

Exhibit No.:  
Issues: Quarterly Cost Adjust.  
Witness: Donald Johnstone  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: AGP  
Case Number: HR-2009-0092  
Date Testimony Prepared: March 19, 2009

Aquila, Inc. / dba  
Kansas City Power & Light Company  
Greater Missouri Operations

Case No. HR 2009-0092

Prepared Rebuttal Testimony of

**Donald Johnstone**

On behalf of

**AG PROCESSING INC, A COOPERATIVE**

March 2009



Before the  
Missouri Public Service Commission

Aquila, Inc. / dba  
Kansas City Power & Light Company  
Greater Missouri Operations

Case No. HR 2009-0092

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For the  
Rebuttal Testimony of Donald Johnstone**

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### Prepared Rebuttal Testimony of Donald Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is Donald Johnstone and my address is 384 Black Hawk Drive, Lake Ozark,  
3 Missouri, 65049. My qualifications and experience are set forth in Appendix A to my  
4 direct testimony in this matter.

5 Q ON WHOSE BEHALF ARE YOU APPEARING?

6 A I am appearing on behalf of intervenor AG PROCESSING INC, A COOPERATIVE (AGP). I  
7 have also been retained by Triumph and Omnium, each of whom is a steam customer  
8 of the applicant utility.

#### 9 SUBJECTS ADDRESSED

10 Q WHAT ARE THE SUBJECTS ADDRESSED IN YOUR TESTIMONY?

11 A I address the Quarterly Cost Adjustment mechanism. I oppose the QCA as modified by  
12 Aquila dba KCPL/GMO ("Aquila" or "Company") and recommend elimination of the  
13 QCA if Aquila's proposal were to be the form.

1           In the alternative I recommend the continuation of the current QCA with an  
2           adjustment to reflect the current base cost of fuel and an adjustments to the coal  
3           performance standards.

4    **QCA CHANGES**

5    Q     **DOES AQUILA PROPOSE TO ELIMINATE THE PERFORMANCE STANDARDS THAT APPLY**  
6           **TO COAL FIRED STEAM PRODUCTION?**

7    A     Yes.

8    **Q     DO YOU OPPOSE ELIMINATION OF THE COAL PERFORMANCE STANDARDS IF**  
9           **THE QCA IS CONTINUED?**

10   A     If the QCA is to be continued subject to mutual agreement, my clients could agree to  
11           an adjustment to the standards. Schedule 1 is a chart illustrating the history of the  
12           production levels of coal-fired steam for the period January 2001 through February  
13           2009. The coal-fired steam output is illustrated as 3, 6, 9, and 12-month rolling totals  
14           over the several years. There has been an upward trend through time. The chart also  
15           shows the existing coal performance standards. Aquila and AGP had expected  
16           performance above the standards that were established in February 2006, but that did  
17           not happen. One significant cause was the forecast of customer steam load that did  
18           not increase as was expected when the standards were designed.

19           The effect of the coal performance standards is to impute additional coal-fired  
20           steam production in the event that the standard is not met. The imputed coal  
21           production offsets higher cost gas production. The net effect is to reduce QCA charges  
22           to a level consistent with coal production that meets the coal performance standards.

1 **Q IS THERE A LEVEL OF COAL PERFORMANCE STANDARD THAT COULD BE**  
2 **ACCEPTABLE TO AGP ET. AL. IN CONSIDERATION OF EXPERIENCE GAINED?**

3 A Yes. In the context of developing a mutually agreeable QCA, my clients suggest new  
4 performance standards as illustrated on Schedule 2. In consideration of the  
5 experience to date, revised standards are suggested for the 3 and 12-month periods.  
6 The suggestion is also to eliminate the standards for the 6 and 9-month periods.

7 **Q ARE THERE CIRCUMSTANCES IN WHICH YOU WOULD RECOMMEND FURTHER**  
8 **ADJUSTMENT TO THE SUGGESTED COAL PERFORMANCE STANDARDS?**

9 A Yes. There are two. First, it would be acceptable to adjust the standards annually in  
10 proportion to test year customer loads. This would reduce the standards if loads  
11 decline and increase them if loads increase. Since there is ultimately a limit to the  
12 output of boiler 5, I would not oppose a reasonable cap on the increase. However, at  
13 this time I am aware of no large increases in load that would create the need for a  
14 definitive cap.

