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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

*Jefferson City, Missouri
October 2012*

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

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power &)
Light Company's Request for Authority to)
Implement A General Rate Increase for)
Electric Service)

Case No. ER-2012-0174

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 13 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.



Lena M. Mantle

Subscribed and sworn to before me this 3rd day of October, 2012.





Notary Public

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SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2012-0174

Q. Would you state your name and your business address?

A. My name is Lena M. Mantle. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am Manager of the Energy Unit of the Tariff, Safety, Economic, and Engineering Analysis Department, Regulatory Review Division.

Q. Are you the same Lena M. Mantle who provided rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to update the Commission regarding Staff’s understanding of the Interim Energy Charge (“IEC”) requested by Kansas City Power & Light Company, after reviewing the rebuttal testimony of KCPL witness Tim M. Rush.

Q. Did Mr. Rush’s testimony change Staff’s recommendation to the Commission?

A. No. Staff’s recommendation remains the same: the Commission should not approve the Interim Energy Charge (“IEC”) that KCPL has requested.

1 **KCPL's Stated Purpose of the IEC**

2 Q. Why does KCPL state it is requesting this IEC?

3 A. In his rebuttal testimony, Mr. Rush states that the goal of KCPL's IEC
4 mechanism is to "balance changes in fuel and purchased power costs with changes in OSS
5 margins." (Rush Rebuttal, page 26, lines 7-9).

6 However, in his direct testimony Mr. Rush states that KCPL is requesting this IEC
7 because it has not been able to make the Off System Sales margins ("OSS margins") that have
8 been included in rates since 2006, using the estimates of its own witness, Michael Schnitzer.
9 (Rush Direct, page 6, lines 6-7). In his direct testimony Mr. Rush states that, since 2006, the
10 Commission has relied on Mr. Schnitzer's probabilistic analysis of OSS margins in an attempt
11 to balance the interest of shareholders and ratepayers (Rush Direct, page 6, lines 17-22).
12 Then Mr. Rush states his opinion that the arrangement has not been fair to KCPL, and that an
13 IEC or a fuel clause is a more appropriate vehicle for dealing with OSS margin.

14 In his rebuttal testimony, Mr. Rush does not assert that KCPL's fuel costs are volatile
15 or even increasing. He does not assert that fuel and purchased power costs are beyond the
16 control of KCPL management. He does not assert that fuel and purchased power costs are
17 having a material impact on revenue requirement or the financial performance of KCPL.
18 Instead, he describes the risk to KCPL of not obtaining the OSS margin that has been included
19 in rates.

20 Q. Does KCPL's requested IEC achieve a fair balance, as Mr. Rush asserts?

21 A. Due to the complexity of the IEC that KCPL is requesting, it is hard to say if it
22 has achieved a fair balance. Most of the testimony describes the sharing of OSS margins.

1 With respect to fuel and purchased power costs, Mr. Rush makes the following statement in
2 his rebuttal testimony on page 26, beginning on line 15:

3 Annually for two years, the actual variable fuel and purchased power costs net
4 of actual OSS margins on a [kilowatt hour] basis will be compared to the base.
5 If the net is less than the base, fuel costs will be refundable to customers. If
6 the net is higher than the base, the Company will not recover those increased
7 costs. In addition to this, if the OSS margins are below the 40th percentile,
8 the Company will share a portion of those OSS margins with customers at the
9 level of 75%. The Company would defer 25% of the OSS margins for future
10 recovery.

11 Q. Isn't Mr. Rush stating that there is a possibility that KCPL will refund fuel
12 cost?

13 A. Yes. In his rebuttal testimony, Mr. Rush states that "fuel costs will be
14 *refundable* to customers." (page 26 lines. 17-18 [emphasis added]). Any potential customer
15 benefit from reduced fuel and purchased power costs depends on the level of OSS margins.
16 The scenarios that Mr. Rush attached to his testimony show that customers *might* get a refund,
17 but only if lower fuel costs are combined with high levels of off-system sales. For example,
18 in Scenario 4 on Mr. Rush's Schedule TMR-7 ("Schedule"), Mr. Rush attempts to explain
19 how the IEC would function when fuel and purchased power decrease and OSS margins
20 increase. It appears that KCPL would return the difference between the actual fuel and
21 purchased power costs and the fuel and purchased power cost as set in this specific set of
22 circumstances.

