

Exhibit No.:	
Issues:	Transmission Costs, Purchased Power Costs and Off-System Sales Revenues
Witness:	James R. Dauphinais
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Missouri Industrial Energy Consumers
Case No.:	ER-2016-0285
Date Testimony Prepared:	December 30, 2016

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED
March 2, 2017
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Service Commission

_____)
)
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-2016-0285

Rebuttal Testimony of
James R. Dauphinais

On behalf of
Missouri Industrial Energy Consumers

REDACTED VERSION

December 30, 2016



BRUBAKER & ASSOCIATES, INC.

Project 10277

MIEC Exhibit No 851 NP

Date 2-22-17 Reporter mm

File No ER-2016-0285

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-2016-0285
)
)

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of James R. Dauphinais

James R. Dauphinais, being first duly sworn, on his oath states:

1. My name is James R. Dauphinais. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

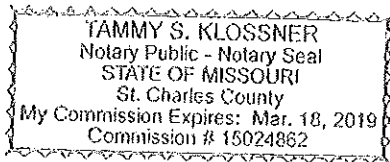
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2016-0285.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

James R. Dauphinais

James R. Dauphinais

Subscribed and sworn to before me this 28th day of December, 2016.



Tammy S. Klossner

Notary Public

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-2016-0285
)
)

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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-2016-0285

Rebuttal Testimony of James R. Dauphinais

I. INTRODUCTION

1

2 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A James R. Dauphinais. My business address is 16690 Swingley Ridge Road,
4 Suite 140, Chesterfield, MO 63017.

5 Q WHAT IS YOUR OCCUPATION?

6 A I am a consultant in the field of public utility regulation and a Managing Principal of
7 Brubaker & Associates, Inc., energy, economic and regulatory consultants.

8 Q ARE YOU THE SAME JAMES R. DAUPHINAIS WHO HAS PREVIOUSLY FILED
9 TESTIMONY IN THIS PROCEEDING?

10 A Yes. On December 14, 2016, I filed direct testimony on rate design on behalf of the
11 Missouri Industrial Energy Consumers ("MIEC") with respect to transmission costs
12 and fuel adjustment clause ("FAC") issues.

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1 Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

2 A My rebuttal testimony responds to the direct testimony and schedules of Kansas City
3 Power & Light Company ("KCPL" or "Company") witnesses Burton Crawford, Tim
4 Rush, and Ronald Klote with respect to the following issues:

- 5 • KCPL's proposal to make extremely large pro forma adjustments to its test year
6 off-system sales revenues and purchased power expenses in order to reflect the
7 gross clearing of its generation and load in the day-ahead and real-time energy
8 markets of the Southwest Power Pool ("SPP") Integrated Marketplace (KCPL
9 Adjustments R-35 Normalize Bulk Power Sales and CS-24 Normalize fuel and
10 purchase power energy (on system)).
- 11 • KCPL's proposal to reduce its transmission revenues down by the difference
12 between its Federal Energy Regulatory Commission ("FERC") authorized Return
13 on Equity ("ROE") of 11.1% for transmission service rates and the ROE of 9.90%
14 that KCPL has proposed for its retail rates in Missouri in this proceeding (KCPL
15 Adjustment R-80 Transmission Revenues - ROE).
- 16 • KCPL's proposal to use projected costs to annualize the Company's transmission
17 expense for adjustments CS-45 (FERC Account 565 – Transmission of Electricity
18 by Others) and CS-86 (SPP Schedule 1-A fees).
- 19 • KCPL's proposal to use projected revenues to annualize the Company's
20 transmission revenue for adjustments R-82 (Revenue recorded in FERC accounts
21 456009 and 456100).

22 The fact that I do not address any other particular issues in my testimony or
23 am silent with respect to any portion of the direct testimony of witnesses Burton
24 Crawford, Tim Rush, and Ronald Klote should not be interpreted as an approval of
25 any position taken by KCPL or any other party in direct testimony.

26 Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

27 A My conclusions and recommendations are as follows:

- 28 • The Commission should deny KCPL's proposal to incorporate extremely large pro
29 forma adjustments to its test year off-system sales revenues and purchased
30 power expenses to reflect the gross clearing of its generation and load in the
31 day-ahead and real-time energy markets of the SPP Integrated Marketplace
32 (KCPL Adjustments R-35 and CS-24). These proposed adjustments
33 misrepresent how KCPL utilizes the SPP Integrated Marketplace to help serve its

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1 native load customers and are counter to FERC's accounting requirements for
2 off-system sales (Account 447) and purchased power (Account 555) under Order
3 No. 668. The proposed pro forma adjustment should be modified to be consistent
4 with the MWh of off-system energy sales and purchased energy reported on
5 KCPL witness Crawford's Schedule BLC-4. This recommendation does not affect
6 either KCPL's proposed base rate revenue requirement or its proposed Base
7 Factor for its proposed FAC. It simply avoids misrepresenting how KCPL utilizes
8 the SPP market to help serve its native load customers and assures conformance
9 to FERC Order No. 668 with respect to the accounting of sales to and purchases
10 from RTO markets.

