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Witness: Curt Wells
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Case No.: ER-2009-0090
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

CURT WELLS

KCP&L

**GREATER MISSOURI OPERATIONS COMPANY
(MPS & L&P electric operations)**

CASE NO. ER-2009-0090

**Jefferson City, Missouri
February 2009**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
KCP&L Greater Missouri Operations)
Company for Approval to Make Certain)
Changes in its Charges for Electric)
Service.)

Case No. ER-2009-0090

AFFIDAVIT OF CURT WELLS

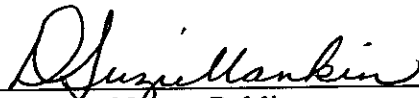
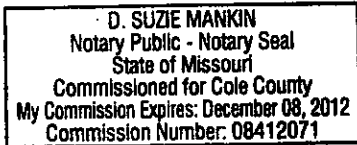
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Curt Wells, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 9 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Curt Wells

Subscribed and sworn to before me this 13th day of February, 2009.



Notary Public

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DIRECT TESTIMONY
OF
CURT WELLS

KCP&L
GREATER MISSOURI OPERATIONS COMPANY
(MPS & L&P electric operations)

CASE NO. ER-2009-0090

Q. Please state your name and business address.

A. My name is Curt Wells and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri, 65102.

Q. What is your present position with the Missouri Public Service Commission (Commission)?

A. I am a Regulatory Economist in the Energy Department of the Utility Operations Division.

Q. Please review your educational background and work experience.

A. I have a Bachelor's degree in Economics from Duke University, a Master's degree in Economics from The Pennsylvania State University, and a Master's degree in Applied Economics from Southern Methodist University. I have been employed by the Missouri Public Service Commission since February 2006. Prior to joining the Commission, I completed a career in the U.S. Air Force, which included assignments as an aircraft navigator, and later in the Purchasing/Contracting area as Contract Negotiator and Administrator, Installation Purchasing Department Chief,

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Curt Wells

1 Contracting Policy Manager, Director of the Air Force warranty center, and Program
2 Manager responsible for developing and awarding technical support contracts.

3 Q. Have you filed testimony in prior cases before the Commission?

4 A. Yes. My previous testimony is listed in Schedule CW-1.

5 Q. With reference to Case No. ER-2009-0090, have you participated in the
6 Commission Staff's (Staff) review of KCP&L Greater Missouri Operations Company
7 (GMO, or Company) concerning its request for rate increases in this proceeding?

8 A. Yes, I have, with the assistance of, and reliance on, other members of the
9 Staff in the areas listed below.

10 **EXECUTIVE SUMMARY**

11 Q. What is the purpose of your direct testimony?

12 A. The purpose of my direct testimony is to sponsor Staff recommendations
13 originating from the Utility Operations Division of the Staff and to provide an overview
14 of Staff's positions in the areas of jurisdictional allocations, normalizations and
15 annualizations of rate revenue, fuel and purchased power, certain other expenses, and a
16 fuel adjustment clause for the electric operations of GMO, which because of differing
17 rates for areas in and about St. Joseph, Missouri, and about Kansas City, Missouri, are
18 referred to, for purposes of analyzing rates, as "L&P" and "MPS," respectively. The
19 sections of Staff's Report relating to these issues were prepared by Staff members in the
20 Utility Operations Division and are based on their work and analyses.

21 **JURISDICTIONAL ALLOCATIONS**

22 Q. What are jurisdictional allocations?

1 A. Jurisdictional allocations are the result of processes by which demand-
2 related and energy-related costs are allocated to the applicable jurisdictions. For GMO
3 those jurisdictions are wholesale and retail (customer type). Staff performed these
4 jurisdictional allocations for only the MPS electric operations of GMO, since L&P has no
5 wholesale customers. To rationally allocate certain costs that GMO incurs across these
6 jurisdictions, it is necessary to allocate those costs appropriately to those jurisdictions.
7 Development and application of these factors are more fully explained in the
8 Jurisdictional Allocations Section of the Cost of Service Report.

9 **NORMALIZATIONS AND ANNUALIZATIONS**

10 Q. Why is test year rate revenue adjusted?

11 A. The goal of a general rate case is to set rates based on the utility's ongoing
12 cost of service. Since an historical test year is used as the starting point for estimating
13 that ongoing cost of service, the Missouri test year rate revenues of the utility are adjusted
14 to better estimate the revenue that the utility would have collected during the test year on
15 an annual, normal-weather basis, based on information "known and measurable" at the
16 end of the update period. The two major categories of adjustments are normalizations
17 and annualizations.

