

**Exhibit No.:**

**Issue(s):**

**Witness/Type of Exhibit:**

**Sponsoring Party:**

**Case No.:**

\_\_\_\_\_ Fuel Adjustment Clause

Mantle/Rebuttal

Public Counsel

ER-2016-0285

**REBUTTAL TESTIMONY**

**OF**

**LENA M. MANTLE**

Submitted on Behalf of the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

CASE NO. ER-2016-0285

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

December 30, 2016

**NP**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & )  
Light Company's Request for Authority to )  
Implement A General Rate Increase for )  
Electric Service )

Case No. ER-2016-0285

AFFIDAVIT OF LENA 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*  
Lena M. Mantle  
Senior Analyst

Subscribed and sworn to me this 30<sup>th</sup> day of December 2016.



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

*Jerene A. Buckman*  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2017.

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**REBUTTAL TESTIMONY**

**OF**

**LENA M. MANTLE**

**KANSAS CITY POWER & LIGHT COMPANY**

**FILE NO. ER-2016-0285**

**INTRODUCTION**

1  
2 **Q. Please state your name and business address.**

3 A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson  
4 City, Missouri 65102.

5 **Q. Are you the same Lena M. Mantle that provided direct testimony in this**  
6 **case?**

7 A. Yes.  
8

9 **PURPOSE**

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

11 A. In this rebuttal testimony, I respond to the direct testimony filed by Kansas City  
12 Power & Light Company ("KCPL") regarding its proposed fuel adjustment clause  
13 ("FAC"). In addition, I point out the lack of specificity of the Public Service  
14 Commission Staff's ("Staff") recommendation to the Commission regarding an  
15 FAC for KCPL, respond to Staff's statements regarding volatility and

1           controllability of KCPL’s fuel costs, and recommend modifications to Staff’s  
2           additional FAC reporting requirements.

3   **Q.   Would you provide a summary of the FAC OPC is recommending for KCPL**  
4       **in this case?**

5   A.   Yes.  As described in my direct testimony, the FAC recommended by OPC limits  
6       the costs and revenues included in KCPL’s FAC to direct fuel and purchased  
7       power costs, including transportation and off-system sales revenues.  It would  
8       minimize the complexity of KCPL’s FAC while providing KCPL with a reduction  
9       in risk regarding recovery of its fuel and purchased power expenses.  It also  
10      maintains consistency with state law granting the Commission authority to allow  
11      KCPL an FAC.  It limits the costs and revenues included in the FAC and increases  
12      transparency.  Further by removing non-fuel and purchased power costs, it  
13      eliminates the disincentive for KCPL to implement more efficiencies in these cost  
14      areas.  It reduces the likelihood of errors and increases the ability to conduct a  
15      comprehensive prudence review.  Lastly, it offers a more meaningful incentive for  
16      KCPL to manage, to the extent it is able, the fuel and purchased power costs and  
17      off-system sales revenues through recovery of all the fuel costs included in base  
18      rates and 90% of the FAC cost above what is included in base rates.  Likewise, it  
19      would return 90% of all cost savings to the customers.

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**RESPONSE TO KCPL REGARDING ITS FAC**

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**Q. Would you summarize KCPL’s request with respect to its FAC?**

A. KCPL is proposing to modify its FAC by adding numerous costs and one revenue to its current FAC. Some of the costs KCPL is requesting be added to its FAC are costs the Commission ordered to not be included in KCPL’s FAC when it requested the establishment of an FAC in its last rate case, ER-2014-0370. Others are costs that KCPL did not request to be included in its last rate case. In addition, KCPL is requesting transmission revenues it receives through SPP be included in its FAC. This request too was denied by the Commission in its Report and Order in the last case.

**Q. At one of the local public hearings held for this case in Kansas City, a KCPL customer, Joseph Jackson, asked why KCPL’s FAC is increasing if fuel costs were decreasing. Can you provide a response to this customer’s question?**

A. It is true - fuel costs have decreased since the Commission approved an FAC for KCPL. Even so, KCPL’s FAC rates have increased due to increases in the numerous non-fuel and purchased power costs that are included in its FAC and decreases in KCPL’s off-system sales revenues.

**Q. Would KCPL’s proposed FAC in this case continue this effect?**

A. Yes. It is likely to exacerbate the disconnect between fuel costs and the FAC rate KCPL’s customers are billed. In this case, KCPL proposes to use the FAC as a

1 tool to recover as many costs as possible between rate cases – with some of these  
2 costs only tenuously tied to fuel and purchased power. Under KCPL’s proposal,  
3 its FAC rate would be even less related to the cost of fuel than it is now.

