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Witness: John R. Carlson  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0175**

**REBUTTAL TESTIMONY**

**OF**

**JOHN R. CARLSON**

**ON BEHALF OF**

**KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri  
September 2012**

**REBUTTAL TESTIMONY**

**OF**

**JOHN R. CARLSON**

**Case No. ER-2012-0175**

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

2 A: My name is John R. Carlson. My business address is 1200 Main Street, Kansas City,  
3 Missouri 64105.

4 **Q: Are you the same John R. Carlson who pre-filed Direct Testimony in this matter?**

5 A: Yes, I am.

6 **Q: On whose behalf are you testifying?**

7 A: I am testifying on behalf of KCP&L Greater Missouri Operations Company ("GMO" or  
8 the "Company") for St. Joseph Light & Power ("L&P") and Missouri Public Service  
9 ("MPS") territories.

10 **Q: What is the purpose of your Rebuttal Testimony?**

11 A: My testimony responds two issues I have with Staff's Revenue Requirement/Cost of  
12 Service Report ("Report"). First, I will discuss the annualization methodology used to  
13 calculate the Southwest Power Pool, Inc. ("SPP") transmission costs in net revenue  
14 requirement projections. Second, I will discuss the independence of GMO from Kansas  
15 City Power and Light ("KC&PL") when purchasing capacity and the Report's  
16 mischaracterization of pricing between KCP&L and GMO.

1 **SPP TRANSMISSION COSTS**

2 **Q: Staff annualized Account 565 Transmission expense based on per book amounts**  
3 **expensed in the first quarter of 2012. Have transmission costs changed since the**  
4 **first quarter of 2012?**

5 A: Yes. Actual SPP transmission costs allocated to GMO continue to increase on a monthly  
6 basis, as shown in Schedule JRC-2. April, May, June and July transmission costs are  
7 significantly higher than the amount booked in first quarter 2012. In fact, current  
8 projections from the SPP show that these expenses will continue to increase and peak in  
9 2019 (see my Direct Testimony).

10 **Q: Are those projected increases the reason why the Company asked for a transmission**  
11 **tracker?**

12 A: Yes. Company witness Darrin R. Ives discussed the transmission tracker in his Direct  
13 Testimony in this case.

14 **Q: Why should the most current transmission costs be used in determining the**  
15 **Company's revenue requirement in this case?**

16 A: As SPP transmission projects are completed and placed in service, the costs are allocated  
17 to transmission customers based on the zonal and regional Annual Transmission Revenue  
18 Requirement ("ATRR") amounts approved by the Federal Energy Regulatory  
19 Commission and the magnitude of load associated with each customer's transmission  
20 service. The increase in monthly transmission costs allocated to GMO between March  
21 2012 and August 31, 2012 is a direct reflection of more transmission resources becoming  
22 used and useful.

1 **Q: Can you expand upon the increasing transmission costs discussed above?**

2 A: Sure. The most up-to-date transmission cost projections from the SPP include all  
3 transmission projects that have been approved and received a notification to construct.  
4 Potential future projects identified as a result of the SPP's Integrated Transmission  
5 Planning ("ITP") process, which performs near-term, 10-year and 20-year assessments of  
6 the transmission system, are not included in the current SPP projections. As future ITP  
7 projects are identified and approved by the SPP Board of Directors they will be added to  
8 SPP's projections, and it is the additive nature of these incremental projects that is a main  
9 driver of the increase in transmission costs.

10 **Q: Is it still the Company's position that transmission costs will be true-up?**

11 A: Yes. Annualizing the SPP transmission costs based on current costs as of true-up would  
12 most accurately account for transmission resources that are known and measurable, i.e. in  
13 service at the August 31, 2012 true-up date.

14 **GMO CAPACITY PURCHASES**

15 **Q: In Section 5 of its Report, Staff discusses two capacity contracts and then suggests**  
16 **that KCP&L received incremental benefit through sales of energy to GMO when**  
17 **purchasing energy from Dogwood Energy, LLC ("Dogwood"). Is this a valid**  
18 **conclusion?**

19 A: No, it is not a valid conclusion. On page 276 of its Report, Staff refers to Graph 8 as "the  
20 average daily dollars per MWh KCP&L purchased from its contract and then sold to  
21 GMO." The inference, which is inaccurate, is that KCP&L buys from Dogwood at one  
22 price and then sells directly to GMO at a higher price. In actuality, what is being  
23 compared in Graph 8 is the forward price of energy purchased by KCP&L from its

1 contract with Dogwood and the average of a conglomeration of day-ahead, forward and  
2 spot prices of energy purchased by GMO. In the case of the time period referenced in  
3 Graph 8, the average of the day-ahead, forward and spot prices for energy purchased by  
4 GMO was higher, on average, than KCP&L's forward price from Dogwood. It is not  
5 uncommon, and in fact expected, that a forward contract price for energy would be  
6 different than the day-ahead or spot price of energy.

7 **Q: Are there other issues with Staff's Graphs 8 and 9 and their effort to compare the**  
8 **price KCP&L paid with the price GMO paid for power?**

9 A: Yes. One very major issue is not seen when showing monthly data. When KCP&L sells  
10 power to GMO, it typically sells GMO peak power. KCP&L's purchase from Westar  
11 was a capacity contract and represented power for around the clock. Those are two very  
12 different energy products.

13 **Q: Is Staff's proposed sharing mechanism for the FAC valid?**

14 A: No, it is not. The basis upon which Staff makes their recommendation is not valid, as it  
15 compares energy prices from a forward contract to the average of a conglomeration of  
16 day-ahead, forward and spot energy prices.

17 **Q: Further in Section 5, Staff suggests that its proposed sharing mechanism for the**  
18 **FAC would incent GMO's managers to manage GMO independently. Do KCP&L**  
19 **and GMO act independently on capacity purchases?**

20 A: Yes, they do. On page 277 of its Report, Staff questions why KCP&L did not allocate  
21 GMO a portion of KCP&L's capacity contract with Westar. Staff then suggests that  
22 because KCP&L did not allocate a portion of KCP&L's contract to GMO that GMO's  
23 FAC sharing mechanism should be changed to "provide GMO's managers the incentive

1 to manage GMO independently.” The mere fact that KCP&L did not allocate a portion  
2 of KCP&L’s contract to GMO is evidence that KCP&L and GMO are acting  
3 independently on capacity purchases.

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

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



**SPP Transmission Costs (GMO - Actuals)**