18 Because new rates will be in effect until changed at some future dates and a test
19 year may have events during it that affect test year revenues differently from the events
20 of a "normal" year, normalization adjustments are made to test year revenues to make the
21 test year revenues better represent revenues of a "normal" year. For example, each year
22 has different weather, but when the weather of multiple years is averaged over time there
23 is a "normal" or "average" weather year. Weather normalization adjustments to test year

1 revenues are made to adjust the weather impacts during the test year to better match the
2 weather impacts on revenues during a “normal weather year”. Annualizations are
3 adjustments that re-state test year results as if conditions known at the end of the update
4 period had existed throughout the entire test year. An example of a revenue
5 annualization is adjusting revenue for a rate change during the test year.

6 Missouri retail rate revenues and kilowatt-hour (kWh) sales are used to determine
7 the difference between these revenues that would be collected with current rates and the
8 revenues that should be collected as a result of this case. These adjustments are covered
9 in the Rate Revenue section of the Cost of Service Report’s Income Statement.

10 Staff analyzed MPS and L&P as separate utilities making annualization and
11 normalization adjustments in this case for each.

12 **FUEL AND PURCHASED POWER**

13 Q. How did Staff determine GMO’s fuel and purchased power costs for cost
14 of service purposes?

15 A. Staff used the RealTime ® production cost model to perform an hour-by-
16 hour chronological simulation of GMO’s generation and power purchases. The inputs to
17 this model included spot market prices, capacity contract prices, net system input (NSI)
18 and losses, and planned and forced outages. Staff used the model to determine GMO’s
19 annual variable cost of fuel and net purchased power energy costs and fuel consumption
20 necessary to economically match GMO’s load within the operating constraints of GMO’s
21 resources available to match that load. These amounts are supplied to Auditing Staff who
22 use this input in the annualization of fuel expense.

1 In addition, Staff allocated GMO's net fuel and purchased power costs between
2 its MPS and L&P operations using a method Staff developed. The purpose of this
3 method is to fairly distribute these costs between MPS and L&P based on how much
4 energy each needs to serve its native load customers. This method is provided as a topic
5 for discussion with GMO and the other parties about the allocation of fuel costs to MPS
6 and L&P.

7 The fuel model and the proposed allocation methodology are explained in more
8 detail in the Fuel and Purchased Power section of the Staff's Cost of Service Report.

9 **CAPACITY REQUIREMENTS**

10 Q. What is Staff's position on capacity requirements for GMO service in the
11 territory it formerly served as Aquila Networks-MPS

12 A. As it has consistently done since 2005, it is Staff's position that Aquila, now
13 known as GMO, should have built and owned five 105 MW CTs early enough to meet its
14 capacity needs in 2005. PPAs are useful tools, but they should not be relied upon as
15 long-term solutions to capacity needs in the planning process without a firm long-term
16 contract in hand. It was, and is, Staff position that, instead of relying on short-term
17 PPAs, Aquila should have had five CTs built by 2005 and that it then would have had the
18 capacity from those five CTs—525 MW—available to serve its customers for the next
19 thirty years.

20 A utility should locate and size a generating plant to serve its native load. The
21 Crossroads power plant was not located or sized to meet MPS's native load. It was built
22 as a merchant plant to sell energy at market value. Under the right
23 circumstances, acquisition of plants built by others, including those built as merchant

1 plants such as Crossroads, could be a preferred option. However, Staff did not include
2 the Crossroads power plant for two reasons: (1) affiliate transaction concerns discussed in
3 greater detail in the Cost of Service Report; and (2) the cost of transmission to move the
4 Crossroads energy to GMO's territory.

5 Although in the long term the best source of electricity for an electric utility is
6 generation plant it owns, Staff recognizes that short-term PPAs are appropriate in
7 circumstances where the electric utility is adding capacity in the near future. In this case,
8 Staff is including a "hypothetical" short-term contract to bridge the need between the five
9 CTs and GMO's next generation capacity addition to serve MPS. Staff included five 105
10 MW CTs and a generic 100 MW PPA in its fuel run to determine fuel and purchased
11 power expense. Staff's position is explained in more detail in the Fuel and Purchased
12 Power section of the Cost of Service Report.

13
14 **OTHER EXPENSES**

15 Q. What other expenses did Operations Staff examine?

16 A. Staff examined demand-side management costs, and a vegetation
17 management program and infrastructure inspection program both required by
18 Commission rule and intended to improve reliability. Their findings are detailed in the
19 Other Non-labor Adjustments section of the Cost of Service Report's Income Statement.

