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Service Commission

SURREBUTTAL TESTIMONY

OF

ELIZABETH HERRINGTON

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri  
January 2017

KCP+L Exhibit No. 126  
Date 2.8.17 Reporter LB  
File No. ER-2016-0285

**SURREBUTTAL TESTIMONY**

**OF**

**ELIZABETH HERRINGTON**

**Case No. ER-2016-0285**

1 **Q: Please state your name and business address.**

2 A: My name is Elizabeth Herrington. My business address is 1200 Main, Kansas City,  
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as  
6 Director of Energy and Revenue Accounting.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L.

9 **Q: What are your responsibilities?**

10 A: As Director of Energy and Revenue Accounting, I have responsibility for leading the  
11 margin accounting team in support of the monthly close and external reporting processes.  
12 The margin accounting team is responsible for the recording and analysis of all revenue,  
13 fuel, purchased power, and transmission transactions, including the calculations related to  
14 all fuel adjustment clauses and the Energy Cost Adjustment.

15 **Q: Please state your educational background and describe your professional training  
16 and experience.**

17 A: I graduated from the University of Missouri-Columbia in May 1992 with a Bachelor of  
18 Science in Accountancy. In October 1997, I joined the Company as a staff accountant  
19 and have held several roles such as Supervisor - Accounts Receivable, Supervisor -

1 Regulatory Accounting, Manager - Revenue and Fuel Accounting, Manager - Energy  
2 Accounting and Senior Manager - Accounting before assuming my current role in 2016.

3 **Q. Have you previously testified in a proceeding at the Missouri Public Service**  
4 **Commission (“Commission” or “MPSC”) or before any other utility regulatory**  
5 **agency?**

6 A. Yes, I have previously testified before the Kansas Corporation Commission (“KCC”) in  
7 Docket No. 16-KCPE-388-ACA. I have not previously testified before the MPSC.

8 **Q. What is the purpose of your Surrebuttal Testimony?**

9 A: My Surrebuttal Testimony serves three purposes. First, my Surrebuttal Testimony will  
10 respond to Mr. John S. Riley’s and Mr. James A Dauphinais’ Rebuttal testimonies  
11 dealing with FERC Order 668, Accounting and Financial Reporting for Public Utilities  
12 Including RTO’s. Second, I respond to Office of the Public Counsel (“OPC”) witnesses  
13 Ms. Lena M. Mantle regarding the FAC. Finally I respond to OPC witness Mr. John A.  
14 Robinett regarding unit train depreciation in the FAC.

15 **Response to Mr. John S. Riley**

16 **Q: Do you agree with Mr. Riley’s summarization of FERC Order 668?**

17 A: Yes, specifically the part where Mr. Riley states in his rebuttal on pages 1-2 that this  
18 Order deals with Accounting and Financial Reporting as opposed to ratemaking.

19 **Q: Does KCP&L correctly present purchased power and off system sales revenue in its**  
20 **financial statements as prescribed by FERC Order 668?**

21 A: Yes. KCP&L nets all day-ahead purchases and sales from the Southwest Power Pool  
22 (SPP) on an hourly basis, and all real time purchases and sales on a five minute basis, as  
23 prescribed by FERC Order 668. However, this Order does not prescribe how the

1 Company should present or prepare ratemaking schedules, including tariffs that set forth  
2 FAC provision.

3 **Q: Do you believe KCP&L should report netted transactions in its base FAC**  
4 **calculation?**

5 A: No. Contrary to Mr. Riley's testimony, using FERC Order 668 in this manner would  
6 create a lack of transparency in the Company's rate schedules and would not properly  
7 reflect the operations of the Company. KCP&L uses the production cost model in the  
8 FAC base calculation which more properly and accurately reflects the Company's  
9 operations.

10 **Q: Please explain.**

11 A: FERC Order 668 requires transactions to be netted based upon the MWh's bought and  
12 sold in the settlement period. For instance, assume the price at Generator A is \$20 and  
13 100 MWh were sold into the market during Period 1. Also during Period 1, Load B  
14 purchased 75 MWh at \$25. That is \$2000 of sales at \$20 per MWh and \$1875 of  
15 purchases at \$25 per MWh. However, if FERC Order 668 netting were applied, there  
16 would be no reference to purchases and only a misleading reference to 25 Mwh of sales  
17 for \$125 or \$5 per MWh ( $100-75 = 25$  MWh and  $\$2000-\$1875 = \$125$  where  $\$125 / 25$   
18 MWh = \$5). Obviously there were no market transactions during Period 1 for \$5 in the  
19 above example. Using FERC Order 668 netting for ratemaking and FAC purposes  
20 conceals the actual transactions committed to by Generator A and Load B, and removes  
21 the transparency that the FAC currently provides.

