value is nil. Note that MPS, in purchasing 200 MW in the  
2 winter and shoulder months, also receives that 200 MW in the summer months. Had  
3 MPS not received that capacity in the summer, it would never have purchased it for the  
4 winter and shoulder months alone.

5 Q. Couldn't MPS have purchased 500 MW for twelve months of the year?

6 A. Yes. That alternative was available; however, MPS doesn't need 500 MW throughout the  
7 entire year, only during the summer season. Purchasing 500 MW throughout the year  
8 instead of during summer months, as is contracted in the MEPPH purchase, would have  
9 resulted in greater expense than is occurring under the MEPPH purchase.

10 Q. What is Mr. Oligschalger's third alternative?

11 A. The third alternative is similar to the second in that Mr. Oligschlaeger postulates that  
12 MPS, if it had control of the entire Aries project, could have kept 500 MW for itself and  
13 made 80 MW available for off-system sales. Again, MPS has never had control of the  
14 entire project, so this alternative is fiction as is the second alternative.

15 However, it's interesting to note under this option that had MPS acquired the full  
16 580 MW of the project, then Mr. Oligschlaeger, as he stated at page 16, lines 16 – 18,  
17 would have recommended some kind of rate off-set for "the excess capacity and energy."  
18 Based on this statement, I can only assume that had MPS built and rate-based a 580 MW  
19 combined cycle unit, Staff would have recommended a disallowance of 80 MW of the

1 project. And following along the lines of Mr. Oligschlaeger's second alternative, Staff  
2 would have also disallowed 300 MW for the months of October through March. And  
3 following along the lines of Mr. Oligschlaeger's first alternative, Staff would have  
4 disallowed 230/580 of the entire project.

5 Q. You have indicated in your responses that Mr. Oligschlaeger is assuming for two of his  
6 three alternatives that MPS had control of the entire Aries project. If you know, what is  
7 the basis for MPS contending that this is just a purchase power contract for specific  
8 amounts of power at specific times?

9 A. The basis for that assertion is that MPS' right to take power from the Aries project arises  
10 from a contract that gives MPS the right to purchase specific amounts of power at  
11 specific times.

12 Q. Has that contract been provided to the Staff for their review?

13 A. Yes.

14 Q. Are you familiar with that contract, and generally familiar with purchase power  
15 contracts?

16 A. Yes. I have dealt with many of them for several utilities.

17 Q. Do you know the difference between a purchase power contract and the ownership of a  
18 power plant?

1 A. Yes, I do. I have dealt with both in my career. In very simple terms, ownership of a  
2 power plant is like ownership of a house. If you own it, you have the right to do with it  
3 as you please and enjoy it fully for your own purposes. You don't have to let someone  
4 else use it. In contrast, a purchase power contract is more like a rental agreement than  
5 ownership. Under a purchase power contract the person with the contract gets the right to  
6 use a specific amount of power for a specific time period. In this situation, the power that  
7 MPS is receiving under the agreement may not even come from the Aries plant.

8 Q. Would you be in a position to know whether MPS has the right to take more power than  
9 the purchased power contract specifies?

10 A. Yes, I would know that due to my familiarity with the contract.

11 Q. Are you aware of any provision in the contract -- or anywhere else for that matter --  
12 which would provide factual support for Mr. Oligschlaeger's hypothetical alternatives  
13 which assume full ownership of Aries by MPS?

14 A. No. MPS does not own Aries. MPS has a purchased power contract for specific amounts  
15 of power at specific periods. It is difficult for me to understand how someone could even  
16 argue what Mr. Oligschlaeger is arguing when he knows that MPS does not own the  
17 Aries plant. His position makes no more sense than me saying that I own Microsoft  
18 because I bought the right to use a software program it sold called Windows 2000, or that

1 I own a rental car just because I sign a contract to rent it for a week. Mr. Oligschlaeger  
2 has left the "reality" plane with his arguments on this topic.