4 **Q. In his direct testimony, KCPL witness Tim M. Rush provides a list of costs**  
5 **and revenues KCPL is proposing to include in its FAC. What costs are only**  
6 **tenuously tied to fuel and purchased power?**

7 A. As I described in my direct testimony, most of the Southwest Power Pool (“SPP”)  
8 costs are not fuel costs, are not purchased power costs and are not costs directly  
9 linked to the transmission of true purchased power or off-system sales.

10 In addition to the non-fuel and non-purchased power SPP costs, KCPL is  
11 requesting the inclusion in its FAC numerous costs it describes as contractor and  
12 miscellaneous expenses and non-internal labor costs associated with fuel  
13 handling.<sup>1</sup> However, Mr. Rush did not fully explain in his testimony all the types  
14 of costs the Commission would be allowing to be included in its FAC if it agrees  
15 to KCPL’s FAC proposal. Changes in the cost of bargaining unit meals, cell  
16 phones, security services, employee amenities, office expenses and legal fees,  
17 among other non-fuel costs would flow through the FAC.<sup>2</sup> These costs are  
18 included in the accounts that Mr. Rush listed on page 7 of his direct testimony as

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<sup>1</sup> Direct testimony of Tim M. Rush, Schedule TMR-1, page 4 of 9

<sup>2</sup> A more complete list can be found on Schedule LM-D-2 of my direct testimony in this case

1 “non-internal labor fuel handling costs” yet not included in his explanation of  
2 costs KCPL was asking to include in its FAC.

3 **Q. Did Mr. Rush explain why KCPL is requesting these costs be included in its**  
4 **FAC?**

5 A. Yes. On page 8 of his testimony he gives two reasons why costs that he labels  
6 “non-internal labor fuel handling costs” should be included in KCPL’s FAC: 1)  
7 the purpose of the expense is to guide KCPL in its pursuit of better contract terms  
8 or lower cost of fuel and fuel transportation, and 2) the costs are related to the  
9 volume of fuel KCPL buys.

10 **Q. Did OPC ask for further clarification for why KCPL was requesting these**  
11 **costs be included?**

12 A. Yes. OPC met with Mr. Rush, Wm. Edward Blunk and other KCPL employees  
13 on November 17, 2016 to discuss KCPL’s proposed FAC. Following this meeting  
14 OPC sent data request 8015 to clarify the discussion regarding KCPL’s rationale  
15 for including these costs. KCPL’s response, provided by Mr. Blunk, to this data  
16 request is attached as Schedule LM-R-1 to this testimony.

17 **Q. Would you summarize KCPL’s response to this data request?**

18 A. Yes. Mr. Blunk basically had three different reasons KCPL believes these non-  
19 fuel and purchased power costs should be included in its FAC. First of all, Mr.



1 Blunk’s response reiterates Mr. Rush’s rationale of some of the costs being  
2 dependent upon the volume of fuel purchased.

3 **Q. Should costs that are dependent upon the volume of fuel purchased be**  
4 **included in KCPL’s FAC?**

5 A. Not unless the cost is for the fuel commodity or the transportation of that  
6 commodity to KCPL’s generation plants. The cost of an item or service being  
7 dependent upon a volume of fuel purchased does not make the item purchased or  
8 service provided fuel. It is just a result of the activity or a method for pricing out  
9 the cost. Section 386.266 RSMo provides for Commission approval of a  
10 mechanism, in this case an FAC, allowing electric utilities to recover the cost of  
11 *fuel and purchased power, including transportation*, between rate cases. The  
12 statute does not say anything about costs that are priced based on a volume of fuel  
13 purchased. Allowing costs merely because they are based upon a volume of fuel  
14 purchased provides an incentive for electric utilities to reclassify costs in a manner  
15 that shows the cost is “dependent” upon volume of fuel purchased simply in order  
16 to recover changes to the costs in its FAC.