11 • The Commission should deny KCPL's proposed pro forma adjustment to lower its
12 wholesale transmission revenues by the difference between its FERC-authorized
13 ROE for transmission service and the lower authorized ROE KCPL has proposed
14 in this proceeding for its retail rates in Missouri (KCPL Adjustment R-80). KCPL
15 receives these revenues as a result of the transmission facilities it has
16 constructed for its native load customers that are ultimately paid for by those
17 customers. As a result, native load customers should be entitled to 100% of
18 these revenues. KCPL should not be permitted to "skim off" and retain the
19 difference between its FERC-authorized ROE and Missouri-authorized ROE. This
20 will lower KCPL's proposed Missouri-jurisdictional base rate revenue requirement
21 by approximately \$0.9 million. While this is a small dollar issue at this time, it is
22 an issue of important precedent with respect to the Commission potentially
23 allowing jurisdictional electric utilities to "skim off" and retain the difference
24 between the return earned from non-requirements wholesale sales of power and
25 wholesale transmission service and the return authorized under retail electric
26 rates in Missouri.

27 • The Commission should deny the proposed adjustments R-82, CS-45, and
28 CS-86. The use of projected values for only certain expenses and revenues
29 beyond the true-up period breaks the test year synchronism among expenses,
30 revenues, and rate base, leading a utility to over-recover its costs. In order to
31 maintain synchronism, only adjustments that are known and measureable through
32 the end of the true-up period in this proceeding should be permitted.

1 **II. PROPOSED ADJUSTMENT TO REFLECT THE GROSS CLEARING**
2 **OF KCPL GENERATION AND LOAD IN THE SPP ENERGY MARKET**

3 Q PLEASE EXPLAIN KCPL'S PROPOSAL TO APPLY EXTREMELY LARGE
4 ADJUSTMENTS TO ITS ACCOUNT 447 OFF-SYSTEM SALES REVENUES AND
5 555 PURCHASED POWER EXPENSES (KCPL ADJUSTMENTS CS-24 AND R-35)
6 TO REFLECT THE CLEARING OF ALL OF ITS GENERATION AND LOAD IN THE
7 SPP DAY-AHEAD AND REAL-TIME ENERGY MARKETS.

8 A KCPL proposes to adjust up both its test year Purchase Power-Energy expenses in
9 Account 555 and Off-System Energy and Ancillary sales revenues in Account 447 by
10 over \$280 million to reflect that it clears all of its generation and all of its load in the
11 SPP day-ahead and real-time energy markets of the SPP Integrated Marketplace.
12 These extremely large simultaneous adjustments have absolutely no effect on
13 KCPL's proposed revenue requirement as the equal and opposite part of these
14 adjustments cancel each other out. The only purpose the large equal and opposite
15 part of these adjustments could serve is to attempt to bolster KCPL's proposal to
16 recover all of its wholesale transmission expenses through its proposed FAC by trying
17 to convince the Commission, just like KCPL attempted in Case No. ER-2014-0370,
18 that KCPL purchases all of the power for its retail customers from SPP energy
19 markets. The proposed adjustments misrepresent KCPL's use of the SPP energy
20 markets, are inconsistent with the requirements of FERC Order No. 668, and
21 inconsistent with KCPL's own 2015 FERC Form 1 filing.

22 I recommend that the Commission require KCPL to remove the equal and
23 opposite portions of these proposed adjustments such that they are consistent with
24 the MWh of Non-Firm Wholesale Market Purchased Power and Non-Firm Sales (i.e.,
25 non-firm off-system energy sales) reported on Mr. Crawford's Schedule BLC-4. This

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1 change will not change KCPL's proposed revenue requirement or the Base Factor for
2 its proposed FAC. It will simply avoid misrepresenting KCPL's true purchased power
3 energy expense and true off-system energy sales revenue.