15 Second, in the event of another once in five year type of major outage for  
16 system maintenance and improvement, such as occurred in the last quarter of 2008, it  
17 would be acceptable for the standards be adjusted to reflect the reduced availability  
18 of the boiler due to the scheduled outage. For example, if the coal-fired boiler is  
19 scheduled off line for 55 days in one quarter due to such an outage, the 3-month  
20 standard would be reduced to a level of 38.89%  $((90-55)/90)$  of the 3-month standard.  
21 A corresponding adjustment of 84.93%  $((365-55)/365)$  would be made in the 12-month  
22 standard.

23

1 **QCA RELIABILITY IMPLICATIONS**

2 Q HAS RELIABILITY BEEN A CONTINUING ISSUE?

3 A Yes, particularly for high pressure steam service. While there are periodic discussions  
4 between AGP and Aquila at the plant level, it is a matter that also has relevance in  
5 the context of the QCA. The major outage in fall of 2008 resulted in coal-fired steam  
6 production falling below the performance threshold. In spite of the overall improved  
7 ability to earn a fair return, the present coal performance standard, if considered  
8 separately, could be construed to discourage system improvements. This was not the  
9 intent and the proposed adjustment to the coal performance standard addresses the  
10 concern.

11 Q ARE ANY FURTHER ADJUSTMENTS TO THE QCA NECESSARY FOR THE PURPOSE OF  
12 ADDRESSING INCENTIVES TO AN ACCEPTABLE LEVEL OF RELIABILITY?

13 A Reliable service is what is expected of a public utility and the QCA to a large extent  
14 addresses a separate issue -- the ability to adjust rates more frequently to reflect  
15 cost changes and to thereby improve the opportunity for Aquila to earn a fair return.  
16 Of course, Aquila is always expected to manage the business efficiently. The QCA  
17 should align the interests of ratepayers and Aquila by maintaining incentives to  
18 efficiency and by never becoming so automatic as to substantially reduce or eliminate  
19 the incentive to the lowest reasonable fuel costs. With these several important  
20 qualifications, my clients would consider a proposal in the context of the QCA that  
21 would focus on the maintenance and improvement of reliability, if that can be  
22 accomplished while maintaining the other objectives of the QCA.

1 Q COULD YOUR CLIENTS SUPPORT THE CONTINUATION OF THE CURRENT QCA WITH  
2 THE ADJUSTMENTS TO THE COAL PERFORMANCE STANDARDS AS SUGGESTED IN THIS  
3 TESTIMONY?

4 A Yes. It continues to be far superior to use a mechanism that encourages a cost-  
5 effective result in the first place and minimizes the reliance on after-the-fact reviews.  
6 That is an effect of the 80/20 mechanism that is important to maintain. Also, the  
7 suggested coal performance standards will operate to allow fuel price changes to  
8 largely pass through, while avoiding the effect of providing production replacement  
9 cost insurance in the event that Aquila is unable to maintain the historical level of  
10 coal-fired steam production for any reason other than a major five year scheduled  
11 outage. The effect of other more or less typical outages is a part of the data used to  
12 establish the suggested standards.

