

Exhibit No.:

Issues: Aries

Witness: Frank A. DeBacker

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-2004-0034 &
HR-2004-0024
(Consolidated)

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

Frank A. DeBacker

FILED³

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF FRANK A. DEBACKER
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NOS. ER-2004-0034 AND HR-2004-0024 (CONSOLIDATED)**

1 Q. Please state your name and business address.

2 A. My name is Frank A. DeBacker and my business address is 7308 N. Richmond Avenue,
3 Kansas City, Missouri 64158.

4 Q. Are you the same Frank A. DeBacker who has previously filed Rebuttal Testimony in this
5 proceeding?

6 A. Yes, I am.

7 Q. What is the purpose of your Surrebuttal Testimony?

8 A. The purpose of this testimony is as follows:

- 9 • Address that portion of the Rebuttal Testimony of Staff witness Cary G.
10 Featherstone that relates to the pass through of increased construction costs of
11 the Aries Combined Cycle Unit (Aries). See Rebuttal Testimony of Cary G.
12 Featherstone at pages 52 through 54.
- 13 • Address that portion of the Rebuttal Testimony of Mr. Featherstone where he
14 states: "Staff believes that the option to build the Aries project by the
15 regulated operations of UtiliCorp and rate base the generating station in the
16 traditional manner should have been chosen." See Rebuttal Testimony of
17 Cary G. Featherstone at page 57, line 1.
- 18 • Address that portion of the Rebuttal Testimony of Staff Witness Mark L.
19 Oligschlaeger where he:

- 1 i. Asserts that MPS provided an analysis of the ownership cost of a rate-
2 based generation asset to Staff. See Rebuttal Testimony of Mark L.
3 Oligschlaeger at page 24, line 14.
- 4 ii. Discusses the risks associated with acquiring power supply resources
5 though a Purchase Power Agreement (“PPA”). See Rebuttal
6 Testimony of Mark L. Oligschlaeger at page 26, line 19 through page
7 28, line 18.

8 Q. What is Aries?

9 A. Aries is the combined cycle power plant constructed by Merchant Energy Partners
10 – Pleasant Hill LLC (“MEPPH”) to supply the capacity and energy under the
11 Power Sales Agreement (“PSA”) between Missouri Public Service (“MPS”) and
12 MEPPH

13 **Adjustments to Capacity Payment**

14 Q. Does the PSA contain provisions for and adjustment in the capacity payment for
15 changes in the construction cost of Aries?

16 A. Yes, it does. As shown at page 19 of Schedule FAD-19 of my Rebuttal
17 Testimony, there are two provisions that provide for an adjustment in the capacity
18 payment. One provision provides for an increase in the capacity payment if the
19 purchase price of the combustion turbines used in the Aries unit exceeded \$32
20 million per turbine. The other provision provides for an increase or decrease in
21 the capacity payment if the cost to interconnect the Aries unit to the MPS
22 transmission system was greater than or less than \$2 million.

1 Q. Was the capacity payment adjusted due to an increase in the cost of the
2 combustion turbines or due to a change in the cost to interconnect Aries to the
3 MPS transmission system?

4 A. Yes, the cost of the combustion turbines was greater than \$32 million per turbine
5 and the cost to interconnect Aries to the MPS transmission system was less than
6 \$2 million.

7 Q. Did Mr. Featherstone correctly calculate the annual cost impact of these
8 adjustments?

9 A. Yes, he did. The total net impact of the adjustments is to increase the annual
10 capacity payment by \$106,260.

11 Q. Do you agree with Mr. Featherstone that the \$106,260 should not be allowed in
12 rates?

13 A. No, I do not.

14 Q. Why do you disagree?

15 A. The alternative to the adjustment provisions was for MEPPH to accept the risk of
16 increased costs for both the combustion turbines and the interconnection. If
17 MEPPH had accepted this additional risk, it would have increased the capacity
18 payment contained in the PSA.

19 Q. What is your estimate of the amount that MEPPH would have increased the
20 capacity payment?

21 A. It is reasonable to assume that the increase would have been at least \$0.055 per
22 kW-month, which is the cap on the price adjustment for the increase in the cost of

1 combustion turbines included in the PSA. See Schedule FAD-19, page 19. An
2 increase of \$0.055/kW-month would have resulted in an increase in the annual
3 capacity payment of \$231,000:

4	200,000 KWs times \$0.055 per month times 12	\$132,000
5	300,000 KWs times \$0.055 per month times 6	\$99,000
6	Total Increase in Capacity Payment	\$231,000

7 Since the actual amount of the increase in the annual capacity payment was
8 \$106,260, inclusion of cost adjustment provisions was a prudent course of action
9 as it resulted in a lower annual capacity payment than what would have probably
10 occurred absent the provisions.

11 Q. At line 14, page 52 of his Rebuttal Testimony, Mr. Featherstone states “[t]he
12 Company has reflected an annualized level of \$27.66 million.” as the capacity
13 charge associated with the Aries unit that the Company has included in its case.
14 Do you agree with this figure?

15 A. No, I do not. The proper figure is \$27, 766, 260. The \$27.66 million figure
16 referenced by Mr. Featherstone represents the annual capacity payment associated
17 with the PSA prior to the inclusion of the \$106,260 adjustment discussed above.

