

Exhibit No.: GMO-12 (NP)

Issue: Crossroads valuation

Iatan 2 allocation

Witness: Burton L. Crawford

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: KCP&L Greater Missouri Operations Company

Case No.: ER-2010-0356

Date Testimony Prepared: January 12, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0356

SURREBUTTAL TESTIMONY

OF


BURTON L. CRAWFORD

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri

January 2011

***  *** Designates "Highly Confidential" Information
Has Been Removed
Pursuant To 4 CSR 240-2.135.

KCP&L Exhibit No. GMO-12 NP
Date 2/14/11 Reporter LMB
File No. ER-2010-0356

SURREBUTTAL TESTIMONY

OF

BURTON L. CRAWFORD

Case No. ER-2010-0356

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

2 A: My name is Burton L. Crawford. My business address is 1200 Main, Kansas City,
3 Missouri 64105.

4 **Q: Are you the same Burton L. Crawford who prefiled direct and rebuttal testimony in**
5 **this matter?**

6 A: Yes.

7 **Q: What is the purpose of your surrebuttal testimony?**

8 A: The purpose of my testimony is to rebut issues related to the valuation of Crossroads
9 Energy Center ("Crossroads") and the allocation of Iatan 2 between MPS and St. Joe
10 Light & Power ("L&P") raised in the rebuttal testimony of Staff Witnesses Cary G.
11 Featherstone and Lena M. Mantle. I will also respond to OPC witness Ryan Kind's claim
12 that the Company has not met the requirements of CSR 240-3.161(3)(S).

13 **CROSSROADS ENERGY CENTER**

14 **Q: Staff witness Cary Featherstone claims that GMO's proposed inclusion of**
15 **Crossroads in the Company's rate base is at an overvalued level. Do you agree?**

16 A: No. GMO has included the cost of Crossroads at its net book value.

17 **Q: Why is net book value a reasonable value for Crossroads?**

18 A: The net book value reflects the value of the plant as it was offered in response to GMO's
19 2007 request for proposals (RFP) for capacity to meet GMO's resource needs at that

1 time. As explained in more detail in my rebuttal testimony, GMO's evaluation of the
2 2007 RFP offers demonstrated that Crossroads was the most cost effective alternative for
3 meeting GMO's resource needs at that time. In addition to the 2007 RFP evaluation,
4 GMO completed an additional analysis in 2010 that once again shows that Crossroads
5 was the most cost effective alternative for meeting GMO's resource needs. This
6 additional analysis is more fully described in my rebuttal testimony in this case.

7 **Q: Staff argues that under the Commission's Affiliate Transaction Rule that any**
8 **transfer of Crossroads from non-regulated to regulated operations would have to be**
9 **at or below the \$51.6 million described in GPE's SEC filings related to the Aquila**
10 **transaction. Do you agree?**

11 A: No.

12 **Q: Please explain.**

13 A: Staff correctly points out that the primary standard to be met in affiliate transactions
14 concerning goods or services is that the transfer be done at the lesser of the fair market
15 price or the fully distributed cost to the utility to provide the goods or services for itself.
16 The Crossroads transfer from Aquila Inc. to GMO meets this standard.

17 The responses to the 2007 GMO RFP represented the market value of the service
18 requested (capacity and energy) and the Crossroads offer met the needs at the lowest
19 costs. The RFP responses also reflected the cost to the utility to provide the services for
20 itself as GMO developed its own response based on the cost to supply the services itself
21 from a new facility. The Crossroads offer was less than the cost for GMO to provide
22 these services to itself. Thus the Crossroads offer at net book value was lower than both
23 the market price and the cost to the utility to provide the goods and services for itself.

1 Q: Does the \$51.6 million value proposed by Staff reflect the market value of the
2 service Crossroads provides to GMO customers?

3 A: No, it is too low. As explained earlier, the net book value of Crossroads (approximately
4 \$104 million at the time of the Direct filing in this case) was at the low end of the market
5 value of the services provided by the facility.

