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REBUTTAL TESTIMONY

OF

DANA E. EAVES

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2014-0370

*Jefferson City, Missouri
May 2015*

**** Denotes Highly Confidential Information ****

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REBUTTAL TESTIMONY

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DANA E. EAVES

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Q. Please state your name and business address.

A. Dana E. Eaves, P.O. Box 360, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission in the Energy Department.

Q. Are you the same Dana E. Eaves who contributed to both the Staff's *Revenue Requirement Cost of Service Report* ("COS Report") and *Rate Design and Class Cost-Of-Service Report* ("CCOS Report") previously filed in this case concerning the Staff's Fuel Adjustment Clause ("FAC") recommendations in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony in this case?

A. I am responding to certain points in the direct testimonies of KCPL witnesses Tim Rush, Darin R. Ives and Wm. Edward Blunk, related to KCPL's request for a FAC. Staff witness Natelle Dietrich testifies in Staff's COS Report, at pages 189 to 194, as to why "Staff cannot support the request for a fuel adjustment charge (FAC) in a rate case filed prior to June 1, 2015 since the Regulatory Plan[, which the Commission approved in Case No. EO-2005-0329,] prohibits KCPL from proposing a FAC prior to June 1, 2015." Having nothing to add to that testimony in rebuttal, Staff refers the Commission to it for one of the reasons why Staff

1 opposes KCPL's FAC request. In that same report I testify on pages 194 to 200, Alan J. Bax
2 testifies on pages 200 to 201 and Randy S. Gross testifies as to whether KCPL has made
3 requisite showing to entitle it to a FAC. Here, in response to KPCL's request for a FAC, I
4 address the following points:

- 5 • KCPL has not satisfied the fundamental regulatory criteria showing KCPL's
6 need for a FAC.
- 7 • If the Commission authorizes KCPL's FAC request, what cost and revenue
8 components and incentive mechanism should be included in a FAC.

9 **FAILURE TO MEET REGULATORY CRITERIA**

10 Q. Does KCPL explain why it is proposing a FAC?

11 A. Yes. In Mr. Rush's Direct Testimony¹ he states;

12 Fuel, purchased power, transmission costs, off-system sales and property taxes
13 are costs that are largely beyond the Company's control and are areas where
14 we are facing significant increases in cost over the next several years.
15 Without an adequate mechanism to timely recover these cost increases,
16 KCP&L will not have a reasonable opportunity to earn its authorized return on
17 equity now or in the foreseeable future.

18 Q. Does Staff agree with Mr. Rush's statement that fuel, purchased power,
19 transmission costs, and off-system sales are beyond KCPL's control?

20 A. No. Neither Mr. Rush nor other KCPL witnesses have shown the fuel and
21 purchased power costs that KCPL are actually experiencing are beyond KCPL's control
22 and/or volatile. This is clearly illustrated in Mr. Blunk's Direct Testimony as he details
23 KCPL's coal hedging strategy and practices. Coal is KCPL's major fuel expense making up

¹ Direct Testimony of Tim M. Rush On Behalf of Kansas City Power & Light Company, Page 7, lines 10-14.

1 ** __ ** percent² of KCPL's total fuel expense. Mr. Blunk explains KCPL's coal hedging
2 strategy:

3 Generally KCP&L has been following a modified strategy of laddering into a
4 portfolio of forward contracts for PRB coal. Laddering is an investment
5 technique of purchasing multiple products with different maturity dates.
6 KCP&L's "laddered" portfolio consists of forward contracts with staggered
7 terms so that a portion of the portfolio will roll over each year. ** _____
8 _____
9 _____
10 _____

**³

11 Q. Have KCPL's coal hedging programs allowed KCPL to have a major level of
12 control over price and price volatility for coal?

13 A. Yes. Mr. Blunk describes the performance of KCPL's coal hedging strategy in
14 his Direct Testimony:

15 Q: How did this strategy perform for KCP&L?

16 A: Since its implementation some years ago, this strategy has helped us avoid
17 much of the coal market volatility. It has also helped us avoid locking in to
18 the market highs. Using this strategy we have achieved weighted average
19 prices that are below what we would have had to pay if all of our coal had
20 been purchased in the calendar year before use. For ** _____ ** out of the
21 last ten years KCP&L's weighted average mine price for PRB coal was less
22 than CME ClearPort's average for all settlement dates for the year before
23 delivery.⁴

24 Q. Does this statement by Mr. Blunk indicate that KCPL exercises considerable
25 control over price and that coal price volatility is mitigated as a result of that control?

26 A. Yes, it does.

27 Q. Did you perform any analysis that quantifies KCPL's control over coal price
28 volatility?

² Staff Revenue Requirement Cost of Service Report, page 198, line 1.

³ Direct Testimony of Wm. Edward Blunk On Behalf of Kansas City Power & Light Company, Page 24, lines 11-17.

