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Witness: Cary G. Featherstone
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES – AUDITING

TRUE-UP DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

~~Staff~~ Exhibit No. 385
Date 11-19-12 Reporter KF
File No ER-2012-0174
ER-2012-0175

**Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY and
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

CASE NOS. ER-2012-0174 and ER-2012-0175

*Jefferson City, Missouri
November 8, 2012*

Staff Exhibit No. 385

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CARY G. FEATHERSTONE
GREAT PLAINS ENERGY, INCORPORATED
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and
KCP&L GREATER MISSOURI OPERATIONS COMPANY
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1 Q. What is the purpose of your true-up direct testimony?

2 A. The purpose of this testimony is to provide the results of Staff's true-up audits
3 of both the KCPL and GMO cases, as the Commission ordered in its April 19, 2012, Orders
4 setting the procedural schedules in each case. The true-up period is the twelve months ended
5 August 31, 2012.

6 Because GMO has two rate districts—MPS and L&P, Staff is filing three separate true-up
7 revenue requirement runs—one for KCPL, one for MPS and one for L&P. Each is based on the
8 above true-up cutoff of August 31, 2012.

9 **EXECUTIVE SUMMARY**

10 Q. Would you please summarize your true-up direct testimony?

11 A. In orders it issued April 18, 2012, the Commission ordered the true-up periods for
12 these rate cases to be the twelve months ended August 31, 2012. The Commission ordered the
13 test year in both cases to be the twelve months ended September 30, 2011, updated for known
14 and measurable changes through March 31, 2012.

15 The Staff's true-up runs support Staff's recommendations to the Commission for
16 the amount of the rate revenue increases the Commission should order for KCPL and GMO
17 (MPS and L&P rate districts). Staff's recommendations are based on its three revenue
18 requirement results—one for KCPL, one for MPS and one for L&P—that are based on actual
19 historical information through the period ending August 31, 2012. These three recommendations
20 are in Staff's separately filed True-Up Accounting Schedules for KCPL, MPS and L&P.

21 This true-up direct testimony presents an overview of Staff's true-up audits and revenue
22 requirements for KCPL, MPS and L&P. The same Staff members who prepared the rate revenue
23 recommendations presented in Staff's direct testimony in each case performed Staff's true-up

1 revenue requirement calculations. In making its true-up revenue requirement recommendations
2 Staff considered all the relevant and material components of the revenue requirement calculation.
3 Broadly, these components are: (1) capital structure and return on investment, (2) rate base
4 investment and (3) income statement results, including revenues and depreciation expense,
5 including income taxes. I provide in this testimony an overview of Staff's true-up work on each
6 of these broad components.

7 Q. What revenue requirement increases is Staff recommending for KCPL, and for
8 MPS and L&P?

9 A. Staff is recommending a revenue requirement increase for KCPL of
10 \$53.5 million, for MPS of \$16.1 million and for L&P of \$18.6 million based on the high end of
11 Staff's recommended the rate of return—9.0%.

12 Q. Would you explain the broad components Staff relied on for each of these
13 revenue requirement increase recommendations?

14 A. Yes. For its true-up case Staff used its high-end overall rate of return of 7.654%
15 for KCPL, MPS and L&P. These overall rates of return are based on a return on equity of 9.00%
16 for KCPL, MPS and L&P (Staff witness David Murray's Surrebuttal). During the true-up period
17 after August 31, 2012, both KCPL and GMO ("MPS and L&P") had plant additions and fuel cost
18 increases that caused increases in the revenue requirements.

19 Based on the Commission's April 18, 2012, Orders in each case where it established the
20 procedural schedules, Staff used August 31, 2012, as the cutoff date for the true-up audits.

21 As of the August 31, 2012, true-up cutoff date, KCPL had added to its electric generating
22 system 231.9 megawatts of new wind turbine generation under two purchased power agreements.

1 Plant additions and retirements through the time of the true-up ending period August 31,
2 2012, in these cases are reflected in the true-up revenue requirements for KCPL, MPS and L&P.
3 The true-up includes actual payroll and payroll-related benefits through August 31, 2012.
4 It includes medical costs. It includes fuel costs, including fuel commodity price changes and
5 freight price changes. It includes increased fuel costs due to actual price increases and decreases
6 for the commodity and delivery. Staff's true-up also includes reasonable and prudent cost
7 increases and decreases through the end of the true-up period of August 31, 2012, that are not
8 specifically included in Staff's direct filing.