6 Q: What does the \$51.6 million value proposed by Staff reflect?

7 A: During the Aquila acquisition process, GPE was required to produce a fair value
8 disclosure as part of an SEC S-4 filing. Additional detail on the SEC S-4 process can be
9 found in the surrebuttal testimony of Company witness Darrin Ives. As part of the S-4
10 process GPE completed a high level analysis of different valuation alternatives for the
11 Crossroads facility. Based on the uncertainty at that time regarding the achievability of
12 the alternatives, a decision was made to conservatively disclose the value based on
13 dismantling the plant and selling the turbines and equipment for salvage. This salvage
14 value was estimated at \$51.6 million. One of the alternative values also developed at that
15 time assumed that the plant remained in place and transmission was obtained from
16 Crossroads to GMO. This placed the value of the plant at \$94.75 million assuming that
17 \$20 million in transmission upgrades would be required. Ultimately GMO was able to
18 obtain the transmission service with only a minimal transmission investment of \$145,000.
19 This would bring the estimated value of Crossroads to \$114.60 million.

20 **IATAN 2 ALLOCATION BETWEEN MPS and L&P**

21 Q: Staff has expressed concerns with GMO's proposed Iatan 2 allocation between MPS
22 and L&P. Do you agree with those concerns?

23 A: No. Staff witness Lena Mantle lists five concerns with GMO's proposed allocation

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1) ** [REDACTED] **

2) The allocation will exacerbate the rate differential between L&P and MPS

3) Gives no deference to the history of MPS and L&P when allocating Iatan 2

4) L&P would be allocated more fuel costs from MPS's less efficient CT units

5) The allocation could change every rate case

(Mantle rebuttal, page 5, lines 4-23)

I will next address each of these concerns.

1) 2011 capacity needs. While it is true that ** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] ** Staff's proposed allocation

and analysis does not.

2) Rate differential. Staff argues that "Even if L&P only replaced 50 MW of the NPPD

contract with capacity from Iatan 2, it would have to acquire another 50 MW of capacity.

This would likely result in a higher increase in L&P rates than the current request by

GMO." (Mantle rebuttal, page 7, lines 5-7). While it is true that L&P would need

additional capacity, a shortfall of 50MW would likely be made through market purchases

given the current market for capacity and the number of MW needed. This is similar to

how GMO has filed its case with a small market purchase.

3) Deference to history. Staff argues that "GMO did not take into consideration that L&P

was losing a 100 MW base load PPA" (Mantel rebuttal, page 7, lines 17-18). This is not

so. Not only does GMO's allocation methodology explicitly take into consider that L&P

1 is losing 100 MW base load PPA, but it also takes into consideration the future loss of a
2 75MW base load PPA at MPS. Staff does not. In fact GMO's methodology looks at the
3 change in L&P and MPS resource mix and load growth through the year 2025. Looking
4 forward to L&P and MPS resource needs is more important than "deference to history".

5 4) Fuel allocation. Staff argues that L&P would be allocated more fuel costs from MPS's
6 combustion turbines with a lower allocation of Iatan 2. While that is true, the
7 incremental fuel cost for L&P would be very small compared to the costs of a larger
8 share of Iatan 2.

9 5) Future allocation change. Staff argues that the "allocation of costs as great as the costs
10 of Iatan 2 should not shift from rate case to rate case" (Mantel rebuttal, page 8, line 18).
11 However this is exactly what happens each rate case that involves KCP&L. Generation
12 plant gets reallocated between jurisdictions each case.

13 FORECASTED ENVIRONMENTAL INVESTMENTS

14 Q: OPC witness Ryan Kind claims that limiting the timeframe over which GMO
15 describes its forecasted environmental investments is not sufficient to satisfy the
16 requirements of CSR 240-3.161 (3)(S). Do you agree?

17 A: No.

18 Q: Please explain.

19 A: While CSR 240-3.161 (3)(S) does not specifically identify the timeframe over which the
20 Company must describe its forecasted environmental investments, other sections of the
21 Rule require forecasted information for a four-year period. As such, the Company
22 described the forecasted environmental investments (which were none) that would impact
23 emission allowances for the next four years and have complied with the rule.

1. **Q: Is the issue of investments described in GMO's 2009 IRP filing raised by OPC**
2 **witness Ryan Kind relevant?**

3 **A:** No as these investments would not impact the level of emissions prior to 2015. While the
4 EPA's air regulations have not developed to the point of knowing when or even what
5 investments will be needed, GMO has assumed they will not be in service before 2015.

6 **Q: Does that conclude your testimony?**

7 **A:** Yes, it does.