⁴ Direct Testimony of Wm. Edward Blunk On Behalf of Kansas City Power & Light Company, Page 25, lines 17-22 and page 26, lines 1-2.

1 Q. Please explain the relationship between these amounts and why it is important
2 when put into context as it relates to volatility.

3 A. Annualized coal cost is the amount that would be included in the revenue
4 requirement as the result of a rate case, and a portion of the rates charged to customers is
5 designed to recover this fuel cost. Annualized coal cost is derived by multiplying annualized
6 and weather normalized energy usage by the cost of coal on a Million British Thermal Unit
7 basis. In a perfect situation, this annualized level of coal cost would be recovered dollar for
8 dollar from KCPL's customers; however, based on "real world" variables, it is assured that
9 actual coal expense will be some other value besides the annualized level intended to be
10 recovered from customers. So under this paradigm the volatility of coal expense is only the
11 amount that was annualized and placed in rates and the amount KCPL either under- or over-
12 collected from customers based on energy usage. The volatility KCPL is subjected to as it
13 relates to coal cost is not the entire annualized amount but only the difference it collects from
14 its customers until a new level of coal expense would be set in a future rate case.

15 Q. What other fuel costs is KCPL seeking to include in its proposed FAC?

16 A. Along with coal, KCPL uses nuclear, natural gas and oil in the production of
17 electricity. The chart below provides the costs associated with these fuel types KCPL
18 incurred for the calendar years 2012, 2013 and 2014.⁵

⁵ KCPL Response to Staff Data Request No. 0055 in Case No. ER-2014-0370.

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**This Chart
Has Been Deemed
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Q. Have you performed any analysis related to nuclear fuel costs?

A. Yes I have. ** _____

_____ ** However, in KCPL's response to MECG's Data Request 2-10, it reports
contracted uranium prices for ** _____

_____ **

**

**This Chart
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Q. Do natural gas and oil have the same price stability?

A. Not quite. However, KCPL's reliance on natural gas and oil for the generation
of electricity is minimal, which in itself reduces the magnitude of volatility.

1 Q. Does Mr. Ives, in his direct testimony in this case, also claim one of the
2 contributing factors KCPL has not been able to earn its authorized return since its last rate
3 case is the lack of a FAC?

4 A. Yes, he does. He claims KCPL's retail and wholesale revenues were down
5 nearly \$14.5 million and fuel and purchased power costs were up \$13.7 million.⁶ However he
6 does not provide any analysis that quantified the impact to revenue requirement of these
7 isolated items.

8 Q. Does Mr. Ives provide any costs savings KCPL might have incurred during the
9 same period that would have had a positive impact on KCPL's earnings?

10 A. No, he does not.

11 Q. Why is it important not to take isolated increases in costs without recognizing
12 possible cost savings KCPL may have incurred during the same period?

13 A. The setting of rates and the determination of a revenue requirement is a
14 complicated endeavor and is best left to a formal rate case process so all relevant costs and
15 revenues can be analyzed and evaluated. Without taking into account all relevant factors only
16 shows a very narrow view of the how an isolated cost or revenue item may impact KCPL's
17 rate of return.

18 **PROPOSED FAC STRUCTURE**

19 Q. If the Commission grants KCPL's request for a FAC, does Staff agree with all
20 of KCPL's proposed FAC structure?

21 A. No it does not. Staff will address the major differences it has with KCPL's
22 proposed FAC structure below.

⁶ Direct Testimony of Darrin R. Ives, ER-2014-0370, page 7, line 14 - 16.

1 Q. Is KCPL requesting 100 percent recovery of the costs included in its proposed
2 FAC?

3 A. Yes, it is.

4 Q. What is the Staff's recommended FAC sharing percentage?

5 A. The Staff is recommending 95/5 percent sharing, where customers would be
6 responsible for, or receive the benefit of, 95 percent of any deviation in fuel and purchased
7 power costs as defined in the FAC tariff from the base amount included in rates. The other
8 three regulated utilities in Missouri have FACs, and the FAC for those companies provides for
9 a 95/5 percent sharing mechanism for the customers of those companies.

10 Q. Why is it important for KCPL to have a sharing mechanism included in its
11 FAC?

12 A. As I stated earlier in Staff's COS Report, customers are the party that has the
13 least control over the cost of the acquisition and supply of fuel used to generate electricity.
14 Allowing KCPL to pass along fuel and purchased power expenses to its customers without
15 having some "skin in the game" might act as a disincentive for KCPL to manage its fuel
16 expense properly. In fact, the Commission has previously found that "the easiest way to
17 ensure a utility retains the incentive to keep fuel and purchased power costs down is to not
18 allow a 100% pass through of those costs" and that "after-the-fact prudence reviews alone are
19 insufficient."⁷

20 Q. Is KCPL seeking to include all transmission costs as part of its FAC?

21 A. It appears so, except for the transmission costs incurred for the operation of
22 KCPL. KCPL's witness Mr. Rush makes the following statement:

⁷ REPORT AND ORDER, *In the Matter of the Tariffs of Aquila, Inc., d/b/a Aquila Networks – MPS and Aquila Networks – L&P Increasing Electric Rates for the Services Provided to Customers in the Aquila Networks – MPS and Aquila Networks – L&P Service Areas*, Issued May 17, 2007, Case No. ER-2007-0004, p. 54.