4 **Q PLEASE EXPLAIN WHY KCPL'S PROPOSED ADJUSTMENT MISREPRESENTS**
5 **ITS USE OF THE SPP ENERGY MARKETS.**

6 **A** While it is true that on an hourly basis KCPL clears all of its generation and all of its
7 load in the SPP energy market, this does not mean that KCPL purchases all of its
8 power for its customers. If it did, it would mean:

- 9 • The fuel and purchased power cost for power paid by customers would be equal
10 to the wholesale market price for power – not KCPL's cost to produce power in its
11 own generating units supplemented by occasional wholesale market purchases;
12 and
- 13 • The entire output of KCPL's generation facilities would be dedicated to the
14 production of off-system sales – not to serving KCPL's customers.

15 Under this absurd scenario, no fuel costs would be assigned to KCPL's
16 customers – only purchased power costs would be assigned to customers. In
17 addition, there would be grounds for the Commission to remove from KCPL's rate
18 base the entire net plant of KCPL's generation facilities since those facilities would no
19 longer be serving the Company's customers.¹

20 **Q DOES FERC SPECIFY HOW GENERATION AND LOAD THAT IS CLEARED ON**
21 **AN HOURLY BASIS IN RTO MARKETS SUCH AS THAT OF SPP SHOULD BE**
22 **CLASSIFIED?**

23 **A** Yes. In Order No. 668, FERC specified how the hourly clearing in RTO markets of
24 load and generation should be addressed under the uniform system of accounts by

¹Obviously, if this was done, the fuel expenses, O&M expenses and off-system sales revenues associated with KCPL's generation facilities would also be removed from rates.

1 public utilities such as the Company. Under Order No. 668, public utilities must net
2 their SPP-cleared load and generation in each hour and report that net amount as
3 either: (i) a sale for resale (i.e., off-system sale) under Account 447 when the utility's
4 cleared generation exceeds the cleared load, or (ii) a power purchase under
5 Account 555 when the utility's cleared load exceeds its cleared generation. Thus,
6 under FERC's accounting rules, in each hour, a public utility has either an off-system
7 sale to SPP or a power purchase from SPP – not both. As FERC indicated in Order
8 No. 668:

9 "Recording RTO energy market transactions on a net basis is
10 appropriate as purchase and sale transactions taking place in the
11 same reporting period to serve native load are done in contemplation
12 of each other and should be combined. Netting accurately reflects
13 what participants would be recording on their books and records in the
14 absence of the use of an RTO market to serve their native load.
15 Recording these transactions on a gross basis, in contrast, would give
16 an inaccurate picture of a participant's size and revenue producing
17 potential." (FERC Order No. 668 at paragraph 80)

18 The reality is that that KCPL offers all of its generation and bids all of its load into
19 the SPP energy market in contemplation of each other on behalf of native load
20 customers in order to supplement the energy available from its own generation
21 facilities with power purchases and to engage in economy sales of excess energy
22 from its own generation facilities. FERC accounting requirements under Order
23 No. 668 reflect this fact.

24 **Q DOES KCPL'S OWN SCHEDULES IN THIS PROCEEDING SUPPORT ITS**
25 **PROPOSED ADJUSTMENTS?**

26 **A** No. On an annualized basis, Mr. Crawford's Schedule BLC-4 provides MWh and
27 dollar information on KCPL's fuel and purchased power costs. The MWh values on
28 the schedule properly indicate that KCPL purchases only a very small portion of

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1 non-firm energy from the wholesale market ** _____ ** to meet its total firm
2 native load energy need of ** _____ ** and sells only a portion (** _____
3 ____ **) of its total energy production from its generators and renewable Purchased
4 Power Agreements ("PPAs") of ** _____ ** as non-firm wholesale market
5 sales. This does not show that KCPL purchases all of its energy for its native load
6 customers from the SPP energy market or that it sells the entire output from its
7 generators into the SPP energy market. Yet, on the dollar portion of this same
8 schedule, KCPL attempts to claim it has total non-firm purchased energy costs of
9 ** _____ ** from the SPP integrated marketplace for native load and total
10 non-firm off-system energy sales revenues of ** _____ ** from the SPP
11 integrated marketplace for its generation and renewable PPAs. Taking the entire
12 single page schedule together suggests that KCPL is indicating non-firm energy
13 purchase costs of \$5,267 per MWh and non-firm off-system energy sales revenues of
14 approximately \$68 per MWh. Both implied prices are grossly incorrect because
15 Schedule BLC-4 misrepresents KCPL's true non-firm purchased energy costs and
16 true non-firm off-system energy sales revenues by presenting them based on the
17 gross hourly clearing of KCPL generation and load in the SPP energy market.

