

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

In the Matter of the Seventh Prudence Review            )  
of Costs Subject to the Commission-Approved        )       **File No. EO-2017-0232**  
Fuel Adjustment Clause of KCP&L Greater            )  
Missouri Operations Company.                            )

**RESPONSE TO STAFF’S PRUDENCE REVIEW REPORT  
AND RESULTS OF OPC’S LIMITED FUEL AND PURCHASED  
POWER ADJUSTMENT CLAUSE PRUDENCE REVIEW**

COMES NOW the Office of the Public Counsel (“OPC” or “Public Counsel”) and offers the following *Response to Staff’s Prudence Review Report and Results of OPC’s Limited Fuel and Purchased Power Adjustment Clause Prudence Review*:

1. Section 386.266.4(4) RSMo requires a prudence review be conducted at least every 18 months for utilities for which the Commission approves a Fuel and Purchased Power Adjustment Clause (“FAC”). On March 8, 2017, the Commission’s Staff (“Staff”) filed *Staff’s Notice of Start of Seventh Prudence Audit* informing the Commission that it had begun its review of the costs subject to GMO’s FAC.
2. On March 10, the Commission issued its *Order Directing Notice, Adding Parties, and Setting Procedural Dates* (“Order”). The Order required that Staff’s report be filed no later than August 28, 2017. On or about the same time, Public Counsel began its own limited prudence review of GMO’s FAC.
3. On August 28, the Staff filed its Prudence Review Report. Public Counsel now files the attached memorandum detailing its response to Staff’s Prudence Review Report and results of its limited FAC prudence review.
4. Public Counsel’s limited review shows GMO’s reliance on the Southwest Power Pool (“SPP”) Integrated Market (“IM”) in order to meet the energy needs of its native load during the

review period. This information is important for the Commission to consider because it may indicate that GMO has not maintained cost-effective resources to meet its customers' energy needs without relying on the SPP IM. The company's plans to retire additional units could further impact GMO's capability to serve its native load with its own cost-effective resources.

5. Public Counsel brings this concern to the Commission's attention and notes that it intends to ask the Commission to order GMO to analyze the issue in the special contemporary issues docket, File No. EO-2018-0045. Furthermore, within the present docket, Public Counsel asks the Commission to leave the file open so that it may provide an additional memorandum examining GMO's level of reliance on the SPP IM since March 2014 (the beginning of the SPP IM). The attached memorandum explains OPC's efforts to obtain the SPP IM purchased power costs and off-system sales revenue from GMO. Once GMO provides the response to the pending data request, OPC will analyze the information and provide that analysis to Commission in this docket.

WHEREFORE Public Counsel submits its *Response to Staff's Prudence Review Report and Results of OPC's Limited Fuel and Purchased Power Adjustment Clause Prudence Review* included in the attached *Memorandum* and asks the Commission permit OPC to file an additional memorandum once it receives a response to pending discovery.

Respectfully,

OFFICE OF THE PUBLIC COUNSEL

**/s/ Tim Opitz**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, emailed or hand-delivered to all counsel of record this 7<sup>th</sup> day of September 2017:

***/s/ Tim Opitz***

## MEMORANDUM

To: Missouri Public Service Commission Official Case File,  
Case No. EO-2017-0232

From: Lena M. Mantle, P.E., Senior Analyst  
Office of the Public Counsel

Subject: Response to Staff's prudence review Report and results of OPC's limited Fuel and  
Purchased Power Adjustment Clause Prudence review

Date: September 7, 2017

### **Overview:**

OPC, through this memorandum seeks to inform the Commission of KCP&L – Greater Missouri Operations Company's ("GMO" or "company") level of reliance on the SPP market to meet its customer's energy needs. During periods of steady market prices, as seen in the prudence review period, customers may not be harmed financially. However, through the operation of its fuel and purchased power adjustment clause ("FAC"), GMO transfers price and volatility risk to the customers. OPC is concerned about the company's capability to serve its native load with cost-effective resources. The company management's plan to retire additional generating units exacerbates the concern. Because the company has a responsibility to meet its customer's energy requirements, this issue merits close scrutiny.