3 Q. Didn't Mr. Oligschlaeger, in his direct testimony in this case, support MPS' rate-basing  
4 of the entire Aries project?

5 A. Yes. And, based on the reasoning in his supplemental direct testimony, he would have  
6 also supported disallowing a major portion of the plant from rate base. It's clear from  
7 Mr. Oligschlaeger's testimony that Staff's intent is to disallow from rates as much of the  
8 MEPPH purchase as it can.

9 Q. What option should the Commission adopt?

10 A. The Commission should allow the capacity and energy costs of the purchase power  
11 agreement that was entered into by MPS and MEPPH. This contract's prices were  
12 arrived at following this Commission's procedures and are the low cost option for the  
13 customers.

14 Q. How does Staff's proposed expense for the MEPPH contract compare to MPS' historical  
15 expenses for capacity purchase demand charges?

16 A. My attached Schedule SLF-4 summarizes the comparison. On a \$ per MW-year basis,  
17 Staff's proposed expense of \$16,691,379 for the MEPPH purchase is much less than MPS  
18 has paid since the 1997 rate case. On a \$ per MW-year basis, i.e., total annual demand  
19 charges divided by the summer capacity, Staff's proposed expense for the MEPPH



1 purchase is \$33,383/MW-year. This compares to the \$45,750/MW-year allowed by the  
2 Commission in MPS' 1997 rate case. Note that the \$55,533/MW-year that results from  
3 MPS' recommended recovery on the MEPPH contract is less than the values that were  
4 actually incurred by MPS in 2000 and 2001.

5 Q. Mr. Ferry, what do conclude from this analysis?

6 A. The analysis shows that MPS' recommended cost recovery for the MEPPH contract is  
7 very reasonable when compared to past historical data. It also shows that Staff's  
8 proposed cost recovery for the MEPPH contract is unreasonably low, even when  
9 compared to the levels of expense allowed by the Commission in MPS' 1997 rate case.

10 Q. Does this conclude your supplemental rebuttal testimony at this time?

11 A. Yes.

## MPS Capacity Purchase Demand Charges

	Annual Demand Charges + <u>Firm Trans</u>	Summer Capacity <u>MW</u>	Equivalent Cost <u>\$/MW-year</u>
MEPPH Contract	\$27,766,260	500	\$55,533
Staff Recommendation; i.e.; 350/580 x (Actual - \$106,260)	\$16,691,379	500	\$33,383
Year 2001	\$18,670,572	336	\$55,567
Year 2000	\$19,481,336	346	\$56,304
97 Rate Case	\$13,496,300	295	\$45,750

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

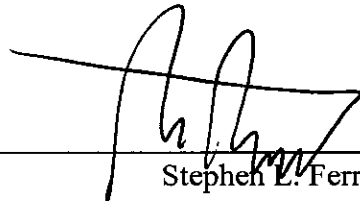
In the matter of Missouri Public Service     )  
of Kansas City, Missouri, for authority     )  
to file tariffs increasing electric rates     )  
for service provided to customers in the     )  
Missouri Public Service area                     )

Case No. ER-2001-672

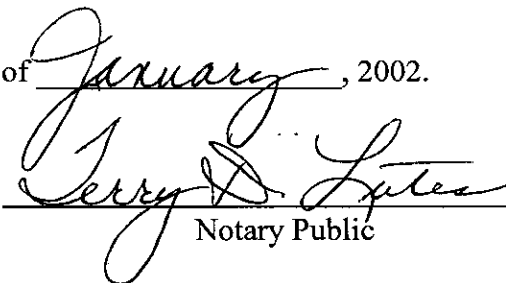
County of Jackson     )  
                                   )     ss  
State of Missouri     )

**AFFIDAVIT OF STEPHEN L. FERRY**

Stephen L. Ferry, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Supplemental Rebuttal Testimony of Stephen L. Ferry;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
Stephen L. Ferry

Subscribed and sworn to before me this 23rd day of January, 2002.

  
\_\_\_\_\_  
Notary Public

My Commission expires:

8-20-2004