17 **Q. Did the response to OPC’s data request also include Mr. Rush’s rationale**  
18 **that some of the costs were incurred to achieve benefits or cost savings of**  
19 **fuel?**

20 A. Yes.

1 **Q. Should the Commission include costs because they are incurred to achieve**  
2 **benefits or cost savings of fuel in KCPL's FAC?**

3 A. No, it should not. These are not fuel costs. They are continuous procurement and  
4 fuel handling activities that KCPL should be expected to do. These are actions  
5 that KCPL should take to mitigate fuel handling costs. To not continue these  
6 practices, whether the costs are included in the FAC or outside of the FAC, would  
7 be imprudent.

8 **Q. What is the third rationale provided by Mr. Blunk in this data request**  
9 **response?**

10 A. The most troubling rationale provided by KCPL in this data response was not  
11 provided in KCPL's direct filing. KCPL implies in its response that by allowing  
12 these costs in its FAC, the Commission would be providing an incentive for  
13 KCPL to improve the efficiency and cost-effectiveness of its procurement  
14 activities.

15 **Q. Does OPC agree with this viewpoint?**

16 A. No, it does not. Recovering changes in costs through the FAC does not  
17 incentivize a utility to reduce those costs. If anything, it removes the utilities'  
18 incentive to cap expenditures of these activities. It does however, create a  
19 disincentive to continuously strive for better practices as described in my direct  
20 testimony.

1           It also further complicates prudence reviews that are already difficult to  
2           conduct. If airline baggage fees are included in the FAC as KCPL requests, how  
3           can an auditor prove too many bags were taken on a trip recorded in this account?  
4           Should prudence audit time be spent on whether or not office equipment was  
5           needed or cell phone charges were necessary? These are the types of questions a  
6           thorough prudence audit of an FAC containing these types of costs would require  
7           answers. By including these costs in KCPL's FAC, the Commission would be  
8           unnecessarily complicating prudence audits and, due to these difficulties, may  
9           result in giving KCPL a blank check for these expenses.

10 **Q. Mr. Blunk also states in this data request response it is KCPL's "view that**  
11 **when activities are excluded from the FAC, the Commission has taken a**  
12 **policy position that expenditures for the excluded activities are to be**  
13 **minimized, are not justified, or are not to be employed." Should not**  
14 **including a cost in the FAC be taken as a Commission policy position that**  
15 **efficiency or cost-effectiveness measures are to be minimized, not justified or**  
16 **should not be employed?**

17 **A.** Absolutely not. To my knowledge, the Commission has never stated or implied  
18 this was its view or its intention. Not including a cost in KCPL's FAC simply  
19 means the cost does not fall into the costs as defined by Section 386.266 RSMo.  
20 The statute is narrow in the costs that it states can be include in an FAC.

1 **Q. If the Commission does not include costs in its FAC, would it result in KCPL**  
2 **not recovering these costs?**

3 A. No, it would not. Exclusion from the FAC does not mean that KCPL will not  
4 recover these costs. As long as these costs are included in the determination of  
5 revenue requirement for KCPL and it is earning a positive return, KCPL would be  
6 recovering these costs.

7 Only if the Commission determined that these costs should not be included  
8 in KCPL's revenue requirement would KCPL's viewpoint that the Commission  
9 was taking the policy position that the excluded activities should be minimized or  
10 not be employed be justified. However, the inclusion or exclusion of a cost in the  
11 FAC should not be viewed as a policy position regarding the activity the cost is  
12 tied to.

13 **Q. Is OPC recommending these costs be removed from KCPL's revenue**  
14 **requirement?**

15 A. No, it is not.

16 **Q. Are you aware of any party that is recommending these costs be removed**  
17 **from KCPL's revenue requirement?**

18 A. No, I am not.

1 **Q. What is the policy position the Commission would be taking if it includes this**  
2 **costs in KCPL’s revenue requirement but not KCPL’s FAC?**

3 A. The Commission would be taking the policy position that it expects KCPL to  
4 continue to forecast, conduct market analyses, develop strategies and negotiate  
5 contract and issue expenses as a component of its fuel handling in its pursuit of  
6 better contract terms or lower cost of fuel and fuel transportation. To not continue  
7 these activities would be imprudent.

8 Also, by including the costs of these activities in revenue requirement but  
9 not the FAC would be implying any cost efficiencies in these activities with the  
10 same or better results should be retained by KCPL.