23 Q. Is Scenario 4 likely to actually occur?

24 A. Scenario 4, where fuel and purchased power costs decrease and OSS margins
25 increase, is likely to occur only if KCPL's customer use significantly less energy, and also if
26 there is a demand for that energy from another electric utility. But that isn't likely to occur
27 under normal circumstances because, as Mr. Rush states on page 7, lines 10 through 12 of his

1 direct testimony, “OSS Margins are by their very nature contra to fuel prices. By that, I mean
2 when fuel prices go up, OSS Margins go up ...”

3 Q. Did Mr. Rush’s Schedule TMR-7 show any other scenarios in which money
4 flows from the utility back to the customer?

5 A. Yes, he did. In Scenario 2, fuel and purchased power prices go up 10% and
6 OSS margins almost double which results in a fuel and purchased power net of OSS margin
7 on a kilowatt hour (“kWh”) basis that is less than the base fuel and purchased power net of
8 OSS margin on a kWh basis in his example.

9 Q. In this scenario, since the actual fuel and purchased power net of OSS margin
10 on a kWh basis is less than the base fuel and purchased power net of OSS margin on a kWh
11 basis, does his Schedule show a refund of any fuel and purchased power?

12 A. No, it does not. In this scenario, fuel and purchased power costs increased by
13 \$26.5 million and OSS margin was \$75.8 million—\$35.9 million above the 40th percentile. It
14 shows a refund to the customers of \$7.3 million. This \$7.3 million consists of 75% of the
15 OSS margin that is above the 60th percentile (\$6.3 million) and the difference between the
16 increase in the fuel and purchased power costs (\$26.5 million) and the OSS margin between
17 the 40th and the 60th percentile (\$27.5 million). So, the amount refunded to customers is due
18 to a high amount of OSS margins. Thus, the only scenario where customers receive a refund
19 from decreased fuel costs is in Scenario 4, in the unlikely event that fuel costs go down while
20 OSS margins go up.

21 Q. Was there anything KCPL agreed to in the *Stipulation and Agreement* of the
22 Regulatory Plan, Case No. EO-2005-0329, about over-collections of fuel and purchased
23 power cost in any IEC that KCPL might request?

1 A. Yes, there is. The *Stipulation and Agreement*, starting on page 7 of the
2 Regulatory Plan, states in part:

3 KCPL agrees, that prior to June 1, 2015, it will not seek to utilize any
4 mechanism authorized in current legislation known as “SB 179” or other
5 change in state law that would allow riders or surcharges or changes in rates
6 outside of a general rate case based upon a consideration of less than all
7 relevant factors. In exchange for this commitment, the Signatory Parties agree
8 that if KCPL proposes an Interim Energy Charge (“IEC”) in a general rate case
9 filed before June 1, 2015 in accordance with the following parameters, they
10 will not assert that such proposal constitutes retroactive rate making or fails to
11 consider all relevant factors:

12 (i) **A refund mechanism shall be established which will allow any**
13 **over-collections of fuel and purchased power amounts to be**
14 **returned to ratepayers** with interest following a review and true-up of
15 variable fuel and purchased power costs at the conclusion of each IEC.
16 Any uncontested amount of over-collection shall be refunded to
17 ratepayers no later than 60 days following the filing of the IEC true-up
18 recommendation of the Staff. (emphasis added)
19

20 Q. As designed, does the IEC requested by KCPL meet this requirement of the
21 Regulatory Plan?

22 A. No, it does not. It only allows for refund of over-collection of fuel and
23 purchased power costs *if* the actual fuel and purchased power cost net of OSS margin on a per
24 kilowatt hour (“kWh”) basis is less than the base fuel and purchased power cost net of OSS
25 margin as set in this case. Therefore, if the fuel and purchased power costs decrease and the
26 OSS margin decreases at a lesser rate, there will be a point at which fuel and purchased power
27 costs would be not be refunded—because the actual fuel and purchased power cost *net of OSS*
28 *margin* on a per kWh basis would be greater than the base fuel and purchased power cost net
29 of OSS margin as set in this case.