18 **Staff’s Claim That a Rate-Based Generation Asset Should Have Been Chosen**

19 Q. What is your objection to the statement by made by Mr. Featherstone in his
20 Rebuttal Testimony at page 57 that “...the option to build the Aries project by the
21 regulated operations of UtiliCorp and rate base the generating station in the
22 traditional manner should have been chosen”?

1 A. Both Mr. Featherstone and Mr. Oligschlaeger make statements to the effect that
2 building a rate based generating facility was the preferred option. However, Staff
3 presents no fact-based analysis to support its position. Staff's failure to do this
4 analysis is disturbing since a cost comparison of a) Constructing a rate-based
5 facility with b) Entering into a short-term PPA and deferring the construction of a
6 facility for the term of the PPA is a relatively simple calculation.

7 In addition, Staff's statements ignore the prevailing view of the future
8 direction of the electric utility industry at the time the PSA was negotiated and
9 executed in 1999. As shown in my Rebuttal Testimony at pages 3 through 7 as
10 well as that of Mr. Stamm at pages 13 and 14 and Mr. Empson at pages 2 through
11 5, the prevailing view of the industry was that significant change was on the
12 horizon and that a prudent course of action would be to utilize the short-term
13 PPAs to meet power supply needs. In fact, as evidenced in the Commission's
14 Order in Case EO-98-316, this Commission and Staff endorsed this view of the
15 future of the electric utility industry. See Schedule FAD-6 of my Rebuttal
16 Testimony.

17 Finally, based upon my knowledge and experience, I do not believe that
18 the costs associated with deferring the construction of a 500 MW combined cycle
19 unit for the term of the PSA outweigh the known short-term savings that are being
20 provided to MPS customers through the PSA.

21 **Analysis of Ownership Cost of Rate-based Generation Assets**

1 Q. At page 24, line 14, of his Rebuttal Testimony, Mr. Oligschlaeger refers to Case
2 No. EM-99-369, which pertained to this Commission's approval of MPS entering
3 the PSA. He states:

4 "In that proceeding, Aquila/UtiliCorp provided Staff an analysis
5 that purports to demonstrate that the costs to MPS of entering into
6 a five-year lease to obtain power is less expensive than MPS
7 owning the unit and rate basing it, over the five-year term of the
8 lease."

9 Do you agree with that statement?

10 A. No, I do not. MPS never presented an analysis of the ownership costs of a rate-
11 based generating facility to Staff. MPS only presented the costs of purchasing
12 power from an Exempt Wholesale Generator ("EWG") that would be an affiliate
13 of MPS. This fact can be clearly seen if one examines the following schedules
14 attached to my Rebuttal Testimony:

- 15 • Schedule FAD-7, page 6
- 16 • Schedule FAD_12, page 4
- 17 • Schedule FAD-22, page 162

18 **Risk Associated with Short-Term Power Purchases**

19 Q. What is the thrust of Mr. Oligschlaeger's Rebuttal Testimony at pages 26 through
20 28 where he discusses the risks associated with the use of short-term purchase
21 power agreements?

22 A. Mr. Oligschlaeger argues that use of short-term PPAs increases the risk of price
23 fluctuations in electric power supply.

24 Q. Do you agree with Mr. Oligschlaeger's arguments?

1 A. No, because he ignores market behavior. While most people who think of price
2 risk only think in terms of price increases, it is important to remember that prices
3 decline as well as increase.

4 At page 28, line 9, of his Rebuttal Testimony, Mr. Oligschlaeger states:
5 "To use an example, if a utility provides electricity to its customers from one
6 generating unit only, the capital cost portion of electricity from that unit will be
7 largely fixed in advance over the life of the unit for 30 or 40 years, or more." This
8 statement is true. However, the customers of the utility in Mr. Oligschlaeger's
9 example could end up paying higher prices than necessary if changes in the
10 wholesale markets, regulation, technology, among other factors, cause the future
11 price of electricity to be lower than that produced by the utility's long term
12 commitment.

13 Q. Can you give an example where the capacity cost of capacity has fallen over time?

14 A. Yes, I can.

15 In 1987, MPS entered into a ten year PPA with Union Electric Company
16 for the period June 1991 to May 2001. At the time the contract was terminated, it
17 supplied 115 MW of capacity to MPS and the annual per unit capacity payment
18 associated with this contract was \$62,614 per MW-yr.

19 In comparison, the PSA supplies 500 MW of capacity to MPS with a total
20 annual capacity payment is \$27.766 million per year. This equates to \$55,533 per
21 MW-yr. Thus, the capacity payment associated with the PSA is approximately

1 11% cheaper on a dollar per MW-Yr. basis than the capacity payment associated
2 with the Union Electric contract it replaced.

3 Supporting calculations for the above figures are shown below:

	<u>MW Capacity</u>	<u>Annual Capacity</u> <u>Cost</u>	<u>Annual Per Unit</u> <u>Capacity Cost</u>
UE Contract	115	\$7,200,643	\$62,614
MEPPH Contract	500	\$27,766,260	\$55,533
			Difference in Annual Per Unit Capacity Cost
			\$7,082
			Pct. Difference in Annual Per Unit Capacity Cost
			11%

4

5 Q. Does this conclude your Surrebuttal Testimony?

6 A. Yes, it does.