11 **Q. Back to the question from the customer at the public hearing. What is**  
12 **KCPL’s testimony regarding its fuel cost?**

13 A. In direct testimony filed by KCPL witnesses, KCPL states that fuel costs are  
14 increasing. On page 10 of his direct testimony, Darren Ives states fuel and  
15 purchased power have increased over those amounts included in KCPL’s last rate  
16 case. Mr. Rush states that the FAC base rate proposed for this case has increased  
17 from the current \$0.01186 per kilo-watt hour (“kWh”) to \$0.01987 per kWh – a  
18 67% increase.<sup>3</sup>

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<sup>3</sup> Schedule TMR-1, page 2 of 9

1 **Q. Do KCPL's workpapers show that fuel costs have increased since the last**  
2 **case?**

3 A. No. KCPL's workpapers show fuel costs have decreased since the last case. A  
4 comparison of KCPL's proposed base to the current base shows KCPL estimates  
5 coal generation costs to have decreased by \$70 million, nuclear costs by \$0.4  
6 million and natural gas costs by \$5.8 million.

7 **Q. If KCPL is showing fuel costs are decreasing, what accounts for its estimate**  
8 **of a large increase in its FAC base rate?**

9 A. The increase is largely due to additional types of costs KCPL is requesting be  
10 included in its FAC. In particular, KCPL is adding over \$77 million to its base in  
11 SPP and regulatory costs and revenues the Commission explicitly rejected in  
12 KCPL's request for the establishment of an FAC in its last case.<sup>4</sup> The fuel  
13 handling and procurement costs described above add another \$4.5 million.

14 **Q. Does KCPL's FAC base calculation show an increase or decrease in**  
15 **purchased power costs to meet native load?**

16 A. There is no way to determine if there is a decrease or an increase in purchased  
17 power costs from the FAC base calculation provided in KCPL's direct case.

18 **Q. What does a comparison show?**

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<sup>4</sup> ER-2014-0370, *Report and Order*, pages 35 and 36

1 A. A side-by-side comparison of KCPL's proposed FAC base and its current FAC  
2 base show the net of off-system sales revenues and purchased power costs have  
3 decreased by \$130 million between when the last case and KCPL's filing of this  
4 case. The FAC base set in KCPL's last rate case showed the net of off-system  
5 sales revenues over purchased power costs of \$153 million. In the FAC base  
6 proposed by KCPL in this case, that margin is only \$23 million. The big change  
7 in the net of off-system sales revenues and purchased power may be due to less  
8 off-system sales revenue, increased purchased power costs, or most likely, a  
9 combination of both.

10 KCPL, in its FAC base calculation in this case did not report purchased  
11 power as the power purchased above its generation to meet its native load as  
12 defined by the Commission in its *Report and Order* in KCPL's last case that  
13 established KCPL's FAC<sup>5</sup> and is required by FERC Order 668. KCPL reported a  
14 normalized total payment to SPP as purchased power. The base calculation for  
15 the current FAC shows purchased power as defined by the Commission – the  
16 power purchased above its generation to meet its native load. Therefore, a  
17 comparison of the two estimates is like comparing apples to pineapples.

18 Likewise, KCPL did not include in its FAC base calculation an off-system  
19 sales amount consistent with the Commission's Report and Order in ER-2014-  
20 0370 and FERC Order 668 as the generation above what is needed above native

1 load. Instead, in the base factor estimate for this case, KCPL reported the  
2 normalized annual revenue for total generation as off-system sales not the revenue  
3 for generation above what was necessary for native load.

4 OPC witness John Riley, in his rebuttal testimony, discusses FERC Order  
5 668 and why it is important for KCPL to follow this order in reporting purchased  
6 power and off-system sales in rate cases and FAC filings and report submissions.

7 To aid the Commission and the parties in review of future FAC filings and  
8 report submissions, OPC recommends the Commission order KCPL to provide in  
9 all its FAC filings and report submissions, purchased power costs and off-system  
10 sales revenues in compliance with the Commission's definition of true purchased  
11 power and off-system sales and FERC order 668.

12 **Q. Did KCPL meet the FAC minimum filing requirements as Mr. Rush states in**  
13 **his direct testimony?**<sup>6</sup>

14 A. No, it did not.

15 **Q. Which filing requirements did it not meet?**

16 A. There are at least four FAC minimum filing requirements KCPL did not meet:<sup>7</sup>

17 1) Complete explanations of all the costs KCPL is requesting be included in  
18 its FAC (4 CSR 240-3.161(3)(H));

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<sup>5</sup> ER-2014-0370, *Report and Order*, page 35.

<sup>6</sup> Page 6 line 7

<sup>7</sup> Silence regarding an FAC minimum filing requirement does not signify KCPL met that filing requirement.



