EXHIBIT

Exhibit No.:	310 NP
Issue(s):	FAC
Witness/Type of Exhibit:	Mantle/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2014-0370

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of
the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

Case No. ER-2014-0370

** **

Denotes Highly Confidential Information that has been Redacted

May 7, 2015

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16BEFORE 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-2014-0370

<u>AFFIDAVIT OF LENA M. MANTLE</u>

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Lena Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Lena M. Mantle

Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 7th day of May 2015.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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REBUTTAL TESTIMONY

OF

LENA M. MANTLE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson City, Missouri 65102. I am a Senior Analyst for the Office of the Public Counsel ("OPC").

Q. **ARE YOU THE SAME LENA M. MANTLE THAT PROVIDED DIRECT TESITMONY IN THIS CASE?**

A. Yes, I am.

Q. **WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. It is the position of OPC that Kansas City Power & Light Company ("KCPL") is violating its Regulatory Plan agreement by asking for a fuel adjustment clause ("FAC") in this rate case. If the Commission determines that KCPL has not violated the Regulatory Plan, it is OPC's recommendation that the Commission not approve an FAC for KCPL. One of the main reasons that KCPL is requesting an FAC is off-system sales.[1] It is OPC's position that §386.266 RSMo. does not provide for an off-system sales adjustment mechanism, and therefore it is improper to consider fluctuations in off-system sales in an analysis of whether or not an FAC should be granted. If the Commission does consider off-system sales in its analysis of whether or not an FAC should be granted, this rebuttal testimony provides the Commission with information that, contrary to information provided in

[1] Direct testimony of KPCL witness Tim Rush, page 14

KCPL's direct testimony, shows that changes in KCPL's off-system sales do not support the need for an FAC.

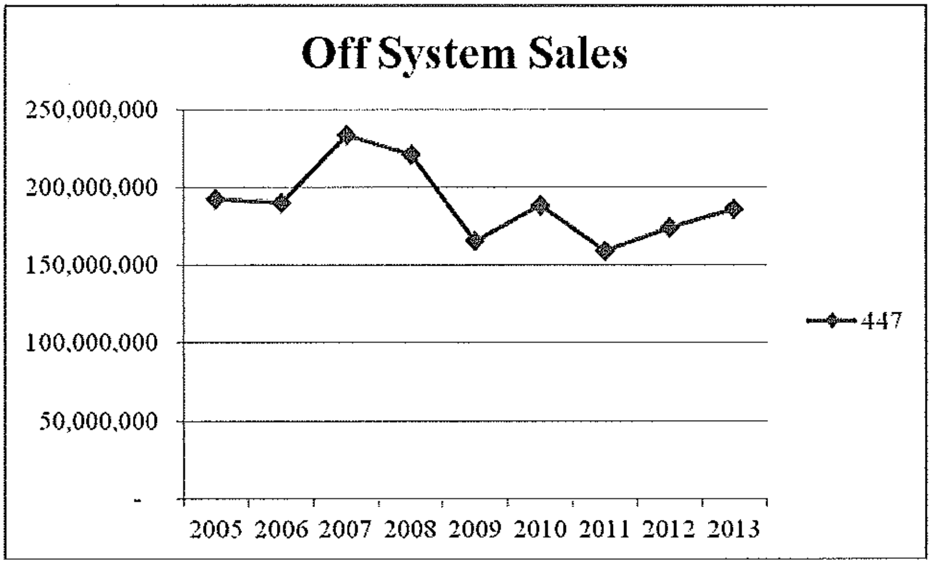
This testimony responds to KCPL's assertion that, if granted an FAC, no sharing mechanism is necessary because of the Southwest Power Pool's ("SPP's") integrated market.

This testimony also provides OPC's support for the two additional criteria that Missouri Energy Consumer's Group ("MECG") witness Michael L. Brosch provided in his direct FAC testimony, and for his recommendation that information be provided on customers' bills that allow the customer to identify the rate schedules used to calculate their bill.