18 **Q WHAT DOES KCPL'S OWN 2015 FERC FORM 1 FILING OF APRIL 18, 2016**
19 **SHOW?**

20 **A** It shows total energy purchases from the SPP energy market in 2015 of 1,142,402
21 MWh at a price of \$39.8 million or approximately \$35 per MWh (KCPL 2015 FERC
22 Form 1 Filing at pages 326 and 327). It also shows total off-system energy sales to
23 the SPP energy market of 4,767,996 MWh at a price of \$88.6 million or approximately
24 \$19 per MWh (KCPL 2015 FERC Form 1 Filing at pages 310.1 and 311.1). These

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1 values properly reflect either just a purchase or just a sale by KCPL in each hour of
2 the SPP day-ahead and real-time energy markets.

3 Q WHILE FERC UNDER ITS ORDER NO. 668 REQUIRES THAT UTILITIES EITHER
4 JUST BOOK A SALE OR A PURCHASE IN EACH HOUR FROM THE SPP
5 ENERGY MARKET, DOES FERC ALSO REQUIRE THAT INFORMATION ON THE
6 GROSS CLEARING OF GENERATION AND LOAD BY EACH UTILITY BE
7 MAINTAINED?

8 A Yes, it does so for the limited purposes of auditing and monitoring the market for
9 improper conduct. Specifically, in Order No. 668, FERC indicated:

10 "The Commission does expect public utilities, however, to maintain
11 detailed records for auditing purposes of the gross sale and purchase
12 transactions that support the net energy market amounts recorded on
13 their books."
14 (FERC Order No. 668 at paragraph 80)

15 "Finally, one purpose of this rule is to establish uniform accounting
16 requirements for the purchase and sale of energy in RTO markets.
17 The purpose of reporting of gross information in EQRs, in contrast, is
18 to provide the Commission and the public with a more complete picture
19 of wholesale market activities which affect jurisdictional services and
20 rates, thereby helping to monitor for any market power and to ensure
21 that customers are protected from improper conduct. These are not
22 necessarily the same criteria and principles that should be used in
23 establishing uniform accounting requirements."
24 (FERC Order No. 668 at paragraph 84)

25 **III. PROPOSED ADJUSTMENT TO LOWER TRANSMISSION**
26 **REVENUES FROM THE FERC ROE TO THE MISSOURI ROE**

27 Q PLEASE EXPLAIN KCPL'S R-80 TRANSMISSION REVENUE ADJUSTMENT.

28 A According to the testimony of KCPL witness Klote, the R-80 transmission revenue
29 adjustment is offered to ensure that the ROE included in retail rates in Missouri is not
30 less than authorized by this Commission (Klote Direct at 34). Essentially, KCPL

1 proposes to "skim off" from its wholesale transmission revenues the difference
2 between its FERC-authorized ROE of 11.1% for transmission service and its
3 proposed Missouri-authorized ROE of 9.90%

4 **Q HOW DO YOU RESPOND TO KCPL'S PROPOSAL?**

5 A KCPL's proposal should be denied because its retail customers are ultimately
6 responsible for supporting the revenue requirement of the Company's transmission
7 facilities and, as such, should be entitled to all FERC-jurisdictional transmission
8 revenues that the Company is able to earn as an offset against the Company's
9 transmission cost built into revenue requirement. The Company's proposal would be
10 akin to allowing the Company to retain the difference between its non-firm off-system
11 energy revenues received at market prices and the Company's fuel cost to produce
12 that energy. This denial will lower KCPL's proposed Missouri-jurisdictional revenue
13 requirement in this proceeding only by a relatively small amount (approximately \$0.9
14 million),² but it is an issue of important precedent with respect to the Commission
15 potentially allowing jurisdictional electric utilities to "skim off" and retain the difference
16 between the return earned from non-requirements wholesale sales of power and
17 wholesale transmission service and the return authorized under retail electric rates in
18 Missouri.

²Schedule RAK-4 (KCPL-MO) at line 12.

1 **IV. USE OF PROJECTED TRANSMISSION EXPENSE**

2 Q HAVE YOU IDENTIFIED ANY ISSUES IN THE COMPANY'S DIRECT CASE WITH
3 REGARD TO THE LEVEL OF TRANSMISSION EXPENSES THAT IT IS
4 PROPOSING TO COLLECT?

5 A Yes, the Company has annualized its transmission expenses based on an average
6 of 2017-2018 projected costs. These adjustments include CS-45 Transmission of
7 Electricity by Others (Account 565) and CS-86 Annualize SPP Schedule 1-A fees.
8 These adjustments are discussed in the direct testimony of Company witness Ronald
9 Klote (Klote Direct at 41 and 51).