- 1           2)     Complete explanations of all the revenues KCPL is requesting be included  
2           in its FAC (4 CSR 240-3.161(3)(I));
- 3           3)     Complete explanation of any rate volatility mitigation features in the  
4           proposed FAC (4 CSR 240-3.161(3)(K)); and
- 5           4)     Heat rate testing (4 CSR 240-3.161(3)(Q)).

6           OPC witness John Robinett has provided rebuttal testimony in this case regarding  
7           KCPL's failure to meet the heat rate testing minimum filing requirement (4 CSR  
8           240-3.161(3)(Q)) at the time KCPL filed this case and the importance of the FAC  
9           heat rate testing minimum filing requirement.

10   **Q.     Would you please explain how KCPL did not meet the other minimum filing**  
11   **requirements?**

12   A.     Complete explanations of the costs and revenues the electric utility is proposing to  
13   include in its FAC are required by 4 CSR 240-3.161(H) and (I). While Mr. Rush  
14   did provide some information regarding the costs and revenues KCPL is  
15   proposing to include in its FAC, Schedule LM-D-2 through LM-D-4 to my direct  
16   testimony provided additional, important details not provided by KCPL. However  
17   even the information provided in these schedules is limited to the description of  
18   the resource codes created and used by KCPL for recording costs in FERC  
19   accounts. Even given the additional information from the description of resource  
20   codes, these descriptions may not give complete explanations of what is recorded

1 in the FERC account. For example, one KCPL is requesting in its FAC includes a  
2 resource code for employee amenities but KCPL does not define exactly what  
3 employee amenities are. Furthermore, there are some FERC accounts for which  
4 KPCL has not created resource codes to give additional information regarding  
5 what is recorded in the account.

6 **Q. Why is it important to have a complete explanation of the costs and**  
7 **revenues?**

8 A. The Commission addressed the need for complete explanations in its Order of  
9 Rulemaking for 4 CSR 240-3.161 when it stated:

10 By using “complete” the commission means that which includes  
11 every explanation and detail to allow a decision-maker to evaluate  
12 the response fully and on its face, without forcing it to resort to  
13 asking for additional explanations, clarification or documentation  
14 to reach a decision. “Complete” means “not lacking in any  
15 respect,” which is a reasonable standard for filings. Moreover, the  
16 purpose of the rule is to alert requesting parties of the  
17 documentation and information necessary for the staff to review  
18 and for the commission to approve a [FAC] within the allotted  
19 time for a general rate case. If incomplete information is provided  
20 the entities reviewing the documentation would be required to  
21 request further detail in order to evaluate the proposed [FAC].  
22 (emphasis added.)  
23

24 The Commission determines what is included in an FAC not the utility.<sup>8</sup> Staff  
25 and other parties may make recommendations to the Commission in the rate case  
26 regarding what costs and revenues should be included in an FAC. If the utility

1 gives an unclear explanation of the costs and revenues to be included, the parties  
2 have inadequate information on which to make their recommendations and the  
3 Commission makes decisions with incomplete information.

4 For example, if the only explanation given regarding costs in FERC  
5 accounts 501000 through 501010 was the information provided in KCPL's direct  
6 testimony, parties may recommend, and the Commission may approve the FAC as  
7 proposed by KCPL in this case without realizing it was approving an FAC that  
8 would include parking fees, subscription costs, professional dues, and security  
9 services among other costs.

10 Transparency in what costs and revenues are included in an FAC is also  
11 important for quality prudence audits. Without the transparency of exactly what is  
12 included in the FAC, prudence audits are rendered ineffective. Only very extreme  
13 examples of imprudence can be proved.

14 **Q. That leaves, from your list above, a complete explanation of any rate**  
15 **volatility mitigation features in the proposed FAC (4 CSR 240-3.161(3)(K)) as**  
16 **incomplete. Would you please explain how KCPL did not meet this**  
17 **requirement?**

18 **A.** To meet this filing requirement Mr. Rush only provided two rate volatility  
19 mitigation features: 1) KCPL's hedging program, and 2) accumulation periods are

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<sup>8</sup> ER-2014-0370, *Report and Order*, page 39.