REBUTTAL TO KCPL'S USE OF OFF-SYSTEM SALES AS REASON FOR FAC

Q. WHAT DOES KCPL PROVIDE FOR THE COMMISSION, WITH RESPECT TO ITS OFF-SYSTEM SALES, TO SUPPORT KCPL'S PROPOSAL THAT THE COMMISSION SHOULD GRANT IT AN FAC?

A. KCPL witness Tim M. Rush provides a graph on page 10 of his direct testimony that is titled "Off System Sales Revenues, pre SPP IM." It is duplicated below.



This graph purports to show the great magnitude and volatility of off-system sales.

Q. WHY IS IT INAPPROPRIATE TO USE THE INFORMATION PROVIDED BY MR. RUSH IN THIS GRAPH?

A. This graph shows gross revenues of firm and non-firm sales of energy by KCPL for a nine year time period of 2005 through 2013. KCPL is using the gross off-system sales that it made seven years ago (2007) to show that its off-system sales are large ($234 million) and is comparing the sales in 2007 to the sales made in 2011 ($159 million for a range of $75 million) to show that off-system sales is volatile.

Q. WHAT IS THE APPROPRIATE INFORMATION TO USE REGARDING OFF-SYSTEM SALES?

A. It is more appropriate to use the off-system sales revenue net of the fuel costs since it is the margin, not the gross revenues, which offset fuel costs. In addition, off-system sales margins for a more recent time period would be a more accurate representation of the impact of off-system sales. The graph below shows the off-system sales revenue and margins for the time period of 2009 through 2013.

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This graph shows much less volatility in off–system sales revenue (a range of $29 million) as compared to Mr. Rush's graph. In addition, it shows that the volatility of off-system sales margins (a range of ** **) is much less than the volatility in off-system sales revenues (a range of $29 million). The ranges of both the total revenues and margins are considerably less than the range of $75 million shown in the graph in Mr. Rush's direct testimony.

NEED FOR SHARING MECHANISM IF FAC IS GRANTED

Q. IS KCPL PROPOSING ANY TYPE OF MECHANISM TO SHARE ITS FUEL AND PURCHASED POWER RISK IN ITS PROPOSED FAC?

A. No, it is not. Mr. Rush, on page 26 of his direct testimony, explicitly states that the FAC KCPL is proposing would not include a mechanism that would share the fuel and purchased power risk between KCPL, which has some control over fuel and purchased power costs, and its customers which have no control over fuel and purchased power costs. However, Mr. Rush does not describe the incentive mechanism the Commission has ordered for the other electric utilities as a sharing or incentive mechanism. Instead, he describes it as a "limitation." OPC sent KCPL data requests 8009 through 8011 to get a better understanding of KCPL's position regarding a sharing mechanism. KCPL's response is attached as Schedule LMM-R-1, LMM-R-2 and LMM-R-3 to this testimony. In these responses, KCPL again states that the Company does not agree with a sharing mechanism, and further explains that it does not believe that an incentive mechanism is needed because it is participating in the SPP integrated market, and because the Commission would have oversight of KCPL's FAC. KCPL, in its response to OPC data request 8011 (Schedule LMM-R-3), admits that returning 100% of off-system sales revenues to customers provides no incentive for KCPL to maximize off-system sales revenues.

Q. DID YOU FIND ANY ADDITIONAL INFORMATION REGARDING WHY KCPL DOES NOT BELIEVE AN INCENTIVE MECHANISM IS NEEDED?

A. Yes. In response to MECG data request 13-5 subpart d., KCPL stated that the FACs with sharing mechanisms had been implemented prior to the implementation of the SPP integrated market and "The market paradigm under which the Commission reached that conclusion no longer exists."