9 Q. What are the results of Staff's true-up audits?

10 A. Staff's updated revenue requirements for the August 31, 2012 true-ups are:

11

	True-up as of August 31, 2012		
	Low	Mid	High
Kansas City Power & Light Company	\$36,010,241	\$44,771,997	\$53,500,440
GMO - MPS	\$4,431,368	\$10,258,159	\$16,062,796
GMO - L&P	\$14,454,315	\$16,488,026	\$18,562,764

12
13 The above revenue requirements include the impacts of the three non-unanimous, but
14 unopposed, stipulations and agreements that the Commission incorporated into its November 7,
15 2012, *Order Incorporating Unopposed Non-Unanimous Stipulations and Agreement*.

16 The MPS and L&P revenue requirement amounts include the impact for the agreement
17 reached for the Missouri Energy Efficiency Investment Act (MEEIA) of \$14.1 million for MPS
18 and \$4.7 million for L&P.

1 **TRUE-UP**

2 Q. What rate of returns did Staff use for its true-up recommendations?

3 A. Staff used its range for rate of return on equity of 8.00% to 9.00%, with a mid-
4 point of 8.50% and a true-up capital structure. The overall rates of return Staff used for KCPL
5 and GMO are:

	<u>Low</u>	<u>Mid</u>	<u>High</u>
7 KCPL	7.129%	7.392%	7.654%
8 GMO	7.129%	7.392%	7.654%

9 Q. What are the specific areas of Staff's recommended increase in KCPL's and
10 GMO's revenue requirements in this case?

11 A. The following represent a non-exhaustive list of areas that make up Staff's true-up
12 filing to reflect actual known changes through August 31, 2012 for KCPL and GMO:

- 13 • Updated Rate of Return to reflect changes in the capital structure;
- 14 • Actual plant in Service investments, accumulated depreciation reserve and
15 related depreciation expense as of August 31, 2012;
- 16 • Accumulated deferred income taxes as of August 31, 2012;
- 17 • Fuel inventories as of August 31, 2012;
- 18 • Included changes for revenues to reflect customer levels through
19 August 31, 2012;
- 20 • Fuel costs, including freight rate increase and purchased power costs based
21 on actual prices through August 31, 2012;
- 22 • Updated KCPL's firm bulk power through August 31, 2012;
- 23 • Payroll and payroll related benefit costs reflecting actual employee levels
24 and salary amounts through August 31, 2012;
- 25 • The true-up reflects the *Non-Unanimous Stipulation and Agreement as to*
26 *Certain Issues* filed October 19, 2012, as modified by the *Non-Unanimous*
27 *Stipulation and Agreement Regarding Low-Income Weatherization and*

1 *Withdrawal of Objection and Request for Hearing* filed October 26, 2012,
2 and the *Non-Unanimous Stipulation and Agreement Regarding Praxair,*
3 *Inc., Ag Processing Inc a Cooperative and the Midwest Energy Users'*
4 *Association's Objection and Withdrawal of Objection and Request for*
5 *Hearing* filed October 29, 2012;

- 6 • The true-up reflects the *Partial Nonunanimous Stipulation and Agreement*
7 *Respecting Kansas City Water Services Department and Airport Issues*
8 filed October 19, 2012;
- 9 • The true-up reflects the Second Non-unanimous Stipulation and Agreement
10 as to Certain Issues (yet to be filed with the Commission);
- 11 • The KCPL true-up reflects an agreement reached for fuel and purchased
12 power expense;
- 13 • *Non-Unanimous Stipulation and Agreement Resolving KCP&L Greater*
14 *Missouri Operations Company's MEEIA Filing;*
- 15 • Income tax expense and related income tax costs consistent with
16 the true-up; and
- 17 • GMO's off-system sales margins from the firm and non-firm bulk
18 power markets.

19 Q. Did KCPL add any generating capacity after March 31, 2012, but before
20 August 31, 2012?

21 A. Yes. As of the August 31, 2012 cutoff for the true-up, KCPL added
22 231.9 megawatts of new wind turbine generating capacity by means of two purchased power
23 agreements.

24 On May 6, 2011 KCPL entered into a purchased power agreement with CPV Cimarron II
25 Renewable Energy Company (Cimarron) to provide 131.1 megawatts of wind energy over a 20-
26 year period, with options to extend the 20-year period twice by five years. These wind turbines
27 are located Gray County, Kansas. On November 3, 2011, KCPL entered into a purchased power
28 agreement with Spearville 3, LLC (Spearville 3) to provide 100.8 megawatts of wind energy
29 over a 20-year period, with options to extend the period by five-years twice. These wind

1 turbines are located Ford County, Kansas. All of these wind turbines are located close to
2 KCPL's Spearville 1 and 2 wind farms in western Kansas.

3 Staff included the capacity and energy from both of these purchased power agreements in
4 the production cost model (the "fuel model") runs Staff used to compute KCPL's true-up fuel
5 and purchased power costs. Since these wind contracts are purchased power agreements, they
6 are not included in KCPL's rate base, i.e., KCPL does not earn a return on them. If KCPL
7 owned the wind turbines instead, as it owns the Spearville 1 and 2 wind farms, their cost would
8 be included in KCPL's rate base. The cost of these wind purchased power agreements are not
9 included in plant in service, but instead are included in purchased power expense.