1 six months and recovery periods are twelve months.<sup>9</sup> Since KCPL filed this case,

2 \*\*

3  
4  
5 \*\* However, KCPL does have  
6 additional methods that it uses to mitigate the volatility of fuel prices. As  
7 explained by KCPL witness Blunk, KCPL manages the coal price risk through a  
8 laddered portfolio of forward contracts.<sup>10</sup> Mr. Blunk also testifies KCPL  
9 mitigates price risk for uranium through contracts.<sup>11</sup>

10 **Q. Are there other ways KCPL mitigates fuel and purchased power risks?**

11 A. Yes. Its membership in SPP provides KCPL with a continual source of energy  
12 and buyer of energy. This reduces the risk of energy availability and provides a  
13 real-time purchaser for excess energy. There are likely other ways that KCPL  
14 works to mitigate the cost and volatility of fuel and purchased power.

15 KCPL's short list of the ways it works to mitigate rate volatility is  
16 obviously lacking in detail.

17 **Q. Why is it important for KPCL to provide a complete explanation of the ways**  
18 **it is mitigating FAC rate volatility?**

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<sup>9</sup> Direct testimony, Schedule TMR-1, page 7 of 9

<sup>10</sup> Direct testimony, page 24

<sup>11</sup> Direct testimony, page 32

1 A. While KCPL does not have complete control over its fuel costs, it does have ways  
2 that it can and does mitigate the volatility of fuel costs and costs to its customers.  
3 Without an FAC, KCPL has a great incentive to take every action available to it to  
4 mitigate the volatility of fuel costs and fuel cost risks. Without an FAC, KCPL  
5 assumes all the risk of changing fuel costs. Whatever it can do to remove  
6 volatility or reduce costs, impacts its earnings.

7 With an FAC, that incentive mostly disappears. Customers take on the  
8 risk of changing fuel costs and customers receive most of the benefits of reduced  
9 fuel costs. A complete explanation of the actions KCPL is taking to mitigate fuel  
10 costs, and therefore FAC rates, provides information to the Commission and  
11 parties to the case regarding whether or not additional incentives (perhaps a larger  
12 sharing percentage) should be provided to incent KCPL to take action to reduce  
13 this risk to the customers. If KCPL intends to do nothing available to it, as it  
14 implies with its response to this filing requirement, to reduce cost volatility, which  
15 would move additional risk to the customers, then perhaps the Commission would  
16 not permit KCPL to implement an FAC.

17 **Q. Lastly, what is OPC's recommendation to the Commission regarding the**  
18 **inclusion of transmission revenues in KCPL's FAC?**

19 A. It is OPC's recommendation that SPP transmission revenues be excluded from  
20 KCPL's FAC because it is neither a fuel and purchased power cost, including

1 transportation, nor an off-system sales revenue. It is KCPL's position that since it  
2 is requesting all SPP cost to be included in its FAC, then all revenues should also  
3 be included. OPC agrees with KCPL that, to the extent the Commission includes  
4 SPP costs that are not directly tied to the transmission of true purchased power or  
5 off-system sales, the Commission should also include SPP revenues.

6  
7 **REBUTTAL TO STAFF**

8 **Q. Would you summarize Staff's recommendation to the Commission regarding**  
9 **continuation of KCPL's FAC?**

10 A. Staff recommends continuation of KCPL's FAC with a few modifications.

11 **Q. What aspects of Staff's recommendations regarding the FAC for KCPL are**  
12 **you providing rebuttal testimony?**

13 A. There are three points this testimony responds to: 1) the vagueness of Staff's  
14 recommendation the Commission continue KCPL's FAC with modifications,<sup>12</sup> 2)  
15 Staff's assertion that two data points show volatility and lack of control of fuel  
16 costs,<sup>13</sup> and 3) a recommendation to change Staff's additional reporting  
17 requirements to include OPC.<sup>14</sup>

18 **Q. What is your concern regarding Staff's recommendation to the Commission**  
19 **to continue KCPL's FAC with modifications?**

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<sup>12</sup> *Staff Report Revenue Requirement Cost of Service*, pages 160, 162, and 164.

<sup>13</sup> *Id.*, pages 166 through 168.

1 A. My concern is Staff's report does not specifically state whether it is requesting the  
2 Commission modify KCPL's current FAC or the FAC KCPL proposed in this  
3 case. To the best of my understanding, the modifications are 1) a new base factor,  
4 2) a new percentage of SPP costs, and 3) that KCPL suspend its hedging  
5 activities.<sup>15</sup> These modifications could apply to either KCPL's current FAC or its  
6 proposed FAC. However, the proposed FAC is different from the current FAC.