1 **Q: On page two of his rebuttal testimony, Mr. Riley asserts FERC's primary goal with**  
2 **Order 668 is for consistency and comparability. Is that correct?**

3 A: Yes, when a utility's financial statement or FERC Form No. 1 that complies with Order  
4 668 is compared with other utilities, there is a basis for comparability but ensures the  
5 RTO participant's size and revenue producing potential are not inflated. However,  
6 compliance with Order 668 does not necessarily enhance transparency. FERC itself  
7 explains in Order 668 that the "Commission does expect public utilities, however, to  
8 maintain detailed records for auditing purposes of the gross sale and purchase  
9 transactions that support the net energy market amounts." Mr. Riley quotes this passage  
10 on page 7 of the unmarked attachment to his rebuttal testimony. Additionally, in FERC  
11 Order 2001, FERC established the Electric Quarterly Report ("EQR") to use as a  
12 reporting tool to ensure utilities' rates are just and reasonable. Order 2001 requires that  
13 all transactions be reported in gross or as they really took place.

14 **Q: Does KCP&L file an EQR with FERC with netted power transactions?**

15 A: No. KCP&L files an EQR with FERC that includes all required transactions as gross  
16 transactions as prescribed by FERC Order 2001. Using the example above, KCP&L  
17 would show the sale of 100 MWh at \$20 which is not only required, but more transparent  
18 than only reporting a sale of 25 MWh at \$5, which did not really take place.

1 **Q: Mr. Riley states in his rebuttal testimony at page 4 that “these unnetted figures in**  
2 **the Company’s testimony and rate case workpapers misrepresents the Company’s**  
3 **operations which is exactly what FERC Order 668 was intended to address.” Do**  
4 **you agree?**

5 A: No. As discussed above, Order 668 is only for Accounting and Financial Reporting.  
6 Mr., Riley himself stated “consistency and comparability were the primary goals” of  
7 FERC. In the context of an FAC, presenting energy purchases and sales consistent with  
8 Order 668 is not transparent and is not appropriate or required for rate making. Using my  
9 earlier example, the Company’s operations clearly consisted of two transactions with  
10 SPP, a purchase and a sale. Under Mr. Riley’s proposal, netting would show that the  
11 Company only made a sale in the market for \$5 which would be inaccurate and  
12 misleading since market prices were in the \$20-25 range in the example. Further, the  
13 Company’s operations as represented by the production cost model used in the FAC  
14 calculation also include the cost the Company incurs to produce the MWhs sold. If we  
15 assume in my earlier example that it cost Generator A \$15 to produce a MWh, selling a  
16 MWh for \$20 would be appropriate. However, selling a MWh for \$5 would not.

17 **Q: Do you believe the Company’s rate case adjustment reflects the Company’s**  
18 **operations?**

19 A: Yes, the adjustments in Schedule TMR-4 reflect the Company’s production cost model.  
20 A description of how a production cost model works is included in the Rebuttal testimony  
21 of Staff witness Charles Poston. As he states on pages 2-3 of his rebuttal, the production  
22 cost model is a depiction of how the Company operates its plants, including purchases  
23 and sales to SPP’s integrated marketplace, and the fuel necessary for those operations.

1 Using the example above, the production cost model would include Generator A  
2 producing a sale of 100 MWh at \$20, as opposed to a sale of 25 MWh at \$5.  
3 Additionally, the production cost model would include the fuel or purchases necessary to  
4 make a 100 MWh sale, as opposed to a 25 MWh sale. KCP&L's ratemaking schedules  
5 are transparent and accurate. The Commission should disregard any assertion that  
6 KCP&L does not follow proper accounting treatments for netting its purchases and sales.