30 Q. Are OSS margins a recent phenomenon that has developed since when the
31 Regulatory Plan was written and agreed to?

1 A. No, they are not. As I stated in my rebuttal testimony, in evaluating whether or
2 not to build Iatan 2, KCPL included its estimate of the OSS margin that it expected to achieve.

3 Q. In his rebuttal testimony as quoted above, Mr. Rush states that if the actual fuel
4 and purchased power cost net of OSS margins is greater than the base, then KCPL will not
5 recover those cost. Do you agree?

6 A. Yes. Based on the Scenarios in his Schedule, KCPL will not seek to recover
7 those increased fuel and purchased power costs from its customers. However, while KCPL
8 may absorb the fuel and purchased power cost over what is in the rates, under its request
9 KCPL will also be able to retain the entire OSS margin if the OSS margin falls between the
10 40th and 60th percentile and fuel costs increase at least as much as the increase in the OSS
11 margin. So even though it is not passing the increase in fuel and purchased power costs on to
12 the customers, that increase would be offset by increases in the OSS margins.

13 Q. Is the sharing of the OSS margin as KCPL requests balanced?

14 A. No, it is not. The sharing request involves placing 25% of the OSS margin in a
15 regulatory liability account for KCPL, if the OSS margin falls below the 40th percentile, and
16 placing 25% of OSS margins above the 60th percentile in a regulatory liability account for
17 KCPL. If the OSS margin falls between the 40th and 60th percentile, KCPL gets to retain the
18 entire OSS margin if there is an increase in the fuel and purchased power of at least the same
19 amount. Therefore, the OSS margin sharing request is not balanced, because any customer
20 refund depends not only on the OSS margin, but also on the relationship of actual fuel and
21 purchased power costs to the amount of fuel and purchased power costs set in rates in this
22 case.

1 **Comparison of Testimony, Schedule TMR-7, and Specimen IEC Tariff Sheets**

2 Q. In your rebuttal testimony, you stated that you did not understand how KCPL's
3 recommended mechanism would operate. Do you have a better understanding from Mr.
4 Rush's rebuttal testimony?

5 A. Yes, but not a complete understanding. Mr. Rush provided more explanation
6 in his rebuttal testimony and Schedule TMR-7 that shows how the IEC mechanism described
7 in his testimony would work for some scenarios that he did not describe in his testimony.
8 However, the IEC that Mr. Rush describes in his testimony and his Schedule TMR-7 still does
9 not reconcile with KCPL's specimen tariff sheets.

10 Q. Can you show the differences in what is described in Mr. Rush's testimony and
11 the specimen tariff sheets?

12 A. Yes. I used the five scenarios laid out in Schedule TMR-7 to create the
13 following table. It shows what would be refunded to customers, under (or over) recovered by
14 KCPL, and deferred by KCPL using the methodology in Mr. Rush's testimony and the
15 specimen tariff sheets.