7 As described in Mr. Rush's direct testimony,<sup>16</sup> KCPL is proposing  
8 including additional costs in its FAC. KCPL is also recommending its FAC  
9 include SPP transmission revenues. Staff's report does not include any  
10 recommendations regarding these costs and revenue. It is impossible to tell from  
11 Staff's report its position on the inclusion of these costs and this revenue.  
12 Therefore, adoption of Staff's recommendation would lead to further  
13 misunderstandings regarding exactly what the Commission was approving.

14 **Q. Are there any other aspects of Staff's report regarding the FAC that you**  
15 **would like to respond to?**

16 A. Yes. Staff states on page 164 of its report that the charts provided in the FAC  
17 section show KCPL's actual net energy costs are volatile and beyond the control  
18 of KCPL. However, the charts each only contain two (2) data points. This is not  
19 enough history to show volatility especially given this data is from the first year

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<sup>14</sup> Id., pages 170 through 171.

<sup>15</sup> Id., page 160.

1 after KCPL was first granted an FAC. These two points alone provide little  
2 information other than actual costs have been above the costs included in the FAC  
3 base in the last rate case. The under-collection of fuel costs in permanent rates<sup>17</sup>  
4 may be due to poor estimates of fuel costs in the last rate case. It may be due to  
5 imprudence on the part of KCPL since there has not been a prudence audit  
6 conducted for this time period. It is improper to leap to an assumption that these  
7 two data points show volatility.

8 In addition, it is improper to state these two data points show fuel costs are  
9 beyond the control of KCPL. For example, planned outages are under the control  
10 of KCPL and do affect fuel costs. If there are planned outages during an  
11 accumulation period, it is expected that fuel costs or purchased power costs for  
12 that accumulation period would increase. There is nothing imprudent about  
13 planned outages or the increase in fuel costs that are incurred as a result of the  
14 planned outages. Planned outages need to occur to maintain efficiencies of the  
15 power plants. However, planned outages do affect the fuel and purchased power  
16 costs of an electric utility resulting in higher fuel and purchased power costs.  
17 Increased fuel costs alone do not indicate KCPL does not have control over fuel  
18 costs. Only analysis of the costs over time and thorough prudence audits can

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<sup>16</sup> Direct Testimony, Schedule TMR-1 page 8 of 9.

<sup>17</sup> A positive FAC rate indicates not all of FAC costs were recovered through base rates.



1 show the amount of control KCPL has over fuel and purchased power costs.

2 Staff's conclusions are not supported by either.

3 **Q. In your direct testimony you recommended the Commission order an**  
4 **additional reporting requirement. Now you have been provided Staff's**  
5 **additional requirements, do you have any recommendations regarding these**  
6 **additional reporting requirements?**

7 A. Staff is requesting the Commission to order KCPL to continue to provide certain  
8 information. OPC recommends these recommendations be modified to provide  
9 availability for review, information, and notices to OPC. Therefore OPC  
10 recommends changes to Staff's additional reporting requirements of KCPL as  
11 underlined below:

- 12 1. As part of the information KCPL submits when it files a tariff  
13 modification to change its Fuel and Purchased Power Adjustment rate,  
14 include KCPL's calculation of the interest included in the proposed rate in  
15 electronic format with formulas intact;
- 16 2. Maintain at KCPL's corporate headquarters or at some other mutually  
17 agreed-upon place and make available within a mutually-agreed-upon time  
18 for review by Staff and OPC, a copy of each and every coal, coal  
19 transportation, natural gas, fuel oil, and nuclear fuel contract KCPL has  
20 that is in or was in effect for the previous four years;
- 21 3. Within 30 days of the effective date of each and every coal, coal  
22 transportation, natural gas, fuel oil, and nuclear fuel contract KCPL enters  
23 into, KCPL provide both notice to the Staff and OPC of the contract and  
24 opportunity to review the contract at KCPL's corporate headquarters or at  
25 some other mutually-agreed-upon place;