Q. DOES OPC AGREE THAT AN INCENTIVE IS NOT NECESSARY BECAUSE THE SPP HAS IMPLEMENTED AN INTEGRATED MARKET?

A. No, it does not. While SPP may be determining which of KCPL's generating resources is dispatched, KCPL still determines what generation it bids into the SPP market. KCPL still determines the maintenance needed on its generation fleet to ensure that the plants run efficiently. KCPL still determines when planned outages will occur. KCPL enters into contracts for fuel for its generating units. SPP still requires KCPL to have generation to meet its load, i.e., KCPL cannot just depend on the SPP market to provide the energy and capacity needs of its customers.

If there is no incentive mechanism, KCPL will recover all of its costs even if it does not bid correctly in the SPP integrated market, if it does not do the maintenance needed to keep its plants running efficiently, does not schedule outages at times when it least impacts fuel costs and does not efficiently manage its fuel costs. It will be left to Staff and other parties to show that KCPL's actions were imprudent. Absent an incentive, when KCPL does need additional generation to meet the SPP reserve requirement, KCPL could just build generation, without regard to the cost of fuel used in that generation, to meet future load because it can recover all of the fuel costs through its FAC.

Q. WHAT IS OPC'S RECOMMENDATION REGARDING THE INCLUSION OF A SHARING MECHANISM IN AN FAC?

A. If the Commission determines that KCPL has not violated the Regulatory Plan, and if the Commission grants KCPL an FAC, KCPL's FAC should include a 50/50 sharing mechanism that requires KCPL to absorb 50 percent of any cost increases/revenue decreases and allows it to retain 50 percent of any cost savings/revenue increases.

RESPONSE TO DIRECT TESTIMONY OF MECG WITNESS MR. MICHAEL L. BROSCH

Q. WOULD YOU PROVIDE OPC'S RESPONSE TO MR. BROSCH'S DIRECT TESTIMONY REGARDING KCPL'S REQUEST FOR AN FAC?

A. In general, Mr. Brosch's testimony supports and compliments OPC's FAC testimony. Mr. Brosch proposes additional criteria for granting an FAC that OPC supports. In addition, OPC agrees with Mr. Brosch's recommendation that specific information be provided on customers' bills to identify which set of KCPL rate schedules are applicable to the rendered billing.

Q. WHAT CRITERIA FOR AN FAC DID MR. BROSCH PROPOSE?

A. In addition to the three criteria provided by the Commission in previous cases in which an FAC was requested, Mr. Brosch recommends, on page 15 of his direct testimony, the following two criteria for an FAC:

1. Straightforward to administer and readily audited and verified through periodic regulatory reviews; and
2. Balanced such that any known factors that mitigate cost impacts are accounted for in a manner that preserves test year matching provisions.

Q. DOES OPC AGREE WITH THESE ADDITIONAL CRITERIA?

A. Yes it does. FAC's in Missouri have grown increasingly complicated, which blurs the transparency of the FAC and makes reviews of FACs difficult. In addition, a good balanced FAC will include factors that mitigate cost impacts and preserves test year matching principles.

Q. WHY IS OPC SUPPORTING MR. BROSCH'S RECOMMENDATION THAT SPECIFIC INFORMATION BE PROVIDED ON CUSTOMERS' BILLS TO IDENTIFY WHICH SET OF KCPL RATE SCHEDULES ARE APPLICABLE TO THE RENDERED BILLING?

A. Identifying which set of KCPL's (and GMO's) rate schedules are applicable to the customer's billing would reduce customer confusion regarding what rate and tariff provisions apply to their service and increase the ability of a customer to effectively manage its electric bill.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Mantle Lena Interrogatories - OPC_20150316
Date of Response: 04/06/2015

Question:OPC-8009

Please describe how recovery of 100% of its fuel cost is an incentive to KCPL to most efficiently and effectively manage its generation.

Response:

Prior to the implementation of Southwest Power Pool's (SPP) Integrated Marketplace (IM), the Commission determined that allocating recovery of prudently incurred fuel costs 95%/5% (between customers and shareholders) that would have otherwise been 100% recovered through the fuel clause would incent a utility to take the steps necessary to keep its fuel costs down. Although the Company did not and does not agree with this conclusion (because it amounts to an automatic disallowance when fuel costs are rising unavoidably with absolutely no showing of imprudence by the Company), the paradigm under which the Commission reached that conclusion no longer exists.