**This Table
Has Been
Deemed Highly Confidential
In Its Entirety**

1
2 Scenario 1: 10% Higher fuel cost, OSS at 55th percentile
3 Scenario 2: 10% Higher fuel cost, OSS at 65th percentile
4 Scenario 3: 10% Higher fuel cost, OSS at 30th percentile
5 Scenario 4: 2% Lower fuel cost,¹ OSS at 89th percentile
6 Scenario 5: 15% Higher fuel cost, OSS at 50th percentile
7

8 In this table, “Testimony” refers to my understanding of the proposed IEC described
9 in Mr. Rush’s direct and rebuttal testimony, and “Tariffed” refers to the specimen IEC tariff
10 sheets attached to Mr. Rush’s direct testimony. The dollars shown in parenthesis in the
11 “KCPL Under/(Over) Recovered” are actually over recovery, i.e., these dollars are from either
12 fuel cost savings and/or an increase in the OSS margin above what was refunded to customers
13 and deferred in a regulatory liability account.

14 This table shows that the only element that is consistent in every scenario is the
15 amount that KCPL would defer as a regulatory liability, i.e., KCPL’s 25% of the OSS margin
16 when the OSS margin falls below the 40th percentile or is above the 60th percentile. It also
17 shows that even though the IEC that Mr. Rush describes in his testimony may not result in
18 over recovery, the IEC described in the specimen tariff sheets would.

19 Q. Why does the amount that would be returned to the customers and the KCPL
20 under recovered vary in these scenarios?

¹ In the Schedule it states that this scenario represents a 5% cost reduction. A check of the calculations showed that it is actually a 2% reduction in the fuel costs.

1 A. It is impossible to determine that from the specimen tariff sheet, which lays out
2 a very succinct formula that is to be followed. Mr. Rush adds several layers of intricacy in his
3 testimony and schedules that are not reflected in the specimen tariff sheet. It is unclear how
4 KCPL might intend for these intricacies to have ratemaking effect if they are not contained in
5 its tariff.

6 Q. Did Mr. Rush provide all possible scenarios in his schedule?

7 A. It does not cover all possible scenarios. The table below shows the possible
8 scenarios.

		Off-System Sales Margin		
		Less than 40 th percentile	Between 40 th and 60 th percentile	Greater than 60 th percentile
Fuel and Purchased Power	greater than base	A	B	C
	less than base	D	E	F

9
10 Mr. Rush's Schedule only shows what would happen in Scenarios A, B, C, and F.

11 Q. What is your understanding of what would happen in Scenario D above: if the
12 fuel and purchased power falls below the base and the OSS margin is below the 40th
13 percentile?

14 A. According to Mr. Rush's testimony, if the fuel and purchased power costs net
15 of OSS margins on a kWh basis is less than the base fuel and purchased power costs net of
16 OSS margins on a kWh basis as set in this rate case, then KCPL would refund the decrease in
17 fuel and purchased power costs and an amount equal to the difference between the 40th
18 percentile OSS margins and the actual OSS margins would be put in a regulatory liability
19 account.

1 Also, if the fuel and purchased power costs net of OSS margins on a kWh basis is
2 greater than the base fuel and purchased power costs net of OSS margins on a kWh basis as
3 set in this rate case, then KCPL would get to keep the fuel savings and the difference between
4 the 40th percentile OSS margins and the actual OSS margins would be put in a regulatory
5 liability account.

6 According to the specimen tariff sheet 24A, KCPL would give a refund, but it would
7 not be less than the full amount of the fuel and purchased power savings.

8 According to the specimen tariff sheet 24, if the actual costs for fuel and purchased
9 power net of OSS margin were equal to or greater than the base amount (which is not
10 identified on the tariff sheet) no refund would be made.

11 Q. What would happen if Scenario E occurred: if the fuel and purchased power
12 fell below the base and the OSS margin is between the 40th and 60th percentile?

13 A. According to Mr. Rush's testimony, if the fuel and purchased power costs net
14 of OSS margins on a kWh basis is less than the base fuel and purchased power costs net of
15 OSS margins on a kWh basis as set in this rate case, then KCPL would refund both the
16 decrease in the fuel and purchased power costs and the OSS margin.

17 Also, if the fuel and purchased power costs net of OSS margins on a kWh basis is
18 greater than the base fuel and purchased power costs net of OSS margins on a kWh basis as
19 set in this rate case, then KCPL would get to keep the fuel savings. What would happen with
20 the OSS margin is unclear.