13 **SUMMARY**

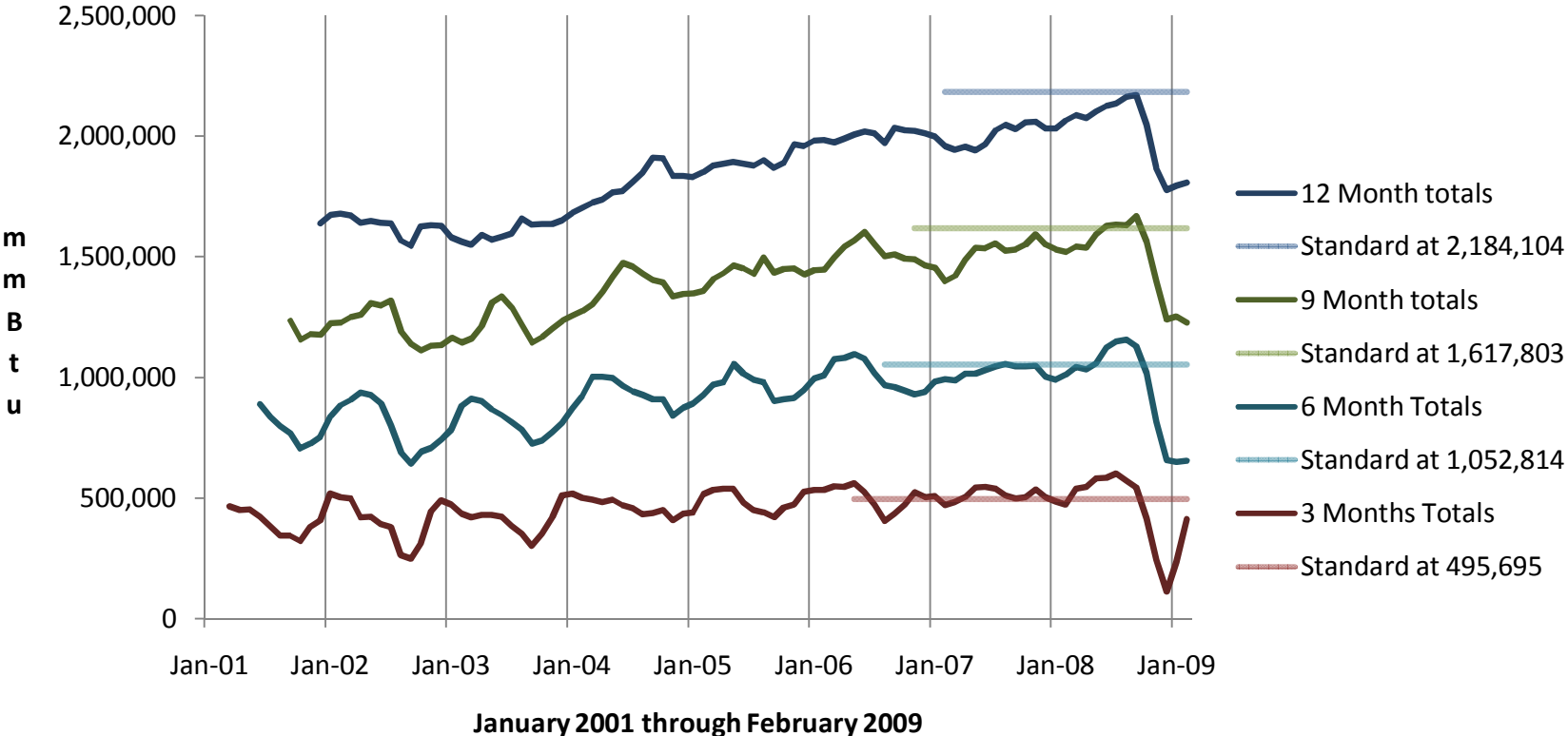
14 Q PLEASE SUMMARIZE THE ADJUSTMENTS YOU SUGGEST.

15 A The base cost of gas should be reset. Also, the coal performance standard should be  
16 reset at a levels illustrated on Schedule 2 for the 3-month and 12-month production  
17 levels while eliminating the 6 and 9-month standards. I also suggest changes to the  
18 coal performance standards to accommodate the impact of a major outage and the  
19 impact of changing levels of customer loads.