1 The Company requests that transmission costs associated with the charges and
2 revenues from Southwest Power Pool (“SPP”) billings, and transmission costs
3 to buy and sell energy, be recovered in rates through the FAC mechanism.
4 This will provide for a direct link between transmission associated with the
5 sale and purchase of energy and ensure appropriate recovery of transmission
6 costs billed by SPP. Transmission costs incurred for the operation of KCP&L
7 will not be included in the FAC, but will be recovered through base rates. This
8 is consistent with the current treatment of transmission costs at AmerenUE
9 Missouri.⁸

10 Q. If the Commission authorizes KCPL to use a FAC, does Staff agree that all
11 transmission costs should be included as a component of that FAC?

12 A. No. In Staff’s CCOS Report Staff detailed the various types of transmission
13 costs it thought appropriate to allow as a component of a FAC. Staff specifically excluded
14 SPP Schedule 11⁹ and Schedule 12¹⁰ costs and revenues. Simply put, these costs are of a
15 nature that supports the operation of SPP, and are *not* needed for KCPL to buy and sell energy
16 to meet the needs of its customers.

17 Q. Are the transmission costs KCPL is seeking to recover in its proposed FAC
18 volatile?

19 A. No. As discussed in Staff’s COS Report, the transmission costs Mr. Rush
20 provided are increasing, but are not volatile, and therefore should not be eligible for inclusion
21 in a FAC.

22 Q. Has Mr. Rush proposed to include SPP administrative fees in KCPL’s
23 proposed FAC?

24 A. Yes he has.

⁸ Direct Testimony of Tim M Rush On Behalf of Kansas City Power & Light Company, Page 17, lines 14-21.

⁹ Southwest Power Pool Schedule 11: Base Plan Zonal charge and Region-wide Charge.

¹⁰ Southwest Power Pool Schedule 12: FERC Assessment Charge.

1 Q. Do the other regulated utilities in Missouri that have a FAC include Regional
2 Transmission Organization (“RTO”) administrative charges in their FACs?

3 A. No. RTO administrative fees that are charged to the utilities (in the SPP these
4 fees are charged pursuant to Schedule 1-A¹¹) are not included in the other utilities’ FACs.

5 Q. Why are these types of charges not included in the FACs of the other utilities?

6 A. Most importantly, the nature of these costs are not directly linked to fuel and
7 purchased power cost. Also, these costs are variable, but not volatile in nature.

8 **OTHER ISSUE**

9 Q. Is it correct that in the most recent Ameren Missouri Rate Case,
10 ER-2014-0258, in which the Commission’s Report and Order was issued April 29, 2015, the
11 Commission provided its statutory interpretation of the type of transmission costs that should
12 be allowed for recovery in a FAC?

13 A. Yes it did. In that case, the Commission ordered:

14 ...the costs that should be included in the FAC are 1) costs to transmit electric
15 power it [the utility] did not generate to its own load (true purchased power)
16 and 2) costs to transmit excess electric power it is selling to third parties to
17 locations outside of MISO [the RTO] (off-system sales). Any other
18 interpretation would expand the reach of the FAC beyond its intent.¹²

19 Q. Does Staff’s position in this case fall in line with the Commission’s most
20 recent decision related to the appropriateness of transmission costs that should be considered
21 for recovery in a FAC?

22 A. Yes, Staff believes its position related to the nature of which transmission costs
23 are appropriate to include in KCPL’s proposed FAC is the same that was ordered by the
24 Commission in the case cited above. However, at this time Staff is still studying the

¹¹ Southwest Power Pool Schedule 1-A: Tariff Administration Service.

¹² In the Matter of Union Electric Company, d/b/a Ameren Missouri’s Tariff to Increase Its Revenues for Electric Service, REPORT AND ORDER, Issue Date: April 29, 2015, Effective Date: May 12, 2015, pages 115 – 116.

Rebuttal Testimony of
Dana E. Eaves

1 Commission's Report and Order from Case No. ER-2014-0258 to determine if any
2 differences exist. It is Staff's intention to follow the Commission's decision as related to the
3 appropriate transmission costs that should be included in KCPL's proposed FAC in this case.

4 Q. Does this conclude your rebuttal testimony?

5 A. Yes, it does.