10 Q HOW DO YOU RESPOND TO THE COMPANY'S PROPOSAL TO USE
11 PROJECTED COSTS TO ANNUALIZE ADJUSTMENTS CS-45 AND CS-86?

12 A I recommend that the Commission deny the Company's request to use projected
13 costs to annualize adjustments CS-45 and CS-86. By using projected costs for
14 transmission expenses, the Company will break the test year synchronism among
15 total Company revenues, expenses and rate base, leading to the Company
16 over-recovering its costs. Only adjustments that are known and measureable through
17 the end of the true-up period in this proceeding should be permitted. The Company's
18 annualization will need to be updated to reflect actual values and rates at the end of
19 the true-up period.

1 **V. USE OF PROJECTED TRANSMISSION REVENUES**

2 **Q HAVE YOU REVIEWED THE LEVEL OF TRANSMISSION REVENUES THAT THE**
3 **COMPANY IS PROPOSING TO RECOVER IN BASE RATES?**

4 **A Yes. Similar to its proposal for transmission expenses, the Company is proposing to**
5 **annualize transmission revenue recorded in FERC accounts 456009 and 456100,**
6 **adjustment R-82, based on an average of 2017-2018 forecasted levels (Ronald Klote**
7 **Direct at 34). As with transmission expenses, utilizing projected transmission**
8 **revenues will break the test year synchronism among total Company revenues,**
9 **expenses and rate base, leading to the Company over-recovering its costs. Only**
10 **adjustments that are known and measurable through the end of the true-up period in**
11 **this proceeding should be permitted.**

12 **Q WHAT DO YOU RECOMMEND TO THE COMMISSION WITH RESPECT TO THIS**
13 **ISSUE?**

14 **A I recommend that the Commission require the Company to annualize its transmission**
15 **revenues through the end of the true-up period in this proceeding in a manner**
16 **consistent with the way I recommended annualizing transmission expense**
17 **adjustments CS-45 and CS-86. This will help to ensure that the relationship between**
18 **total Company revenues, expenses and rate base remains synchronized so that the**
19 **Company does not over-recover its costs.**

1 **VI. CONCLUSIONS AND RECOMMENDATIONS**

2 **Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.**

3 **A** My conclusions and recommendations are as follows:

- 4 • The Commission should deny KCPL's proposal to incorporate extremely large pro
5 forma adjustments to its test year off-system sales revenues and purchased
6 power expenses to reflect the gross clearing of its generation and load in the
7 day-ahead and real-time energy markets of the SPP Integrated Marketplace
8 (KCPL Adjustments R-35 and CS-24). These proposed adjustments
9 misrepresent how KCPL utilizes the SPP Integrated Marketplace to help serve its
10 native load customers and are counter to FERC's accounting requirements for
11 off-system sales (Account 447) and purchased power (Account 555) under Order
12 No. 668. The proposed pro forma adjustment should be modified to be consistent
13 with the MWh of off-system energy sales and purchased energy reported on
14 KCPL witness Crawford's Schedule BLC-4. This recommendation does not affect
15 either KCPL's proposed base rate revenue requirement or its proposed Base
16 Factor for its proposed FAC. It simply avoids misrepresenting how KCPL utilizes
17 the SPP market to help serve its native load customers and assures conformance
18 to FERC Order No. 668 with respect to the accounting of sales to and purchases
19 from RTO markets.

- 20 • The Commission should deny KCPL's proposed pro forma adjustment to lower its
21 wholesale transmission revenues by the difference between its FERC-authorized
22 ROE for transmission service and the lower authorized ROE KCPL has proposed
23 in this proceeding for its retail rates in Missouri (KCPL Adjustment R-80). KCPL
24 receives these revenues as a result of the transmission facilities it has
25 constructed for its native load customers that are ultimately paid for by those
26 customers. As a result, native load customers should be entitled to 100% of
27 these revenues. KCPL should not be permitted to "skim off" and retain the
28 difference between its FERC-authorized ROE and Missouri-authorized ROE. This
29 will lower KCPL's proposed Missouri-jurisdictional base rate revenue requirement
30 by approximately \$0.9 million. While this is a small dollar issue at this time, it is
31 an issue of important precedent with respect to the Commission potentially
32 allowing jurisdictional electric utilities to "skim off" and retain the difference
33 between the return earned from non-requirements wholesale sales of power and
34 wholesale transmission service and the return authorized under retail electric
35 rates in Missouri.

- 36 • The Commission should deny the proposed adjustments R-82, CS-45, and CS-
37 86. The use of projected values for only certain expenses and revenues beyond
38 the true-up period breaks the test year synchronism among expenses, revenues,
39 and rate base, leading a utility to over-recover its costs. In order to maintain
40 synchronism, only adjustments that are known and measureable through the end
41 of the true-up period in this proceeding should be permitted.

1 Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A Yes, it does.

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