10 **NON-UNANIMOUS STIPULATION AND AGREEMENTS**

11 Q. Have there been any Stipulations and Agreements in these cases that would
12 impact the revenue requirements of KCPL, MPS or L&P?

13 A. Yes. On November 7, 2012, the Commission incorporated into an order three
14 non-unanimous agreements. Staff has incorporated their impacts on the revenue requirement
15 calculations for KCPL, MPS and L&P. The agreements are those listed in the non-exclusive list
16 of true-up items I described earlier. The *Non-Unanimous Stipulation and Agreement as to*
17 *Certain Issues* filed October 19, 2012, as modified by the *Non-Unanimous Stipulation and*
18 *Agreement Regarding Low-Income Weatherization and Withdrawal of Objection and Request for*
19 *Hearing* filed October 26, 2012, and the *Non-Unanimous Stipulation and Agreement Regarding*
20 *Praxair, Inc., Ag Processing Inc a Cooperative and the Midwest Energy Users' Association's*
21 *Objection and Withdrawal of Objection and Request for Hearing* filed October 29, 2012,
22 resolved the following issues as listed in the issues list Staff filed:

1 **KCPL Only Issues**

- 2 • Issue I.3—Hawthorn Selective Catalytic Reduction System (SCR);
- 3 • Issue I.4—Income Tax;
- 4 • Issue I.5—Kansas City Missouri Earnings Tax;
- 5 • Issue I.7—Fuel and Purchased Power Expense; and
- 6 • Issue I.11—Arbitration Expenses and Settlement.

7 **KCPL – GMO Common Issues**

- 8 • Issue II.2-- Economic Relief Pilot Program (ERPP);
- 9 • Issue II.4-- Payroll Costs—overtime;
- 10 • Issue II.5-- Pensions, Other Post-Employment Benefits (OPEBs) and
11 SERP—Supplemental Executive Retirement Pension;
- 12 • Issue II.7-- Acquisition Transition Costs;
- 13 • Issue II.8— Depreciation;
- 14 • Issue II.9— Bad Debt Expense/ Forfeited Discount Revenue;
- 15 • Issue II.14— Low Income Weatherization;
- 16 • Issue II.15— Joint Resource Planning;
- 17 • Issue II.17— Advanced Coal Tax Credit;
- 18 • Issue II.18— Inventory Management; and
- 19 • Issue II.21— Revenues.

20 **GMO Only Issues**

- 21 • Issue III.2— Capacity Allocation (MPS vs. L&P);
- 22 • Issue III.5— L&P Ice Storm Accounting Authority Order (AAO);
- 23 • Issue III.6— Sibley AAO;
- 24 • Issue III.7-- Rate Design/ Class Cost of Service Study;

- 1 • Issue III.8—L&P Phase In; and
- 2 • Issue III.9—ADIT (Accumulated Deferred Income Taxes)—FAC (Fuel
- 3 Adjustment Clause).

4 Additionally, the following matters are resolved:

- 5 1. Jurisdictional Allocations for KCPL;
- 6 2. Hedging Costs for GMO;
- 7 3. Transmission and Distribution Plant for GMO;
- 8 4. Tariff Consolidation by KCPL; and
- 9 5. Miscellaneous KCPL and GMO Tariff issues.

10 The Staff also incorporated into its true-up runs for KCPL, MPS and L&P the revenue impacts of
11 the *Partial Nonunanimous Stipulation and Agreement Respecting Kansas City Water Services*
12 *Department and Airport Issues* filed October 19, 2012, and the *Non-Unanimous Stipulation and*
13 *Agreement Resolving KCP&L Greater Missouri Operations Company's MEEIA Filing*.

14 Q. Did these Stipulations resolve all issues remaining in the KCPL and GMO
15 rate cases?

16 A. No. Currently there are two other separate agreements that are being negotiated
17 between various parties that will resolve most of the remaining differences in the KCPL and
18 GMO rate cases. Staff anticipates that the following issues as described in the issues list Staff
19 filed will be resolved by the agreement for KCPL, if the Commission approves it:

- 20 • Deferral of 2011 Missouri River Flood Costs and Losses (Issue I.1) – including
21 subissues a and b;
- 22 • Off-System Sales (Issue I.2) – including subissues a, b, c and d;
- 23 • Fuel and Purchased Power Expense (Issue I.7, Issue II.6) – including subissues a,
24 b, c, d and e of Issue I.7 and subissue a of Issue II.6);
- 25 • Interim Energy Charge (Issue I.8) – including subissues a, b and c);