7 **Q: Do you agree with Mr. Riley's assertion the Commission ordered the Company to**  
8 **use Order 668 netting in its ratemaking schedules?**

9 A: No. In KCP&L's last rate case, at page 35 of the *Report and Order* for ER-2014-0370,  
10 the Commission concluded: "The evidence shows in this case that on a daily basis,  
11 KCPL sells all of the power it generates into the SPP market and purchases 100% of the  
12 electricity it sells to its retail customers." However, based on its analysis in other cases,  
13 the Commission ordered the Company to identify "true purchased power and off system  
14 sales" in order to calculate the transmission costs it would allow in the FAC. The  
15 Company used a calculation based upon Staff's fuel model to determine the percentage of  
16 allowable transmission costs. Notably, the Commission did not require KCP&L to use  
17 Order 668 accounting treatments, and Order 668 is not discussed in the *Report and Order*  
18 for ER-2014-0370. Mr. Riley is attempting to confuse the Commission's orders for  
19 calculating allowable transmission expense with how the Company should complete rate  
20 making schedules for purchases and sales and therefore his proposal should be rejected  
21 by the Commission.

1 **Q: Mr. Riley asserts at p.1 of his rebuttal testimony that the Company’s presentation of**  
2 **purchased power costs and off system sales revenues are confusing and inaccurate.**  
3 **Do you agree?**

4 **A:** No. The Company is not only compliant with FERC Order 668, but its presentation of  
5 data is straightforward because all purchases and sales are reported as depicted by the  
6 production cost model which reflects transactions that really take place.

7 **Response to Mr. James R. Dauphinais**

8 **Q: Mr. Dauphinais claims on page 5 of his rebuttal testimony that KCP&L’s proposed**  
9 **FAC adjustments misrepresent the Company’s true purchased power expense and**  
10 **its use of the SPP energy market. Do you agree?**

11 **A:** No. For the reasons discussed in my testimony above, including these adjustments adds  
12 transparency and correctly reflects the Company’s operations and its production cost  
13 model. Additionally, as Mr. Dauphinais points out, removing the FERC Order 668  
14 netting from the adjustment (which is not required by FERC in a ratemaking schedule),  
15 would not change the Company’s revenue requirement or base FAC calculation.

16 **Q: Does KCP&L’s FERC Form No. 1 reflect these transactions “grossed up” or prior**  
17 **to Order 668 netting?**

18 **A:** No. The FERC Form No. 1 is a financial statement and as such is reported with the  
19 netting prescribed by Order 668. As Mr. Dauphinais points out, Order 668 specifically  
20 states, “one purpose of this rule is to establish uniform accounting requirements for the  
21 purchase and sale of energy in RTO markets. The purpose of reporting gross information  
22 in EQRs, in contrast, is to provide the Commission and the public with a more complete  
23 picture of wholesale market activities”. For this reason, KCP&L reports its financial



1 statements including FERC Form No. 1 with the purchases and sales netted and it's EQR  
2 with the sales as they really took place. There is no mention in FERC Order 668 as to  
3 how a utilities rate making schedules should be presented. As such, the Commission  
4 should reject Mr. Dauphinais' assertion that KCP&L's statements are misrepresented by  
5 not applying FERC Order 668.

6 **Response to Ms. Lena M. Mantle**

7 **Q: At page 2 of her Rebuttal Testimony, Ms. Lena Mantle claims OPC is proposing an**  
8 **FAC that will minimize the complexity of KCP&L's FAC. Will OPC's proposal**  
9 **increase or decrease the complexity of administering the FAC?**

10 **A:** OPC's proposal will increase the complexity of administering the FAC. OPC's proposal  
11 is substantially different than FERC's Uniform System of Accounts ("USoA"). Ms.  
12 Mantle's proposal relies on using purchase price of fuel rather than inventory cost, which  
13 is inconsistent with how KCP&L and all other utilities subject to the USoA keep track  
14 of fuel expense. Per the USoA, fuel is purchased and first put into inventory before  
15 moving to expense. KCP&L takes the total value of inventory and divides by the units of  
16 fuel in inventory to determine the average value of fuel in inventory. That average value  
17 of fuel in inventory is used to determine the amount of fuel inventory to be included in  
18 fuel expense. The Company knows all of the items that went into inventory, but to  
19 segregate those items after they are added into inventory would be extremely difficult and  
20 complicated.