- 1 4. Provide a copy of each and every KCPL hedging policy that is in effect at  
2 the time the tariff changes ordered by the Commission in this rate case go  
3 into effect for Staff and OPC to retain;
- 4 5. Within 30 days of any change in a KCPL hedging policy, provide a copy  
5 of the changed hedging policy for Staff and OPC to retain;
- 6 6. Provide a copy of KCPL's internal policy for participating in the SPP's  
7 Integrated Market to Staff and OPC;
- 8 7. Maintain at KCPL's corporate headquarters or at some other mutually  
9 agreed-upon place and make available within a mutually agreed-upon time  
10 for review by Staff and OPC, a copy of each and every bilateral energy or  
11 demand sales/purchase contract;
- 12 8. If KCPL revises any internal policy for participating in the SPP, within 30  
13 days of that revision, provide a copy of the revised policy with the  
14 revisions identified for Staff and OPC to retain;
- 15 9. The monthly as-burned fuel report supplied by KCPL required by 4 CSR  
16 240-3.190(1)(B) shall explicitly designate fixed and variable components  
17 of the average cost per unit burned, including commodity, transportation,  
18 emissions, tax, fuel blend, and any additional fixed or variable costs  
19 associated with the average cost per unit reported;
- 20 10. KCPL's monthly FAC report shall include the FAC costs and revenues by  
21 subaccount for that month and the twelve months ending that month; and
- 22 11. Purchased power costs and off-system sales revenues provided in all FAC  
23 filings and report submissions shall be in accordance with FERC order 668  
24 and the Commission's definition of purchased power costs and off-system  
25 sales revenue.

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

27 A. Yes.

28

KCPL  
Case Name: 2016 KCPL Rate Case  
Case Number: ER-2016-0285

Response to Mantle Lena Interrogatories - OPC\_20161123  
Date of Response: 12/15/2016

Question:8015

8015. With respect to the meeting with OPC and KCPL employees on November 17, 2016, please verify the following statements offered by Ed Blunk:

- A. KCPL is requesting the inclusion in the FAC of the costs it is recording in some or all of the subaccounts 501500 through 501510 because the value of the inclusion of these costs would be lower fuel cost.
- B. If the subaccounts are not included in the FAC, KCPL will evaluate whether to continue some of these activities.
- C. If a policy decision is made to discontinue some of these activities because KCPL is not assured of cost recovery in the FAC, fuel costs may be higher.

Response:

***A. KCPL is requesting the inclusion in the FAC of the costs it is recording in some or all of the subaccounts 501500 through 501510 because the value of the inclusion of these costs would be lower fuel cost.***

Response: That statement represents a simplification of a more complex idea presented in Mr. Rush's testimony. That is, the forecasts, market analyses or information, strategy development and contract or issue negotiation expenses charged to fuel handling help us in our pursuit of better contract terms or lower cost of fuel and fuel transportation. The benefits or cost savings from purchasing those goods or services are reflected in the cost of fuel included in the FAC. Likewise, the benefits of managing fuel purchases are reflected in the effective total cost of fuel. Other non-labor fuel handling costs are related to the volume of fuel we purchase. That is, the less fuel we buy, the lower our non-labor fuel handling expenses.

***B. If the subaccounts are not included in the FAC, KCPL will evaluate whether to continue some of these activities.***

Response: RSMo 386.266 allows the Commission to include in an FAC incentives to improve the efficiency and cost-effectiveness of the electric utilities' fuel and purchased-power procurement activities.

That combined with Staff's and OPC's actions to have the Commission rule on each specific subaccount, resource code, or item to be included in the Company's FAC, leads to the view that the Commission has made a policy decision on each specific item, resource code, or subaccount and that expenditures for any excluded activities are to be minimized.

To say, "KCPL will evaluate whether to continue some of these activities" also represents a simplification of a more complex idea. Some activities are not of a continuing nature. They can be highly variable and sporadic. For example, KCP&L has in the past litigated railroad rates, but is not currently involved in such a case. Infrequent activities can have a significant impact on the total cost of fuel.

If all costs recorded as fuel handling are included in the FAC, then it would appear the Commission is enabling the Company to properly consider the potential benefits of lower fuel costs in how it manages those costs. When only specific costs are included in the FAC, it appears the Commission is incenting the Company to minimize those costs which are not included in the FAC.

***C. If a policy decision is made to discontinue some of these activities because KCPL is not assured of cost recovery in the FAC, fuel costs may be higher.***

Response: The Company's view is not based on assurance of recovery. All expenditures recovered through the FAC are subject to audit and prudence review. It is the Company's view that when activities are excluded from the FAC, the Commission has taken a policy position that expenditures for the excluded activities are to be minimized, are not justified, or are not to be employed.

Answered by: Ed Blunk, Generation Sales & Services

Attachment: Q8015\_Verification.pdf