Section 386.266.4(4) RSMo requires a prudence review be conducted at least every 18 months for utilities for which the Commission approves an FAC. Staff filed a notice that it had started its seventh prudence review on March 1, 2017 opening case EO-2017-0232. Staff filed its report stating it found no evidence of imprudence for the items it examined for the prudence review period of June 1, 2015 through November 30, 2016.<sup>1</sup>

Soon after Staff filed that it had initiated its prudence review, OPC began sending data requests to GMO requesting information in regarding the cost of energy purchased from the Southwest Power Pool ("SPP") integrated market ("IM") to meet GMO's load requirements and off-system sale revenues ("OSSR") from energy sold on the SPP IM by GMO.

One of the components of FAC, as allowed by section 386.266.1 RSMo, is purchased power costs. It is important to look at the costs and amounts of energy purchased on the SPP IM separate from other purchased power costs. An increased reliance on market purchases of energy indicates that the utility has shifted its responsibility of cost-effectively providing energy

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<sup>1</sup> *Staff Report*, page 2, lines 17 – 18

to its customers to the SPP IM. When the utility has an FAC, this shift in responsibility is accompanied by a shift in cost risk to the customers.

Staff's report shows that it reviewed "Non-Firm Short Term Energy" costs and "Off-System Sales Revenue." Staff did not provide the results of a review of the amount and cost of the energy GMO purchased on the SPP IM or the amount of GMO's off-system sales revenue to the SPP IM in its report. OPC in this memorandum presents the difficulties obtaining this information from GMO and the results of its analysis of the limited data it has been able to review.

In summary, OPC's review shows that GMO's cost of purchased power for energy from the SPP IM is greater than its coal and natural gas costs combined. The cost of energy purchased from the SPP IM, as calculated by OPC, is \*\* \*\* of the total FAC costs and revenues over the prudence review period. Correspondingly, GMO met \*\* \*\* of its energy requirements with energy from the SPP IM during the prudence review period.

OPC's analysis shows GMO has not maintained cost effective resources sufficient to meet its native load energy requirements; instead it relied on the SPP IM to meet its customers' energy needs during the prudence review period. Doing so subjected GMO's customers to SPP IM price volatility. Because of low market prices during the review period, customers were not harmed during the review period. However, because GMO has not secured cost effective long-term resources to meet its native load energy requirements, and has announced its intention to retire some of its base load generation, its reliance on the SPP IM for energy places risk on GMO's customers.

### **OPC's Recommendations**

First, OPC points out its concerns about GMO's reliance on the SPP IM to serve its native load. The Commission should consider the policy and risk implications of the company's ongoing decision to rely on the market. In order to raise awareness and aid the Commission in its consideration of the issue and given GMO's announcement that it plans to retire Sibley 3 in 2019, OPC intends to ask the Commission to order GMO to analyze how its dependence on the SPP IM and changes in SPP market prices could impact its customers' rates . OPC will file its comments and request for this additional analysis in the Commission's special contemporary issues docket for GMO, File No. EO-2018-0045.

Second, in order provide the Commission the information necessary to aid it in discerning the trend, if any, in GMO's reliance on the SPP IM to serve its customers' energy needs, OPC recommends the Commission leave this case open until GMO has provided the data requested by OPC as will be explained in detail below. Once this information has been provided, OPC will provide a memorandum to the Commission regarding its findings to the Commission in this case.

### **Summary of GMO's Power Purchased from the SPP IM**

The following table provides information regarding the costs and mega-watt hours ("MWh") of energy GMO purchased on the SPP IM.

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The following graph shows the cost to GMO of energy it purchased on the SPP IM to meet its customer's load requirements.