20
21 **FUEL ADJUSTMENT CHARGE**

22 Q. What is Staff's recommendation regarding GMO's fuel adjustment
23 charge?

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1 A. In GMO’s last rate increase case, Case No. ER-2007-0004, the
2 Commission approved a fuel adjustment clause for GMO with differing base energy costs
3 for MPS and L&P. Based on Staff’s review of the testimony filed by GMO, its fuel and
4 purchased power costs, and the criteria provided by the Commission, Staff recommends
5 that the Commission continue to allow a FAC for GMO, with one clarification and
6 several modifications. The clarification is to explicitly include off-system sales margins
7 in the calculation of fuel and purchased power costs that are subject to GMO’s FAC. The
8 modifications are to include SO₂ emission allowance revenues, and, upon GMO’s
9 participation in the Southwest Power Pool (“SPP”) regional transmission organization
10 (“RTO”), their SPP energy imbalance market settlements and revenue neutrality uplift
11 charges, in the calculations subject to the FAC. In addition, Staff recommends that the
12 FAC be modified to have a summer and winter base instead of the current annual base to
13 reflect the fuel and purchased power cost variances between the summer (June through
14 September) and the rest of the year. These, and other recommended modifications are
15 detailed in the Fuel Adjustment section of the Cost of Service Report.

16 **AREAS OF RESPONSIBILITY**

17 Q. Would you identify the work performed and Operations Division member
18 who contributed to the Staff’s Cost of Service Report?

19 A. The issue and member of Staff who contributed to the Staff’s Cost of
20 Service Report follows:

| <u>Issue</u> | <u>Staff Witness</u> |
|----------------------------|----------------------|
| Jurisdictional Allocations | Alan J. Bax |
| Normal Weather | Manisha Lakhanpal |

Direct Testimony of
Curt Wells

| | | |
|----|--|------------------|
| 1 | Weather Normalization | |
| 2 | Sales | Walter Cecil |
| 3 | Revenue | Curt Wells |
| 4 | Annualization for Rate Change | Curt Wells; |
| 5 | | Mike Scheperle |
| 6 | Days Adjustment | |
| 7 | Sales | Walter Cecil |
| 8 | Revenue | Curt Wells; |
| 9 | | MikeScheperle |
| 10 | Large Customer Annualization/ Rate Switching | Curt Wells; |
| 11 | | Mike Scheperle |
| 12 | Customer Discounts | Curt Wells; |
| 13 | | Mike Scheperle |
| 14 | Fuel and Purchased Power Expense | David W. Elliott |
| 15 | Spot market Prices | Daniel I. Beck |
| 16 | Capacity Contract Prices | David W. Elliott |
| 17 | NSI | Shawn E. Lange |
| 18 | Losses | Alan J. Bax; |
| 19 | Planned and Forced Outages | David W. Elliott |
| 20 | Fuel and Purchased Power Allocations | Erin L. Maloney |
| 21 | Capacity Requirement | Lena M. Mantle |
| 22 | Demand Side Management | Adam C. McKinnie |
| 23 | Vegetation Management & Infrastructure | Daniel I. Beck |

Direct Testimony of
Curt Wells

1

Fuel Adjustment Charge

Lena M. Mantle

2

Q. Does this conclude your direct testimony?

3

A. Yes it does.

CURT WELLS

TESTIMONY/REPORTS FILED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

| <u>Case Number</u> | <u>Company</u> | <u>Issue</u> |
|--|---|--|
| ER-2006-0314 Direct/ True-up Direct | Kansas City Power & Light Company | Calculation of Normal Weather, Revenue |
| ER-2006-0315 Direct/Rebuttal | Empire District Electric | Revenue |
| GR-2006-0387 Direct | ATMOS Energy Corporation | Calculation of Normal Weather |
| GR-2006-0422 Direct/Rebuttal/ Surrebuttal | Missouri Gas Energy | Calculation of Normal Weather |
| ER-2007-0002 Direct/Rebuttal | Union Electric d/b/a AmerenUE | Calculation of Normal Weather, Large Customer Annualization |
| GR-2007-0003 Direct | Union Electric d/b/a AmerenUE | Calculation of Normal Weather |
| ER-2007-0004 Direct/ Supplemental Direct | Aquila, Inc | Calculation of Normal Weather, Revenue |
| GR-2007-0208 Direct | Laclede Gas Company | Calculation of Normal Weather |
| ER-2007-0291 Direct/Rebuttal | Kansas City Power & Light Co. | Calculation of Normal Weather, Large Power Revenue |
| ER-2008-0093 Direct(Report)/ Surrebuttal True-up Direct HR-2008-0300 Direct(Report) | Empire District Electric Trigen-Kansas City Energy Corp. | Revenue, Rate Design Rate Design |
| ER-2008-0318 Direct(Report) | Union Electric d/b/a AmerenUE | Revenue |