21 According to the specimen tariff sheet 24A, there would be a refund of the fuel and
22 purchased power savings and the entire OSS margin.

1 Again, according to the specimen tariff sheet 24, if the actual costs for fuel and
2 purchased power net of OSS margin was equal to or greater than the base amount (which is
3 not identified on the tariff sheet) no refund would be made.

4 Q. In the previous two answers, you gave a different answer for two different
5 tariff sheets. Has KCPL proposed two different specimen tariff sheets to be used in different
6 circumstances?

7 A. No, it has not. Specimen tariff sheet 24A is a continuation of specimen tariff
8 sheet 24. However, there are conflicts between the two tariff sheets. The specimen tariff
9 sheet 24 contains a written description of the proposed IEC. Specimen tariff sheet 24A
10 consists of formulas and definitions of components.

11 Q. In your rebuttal testimony you stated that the specimen tariff sheet indicates
12 that all of KCPL's variable fuel and purchased power costs, offset by some percentage of off-
13 system sales margins, will be recovered from the customer in a future rate case. Is that still
14 your testimony?

15 A. I'm not so sure after reviewing Mr. Rush's rebuttal testimony. The specimen
16 tariff sheet may be just referring to the amount that is deferred to a regulatory liability. As is
17 apparent throughout this testimony, it is still difficult to determine exactly how KCPL's
18 requested IEC would work.

19 Q. If KCPL files tariff sheets that address the inconsistencies discussed in your
20 surrebuttal testimony, will Staff be able to review them to determine if they are consistent
21 with KCPL's testimony?

22 A. Due to the complexity of KCPL's IEC design, Staff's involvement in another
23 Union Electric Company rate increase hearings, preparation of its case in the Empire District

1 Company rate increase case and the requirements of KCP&L Greater Missouri Operations
2 rate increase case, Staff and the other parties will have a limited amount of time to review the
3 specimen tariff sheets to see if they indeed do match the description of the IEC given in
4 KCPL's testimony. The implications of having tariff sheets that do not accurately portray the
5 IEC are many. For that reason, the review and vetting of such tariff sheets should not be
6 rushed.

7 In addition, there are many details regarding the fuel and purchased power costs and
8 OSS margins that are not included in the specimen tariff sheets. For example, the tariff sheets
9 should list the FERC account numbers and subaccounts for each type of fuel cost that would
10 be included as fuel and purchased power costs, whether or not hedging gains and losses would
11 be included, what SPP costs, if any, should be included. From the problems that have
12 occurred with the fuel adjustment clauses, Staff realizes that there needs to be much more
13 detail in the tariff sheets to prevent disagreements in the future.

14 **Conclusion**

15 Q. Has your review of Mr. Rush's rebuttal testimony changed Staff's
16 recommendation that the Commission reject KCPL's IEC request?

17 A. No, it has not. Staff is still opposed to KCPL's IEC request because:

- 18 1) It is inadequately described in testimony;
- 19 2) The specimen tariff conflicts with the supporting testimony;
- 20 3) The specimen tariff is confusing;
- 21 4) It is not clear enough that it has an amount subject to refund; and
- 22 5) It does not have a "floor" to reward KCPL for achieving savings in fuel
23 and purchased power costs or greater off-system sales margins;

24 After reviewing Mr. Rush's rebuttal testimony, I would now add to this list:

- 25 6) The specimen tariff is internally conflicting; and

Surrebuttal Testimony of
Lena M. Mantle

1 7) It will not always meet the Regulatory Plan's requirement that for a
2 refund mechanism that allows any over-collections of fuel and
3 purchased power amounts to be returned to ratepayers
4

5 Staff's recommended treatment of off-system sales margins and fuel and purchased power
6 costs provides incentive for KCPL to make off-system sales and keep fuel and purchased
7 power costs low.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.