With the implementation of SPP's IM, SPP dispatches all of the units within its Consolidated Balancing Authority (CBA). SPP is co-optimizing the dispatch of all resources in its BA to minimize the total production costs in the Day Ahead Market (DA Market) and the Real Time Balancing Market (RTBM) for energy and operating reserves subject to operational and reliability constraints. Under the IM the Company is required to offer all resources that are not on a planned, forced, or otherwise approved outage. The SPP dispatches those various Resources.

The level of recovery of the Company's fuel costs through base rates or fuel adjustment clause has no impact on SPP's dispatch algorithm and its efforts to minimize total production costs in the DA Market and RTBM for energy and operating reserves.

The Commission has oversight of the Company's recovery of fuel and purchased power costs, as it does with other cost of service and rate base elements. These costs are reviewed at the time of a rate case, and through periodic reporting provided to the Commission and Commission Staff. If the Company has a Fuel Cost Adjustment mechanism, the tariffs under which the mechanism works require that costs covered by the FAC mechanism will be reviewed numerous times. Once, when base fuel costs are set in a rate case; second, through the filing of a change in the FAC; third, through periodic prudence reviews; and fourth and finally, through the rate case filings that are required under the FAC rules when base fuel costs are re-set. During each of these review opportunities, the Company is subject to a finding that it has not acted prudently in managing the portfolio of items that make up fuel costs and is therefore at risk to recover less than 100% of its fuel-related costs.

The extensive review of fuel-related costs that occurs under the FAC serves as ample incentive for the Company to manage its fuel-related costs efficiently and effectively so that it can recover 100% of fuel costs after reviews by the Commission.

Answered by: Ed Blunk, Generation Sales and Services
Tim Rush

Attachment: QOPC-8009_Verification.pdf

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Mantle Lena Interrogatories - OPC_20150316
Date of Response: 04/06/2015

Question:OPC-8010

Please describe how recovery of 100% of its purchased power cost is an incentive to KCPL to enter into the most cost-effective purchased power agreements to meet its customers' needs.

Response:

Under the Southwest Power Pool (SPP) Integrate Marketplace that started March 1, 2014, day-ahead and real-time power purchases are made through SPP for all of KCP&L's native load obligations. This effectively replaced the previously existing bilateral market structure.

Longer-term purchased power decisions are typically resource related. That is, the Company compares the proposed purchased power agreement with the available options which may include purchase or construction of resources. Limiting the recovery of a purchased power agreement would distort the economics of a purchased power agreement and could result in the selection of an alternative that did not come with an automatic loss for the Company assuming less than 100% of purchased power expenses were not recoverable.

The Commission has oversight of the Company's recovery of purchased power costs, as it does with other cost of service and rate base elements. These costs are reviewed at the time of rate case, and through periodic reporting provided to the Commission and Commission Staff. If the Company has a Fuel Cost Adjustment mechanism, the tariffs under which the mechanism works is reviewed numerous times. First, through the filing of a change in the FAC; second, through periodic prudence reviews and lastly, through the rate case filings that are required under the FAC rules.

The incentive to recovery of 100% of purchased power costs is recovery of purchased power costs after reviews by the Commission.

Answered by: Burton Crawford, Energy Resource Management
Tim Rush

Attachment: QOPC-8010_Verification.pdf

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Mantle Lena Interrogatories - OPC_20150316
Date of Response: 04/06/2015

Question:OPC-8011

Please describe how returning 100% of off-system sales revenues to its customers is an incentive for KCPL to maximize its off-system sales revenues.

Response:

Returning 100% of off-system sales revenues to customers is not an incentive to maximize off-system sales revenues. Under the new SPP Integrated Marketplace, all energy generated by KCP&L is sold to the SPP market. This effectively replaced the previously existing bilateral market structure.

Answered by: Burton Crawford, Energy Resource Management

Attachment: QOPC-8011_Verification.pdf