1 **Q: If all of those items are comingled in inventory, why can't KCP&L just use the**  
2 **purchase price to determine the commodity cost and transportation price for the**  
3 **FAC?**

4 A: The question is how to define "purchase price." We maintain fuel inventories because  
5 fuel deliveries rarely if ever exactly match fuel requirements. On any given day, we are  
6 likely to have somewhere between 45-70 days of coal on hand. Which purchase price do  
7 we use? Do we use the price for the most recent shipment? From a physical perspective,  
8 that is most likely the coal that will be burned. Do we use the price for the oldest  
9 shipment still in the coal pile? How do we determine what is the oldest shipment still in  
10 the coal pile? Do we use sophisticated real-time coal analysis equipment to try to  
11 determine which mine the coal came from and our best judgment regarding which  
12 contract it may have shipped under so we can more accurately peg the right price for the  
13 coal being burned? Oil becomes so comingled that its costs cannot be traced once  
14 separate deliveries are combined in the oil tank. Ms. Mantle's proposal may sound  
15 simple, but in reality it is more subjective, raises many questions and is much more  
16 complex than FERC's USoA. If the FAC is to represent the actual cost of fuel used to  
17 provide electricity, OPC's proposal is unworkable.

18 **Q: At page 2, of her Rebuttal Testimony, Ms. Mantle claims that OPC's FAC proposal**  
19 **will reduce the likelihood of errors in the FAC. What is your opinion?**

20 A: There are several reasons why this won't occur. First, Ms. Mantle's proposal actually  
21 increases the complexity of accounting for the FAC. As she deviates from the USoA, her  
22 proposal does not have the advantage of all of the checks and controls that exist in the

1 Company's current USoA system. That is, as deviations from FERC's USoA occur, Ms.  
2 Mantle's scheme will not permit Staff auditors to focus on compliance with the USoA.

3 Second, if we look back to Ms. Mantle's Direct Testimony she cites an example  
4 of a Staff prudence audit of GMO's FAC that did not find a flow through that should not  
5 have been collected from customers in its FAC. What she does not say is those costs  
6 were properly recorded to the correct FERC account. If the FAC had conformed with  
7 FERC's USoA, using the FERC prime accounts the error would not have happened.

8 **Response to Mr. John A. Robinett**

9 **Q: What part of Mr. Robinett's testimony will you be responding to?**

10 A: Starting at page 19, Mr. Robinett argues that unit train depreciation should be removed  
11 from the FAC.

12 **Q: Why has KCP&L included unit train depreciation in the FAC?**

13 A: 4 CSR 240-20.030 Uniform System of Accounts—Electrical Corporations directs the  
14 Company to use FERC's USoA. FERC states in the USoA instructions for account 151 [  
15 where? that "Depreciation expense applicable to transportation equipment used for  
16 transportation of fuel from the point of acquisition to the unloading point shall be charged  
17 to Account 151, Fuel Stock." It then goes on to say, "The cost of fuel shall be charged  
18 initially to account 151, Fuel Stock." [emphasis added] In other words, FERC requires  
19 the Company to treat depreciation expense for unit trains which move coal to the  
20 Company's plants to be charged as "fuel."

1 **Q: Mr. Robinett appears to defend his position on the premise that “it is improper to**  
2 **account for unit train depreciation expense under both the FAC and as an annual**  
3 **expense built into revenue requirement.” Is the Company proposing that unit train**  
4 **depreciation expense be included in both the FAC and the revenue requirement?**

5 A: Absolutely not. The Company is proposing that pursuant to 4 CSR 240-20.030, the  
6 revenue requirement and the FAC treat unit train depreciation in accordance with the  
7 USoA.

8 **Q: Does this open the door for more depreciation costs to be included in the FAC, as**  
9 **Mr. Robinett alleges?**

10 A: No. FERC defines what is included in each of its accounts. KCP&L cannot change  
11 FERC’s account definitions. Of all of the various depreciation costs identified in the  
12 USoA, Item 4 to Account 151 “Fuel Stock” states that “Operating, maintenance and  
13 depreciation expenses and ad valorem taxes on utility owned transportation equipment  
14 used to transport fuel from the point of acquisition to the unloading point” is the only  
15 depreciation expense classified as a “fuel” expense.

16 **Q: Does that conclude your testimony?**

17 A: Yes, it does.