20 Q DOES THIS CONCLUDE YOUR TESTIMONY?

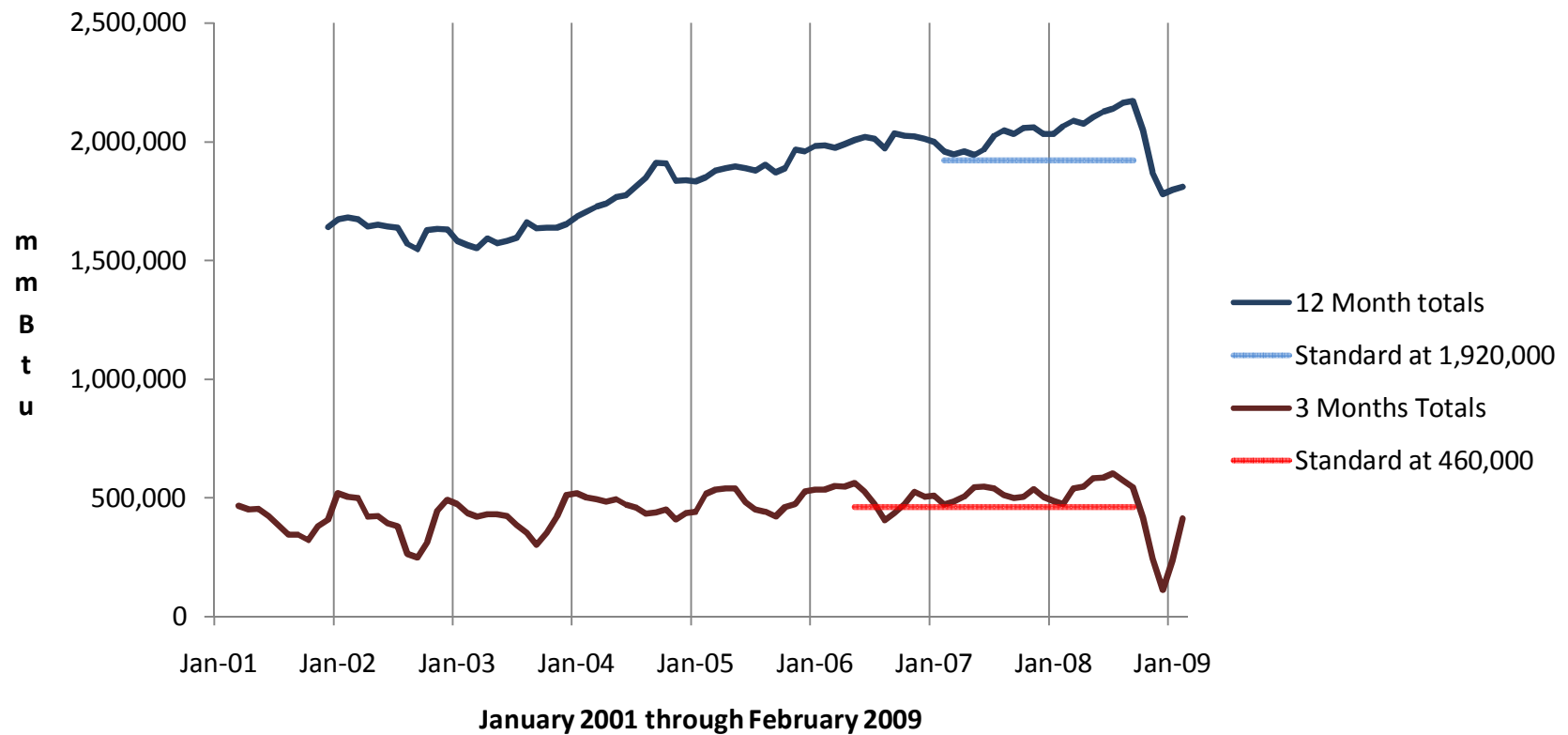
21 A Yes it does.

# Aquila Steam Coal mmBtu to Steam History and Existing Coal Performance Standards





# Aquila Steam Coal mmBtu to Steam History and Recommended Coal Performance Standards



BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of the Application of            )  
Aquila, Inc. d/b/a KCP&L Greater            )  
Missouri Operations Company for            ) Case No. HR-2009-0092  
Approval to Make Certain Changes in its    )  
Charges for Steam Heating Service         )

**Affidavit of Donald Johnstone**

State of Missouri            )  
  )  
County of Camden         )        ss

Donald Johnstone, of lawful age, on his oath states: that he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

  
Donald Johnstone

Subscribed and sworn before me this 19th day of March, 2009

  
Notary Public

|  |
|--|
| CYNTHIA E. BALLIN<br>Notary Public - Notary Seal<br>State of Missouri<br>Commissioned for Camden County<br>My Commission Expires: July 18, 2012<br>Commission Number: 08379951 |
|--|