- 1 • Payroll (Issue II.4) – to the extent that this common issue is applicable to KCPL.
2 As set forth in paragraph 2B above, payroll is to be trued-up;
- 3 • Bad Debt Expense (Subissue II.9(b)) – to the extent that this common issue is
4 applicable to KCPL;
- 5 • Rate Case Expense (Issue II.10) – including subissues a and b and to the extent
6 that this common issue is applicable to KCPL;
- 7 • Property Tax Tracker (Issue II.12) – to the extent that this common issue is
8 applicable to KCPL;
- 9 • RES and RES Tracker (Issue II.13) – including subissues a, b, c, and d and to the
10 extent that this common issue is applicable to KCPL;
- 11 • Organizational Realignment and Voluntary Separation Program (ORVS) (Issue
12 II.16) – including subissues a and b and to the extent that this common issue is
13 applicable to KCPL;
- 14 • Revenue Normalization (Issue II.20) – to the extent that this common issue is
15 applicable to KCPL;
- 16 • Revenues (Issue II.21) – including subissues a and b and to the extent that this
17 common issue is applicable to KCPL;
- 18 • Distribution Field Intelligence Tech Support (DFITS) (Issue II.19) – to the extent
19 that this common issue is applicable to KCPL; and
- 20 • Mutual Assistance Revenues (Issue II.22) – to the extent that this common issue is
21 applicable to KCPL.

22 This stipulation will also add to the resolution of Inventory Management issue for
23 KCPL identified in the *Non-Unanimous Stipulation and Agreement as to Certain Issues* filed
24 October 19, 2012, (Issue II. 18).

25 Staff anticipates the following issues as described in the issues list Staff filed will be
26 resolved by the agreement for GMO, if the Commission approves it:

- 27 • Payroll: (Issue II.4) – to the extent that this common issue is applicable to GMO;

- 1 • Bad Debt Expense: (Subissue II.9(b)) – to the extent that this common issue is
2 applicable to GMO;
- 3 • Rate Case Expense: (Issue II.10) – including subissues a and b and to the extent
4 applicable to GMO;
- 5 • Property Tax Tracker: (Issue II.12) – to the extent that this common issue is
6 applicable to GMO;
- 7 • RES and RES Tracker: (Issue II.13) – including subissues a, b, c, and d and to the
8 extent applicable to GMO;
- 9 • Organizational Realignment and Voluntary Separation Program (ORVS): (Issue
10 II.16) – including subissues a and b and to the extent applicable to GMO;
- 11 • Distribution Field Intelligence Tech Support (DFITS): (Issue II.19);
- 12 • Revenue Normalization: (Issue II.20);
- 13 • Mutual Assistance Revenues: (Issue II.22);
- 14 • St. Joseph Infrastructure Program: (Issue III.4);
- 15 • Transmission Revenue Issue: (listed on MECG October 16, 2012 filing); and
- 16 • Fuel and Purchased Power Expense: (Issue II.6).

17 This stipulation will also add to the resolution of Inventory Management issue resolved in
18 the *Non-Unanimous Stipulation and Agreement as to Certain Issues* filed October 19, 2012,
19 (Issue II. 18).

20 These stipulations that Staff anticipates will resolve the above KCPL and GMO issues are
21 expected to be filed shortly after this true-up direct testimony is filed.

22 Q. Does this conclude your true-up direct testimony?

23 A. Yes.

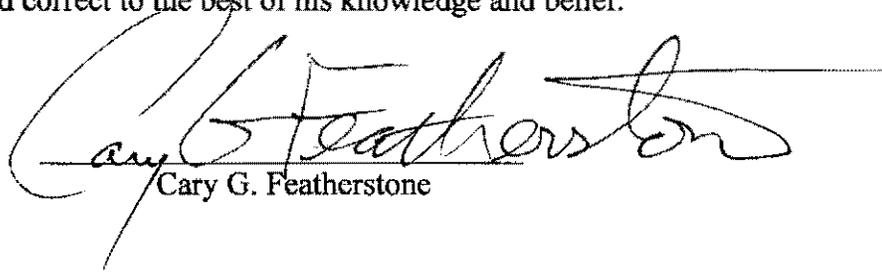
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to) Case No. ER-2012-0174
Implement A General Rate Increase for)
Electric Service)
)
)
In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority) Case No. ER-2012-0175
to Implement General Rate Increase for)
Electric Service)

AFFIDAVIT OF CARY G. FEATHERSTONE

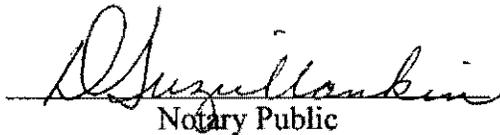
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 8th day of November, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071


Notary Public