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This graph shows how the monthly cost of energy purchased from the SPP IM has increased through the prudence review period. In addition to the increase in SPP IM purchased power energy cost, the percentage of net system input that GMO is purchasing on the SPP IM is increasing as shown in the graph below.

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As this graph shows, GMO has relied on the SPP IM to provide, in \*\* \*\* of the last 12 months of the prudence review period, over \*\* \*\* of its energy requirements from the SPP IM. In November 2016, the last month of the prudence review period, GMO met \*\* \*\* of its customers' energy requirements with power purchased from the SPP IM.

Fortunately for GMO's customers the SPP market prices were low over this time period. However, GMO's increased reliance on the SPP market for energy is exposing its customers to market volatility risk. Absent an FAC, GMO would balance the risk of high market prices with the cost of adding resources. With an FAC and SPP IM, there is little to no financial risk to GMO. The customers are assuming the risk and are subject to market variability.

### **Public Counsel's Attempts to Obtain SPP IM Purchased Power Costs and Off-System Sales Revenues Data**

FERC Order 668 requires electric utilities that are members of a regional transmission organization ("RTO"), to net their RTO market transactions and record these netted transactions as purchased power costs or off-system sales revenues in the corresponding FERC account. FERC, in its Order 668 states that "this is appropriate as purchase and sale transactions taking place in the same reporting period to serve native load are done in contemplation of each other and should be combined. Netting accurately reflects what participants would be recording on their books and records in the absence of the use of an RTO market to serve their load."<sup>2</sup> It is this netting of the SPP IM that OPC has requested from GMO. This data is necessary to show the Commission the level to which GMO relies on the SPP IM, including any trends, to serve its customers.

OPC first asked for monthly data on the energy purchased from and sold to the SPP IM on March 30, 2017. Responses to those initial data requests 8000 and 8001 were supplied on April 19, 2017. Although the data requested was for monthly data, the responses were provided on an hourly basis. Two Excel spreadsheets were provided for 2014, 2015, and 2016 with each spreadsheet containing a sheet for each month. Three of the Excel spreadsheets included over 20,000 rows of data for each month. The data requested was not specified or identified in these spreadsheets. GMO did not provide an explanation of how to calculate the monthly data requested from these spreadsheets. Follow-up data requests to obtain the information were sent on April 25, 2017. GMO responded to these request on May 3, 2017. These responses were monthly aggregation of the information previously provided. However, the information requested still was not identified in GMO's response to these follow-up data requests.

In an attempt to understand these data request responses, OPC met with the company at GMO's offices on July 17, 2017. Through this discussion both parties realized the information requested was **not included** in the responses already supplied. As a take away from this meeting, GMO agreed to begin looking at how to get OPC the data it requested and work with OPC to get it the

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<sup>2</sup> FERC Docket No. RM04-12-000, Order 668, par. 80.

information it was asking for. OPC communicated further with GMO representatives on August 14, 2017. After a series of phone calls and emails, GMO provided, as attachments to an email on August 23, 2017, additional data to review to determine if this data was responsive to OPC's request. After additional phone calls with GMO, it was determined, on August 28, 2017, the day Staff filed its prudence review report, that OPC could calculate the information it was requesting from the files provided. However, it was left for OPC to calculate the information it requested.

Once it was determined that the information existed to calculate SPP IM purchased power and sales, GMO requested that OPC once again submit a data request to get the information. On August 28, 2017, OPC submitted a data request using wording suggested by GMO that did not include any mention of purchased power or off-system sales.

Despite GMO knowing what OPC is requesting and the information necessary to answer this data request, GMO's response is still pending. Importantly, the data used for this memorandum is from the files attached to the email sent to OPC on August 23, 2017. These files only contained information for the prudence review period. To gain a perspective on how GMO's practices have changed, OPC has consistently asked for the data from the time the SPP IM started in March 2014 through December 2016.

When GMO provides the data requested in the latest data requests, OPC will analyze it and provide the results of its analysis to the Commission in this docket.

