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Issue:	Transmission revenues, Transource adjustments
Witness:	Don A. Frerking
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	KCP&L Greater Missouri Operations Company
Case No.:	ER-2016-0156
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

REBUTTAL TESTIMONY

OF

DON A. FRERKING

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
August 2016

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REBUTTAL TESTIMONY

OF

DON A. FRERKING

Case No. ER-2016-0156

Q. Please state your name and business address.

A. Don A. Frerking. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L") and serve as Regulatory Analyst – Lead for KCP&L and KCP&L Greater Missouri Operations Company ("GMO" or "Company").

Q. On whose behalf are you testifying?

A. I am testifying on behalf of GMO.

Q. Please state your educational background and describe your professional training and experience.

A. I graduated from the University of Missouri-Columbia in 1986 with a Bachelor of Science degree in Industrial Engineering. I received a Master of Business Administration degree with an emphasis in Finance from the University of Missouri-Columbia in 1987. I am a registered Professional Engineer in the State of Missouri. I have been employed by KCP&L or its one of its affiliates since 1987 in various analytical or managerial roles in the areas of Valuation Engineering, Business Development, Finance and Structuring, Business Planning, and Regulatory Affairs. In my current role in Regulatory Affairs my primary focus is on transmission-related issues at Southwest Power Pool, Inc. ("SPP") and the Federal Energy Regulatory Commission ("FERC").

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

A. Yes. I have testified before the MPSC and Kansas Corporation Commission ("KCC") on several occasions.

Q. **What is the purpose of your Rebuttal Testimony?**

A. I will address and respond to the following items in the Staff of the MPSC's ("Staff") Report on Revenue Requirement Cost of Service ("Staff Report"), which contains Staff's Direct Testimony in this case.

- Transmission Revenue – FERC Account 456 (Staff Report, Section VII.E, pages 88-90)
- Transource Adjustments (Staff Report, Section VIII.E.26, pages 161-164)

I. TRANSMISSION REVENUE – FERC ACCOUNT 456

Q. **What issues would you like to address regarding Transmission Revenue in the Staff Report?**

A. Section VII.E of the Staff Report addresses the Staff's position on two transmission revenue adjustments proposed by the Company in its Direct filing in this case.

- Annualized Transmission Revenues (GMO Adjustment R-82 & Staff Adjustment Rev-25.1)
- Transmission Revenue ROE (GMO Adjustment R-80 & No Staff Adjustment)

A. *Annualized Transmission Revenues (GMO Adjustment R-82 & Staff Adjustment Rev-25.1)*

Q. What is Staff's position regarding an annualized level of transmission revenues?

A. The Staff recommended annualizing transmission revenues based on the level of transmission revenues for 12 months ending December 31, 2015. Staff's Adjustment Rev.25.1 reflects this annualization.

Q. Do you agree with Staff's position on annualizing transmission revenues at the 12 months ending December 31, 2015 level?

A. No. The Company's position regarding annualized transmission revenues is to utilize an average of 2017-2018 forecasted levels as the basis for the annualized level of transmission revenues to be included in the revenue requirement calculation. This 2017-2018 average forecasted annualized transmission revenue level was calculated in GMO Adjustment R-82, as discussed in the Direct Testimony of GMO witness Ronald A. Klote. The Company will update the 2017-2018 transmission revenue forecast, as appropriate, in the True-up filing in this case. In this way, rates will be set using data that is much closer to the level of transmission revenues that the Company expects to be receiving during the period when the rates set in this case will be in effect.

B. *Transmission Revenues ROE Adjustment (GMO Adjustment R-80 & No Staff Adjustment)*

Q. What is Staff's position regarding the Company's proposed ROE adjustment in the transmission revenues received from SPP for other transmission customers' use of GMO's transmission facilities?

A. The Staff recommended that transmission revenues not be adjusted to reflect the differences between MPSC and FERC-authorized ROEs as was calculated in GMO

Adjustment R-80 and discussed in the Direct Testimony of GMO witness Ronald A. Klote.

Q. What is the Company's position regarding Staff's recommendation to not include GMO R-80 in its revenue requirement calculation?

A. The Company does not agree with Staff's exclusion of adjustment R-80 nor does the Company agree with Staff's flawed rationale for its exclusion of the adjustment. The R-80 adjustment was proposed to correct a situation where the crediting of transmission revenue results in Missouri retail customers paying less than the Missouri Commission authorized return.

Q. Why does the transmission revenue crediting result in Missouri retail customers paying less than the Missouri Commission has authorized?

A. Under the current Missouri retail ratemaking methodology, all of the Company-owned transmission assets and related expenses are included in the calculation of the retail revenue requirement. This retail revenue requirement is based on a Missouri Commission authorized ROE. The transmission revenue crediting occurs when the Company charges other transmission customers through the SPP Open Access Transmission Tariff ("OATT") for their use of the Company-owned transmission assets. Because all of the Company-owned transmission assets and related expenses have been included in the Missouri retail revenue requirement calculation, transmission revenues received through the SPP OATT for the use of those same Company-owned transmission assets must be credited against the retail revenue requirement. The problem with this revenue crediting, however, is that transmission revenues that are being received from other transmission customers through the SPP OATT are based on an Annual Transmission Revenue Requirement ("ATRR") calculated in the GMO Transmission Formula Rate ("TFR") that is based on a FERC-authorized ROE. The FERC-authorized ROE is different than the Missouri Commission authorized ROE. When the FERC-authorized ROE is higher than the Missouri Commission authorized ROE, the transmission revenues from other transmission customers that are being credited against the retail revenue requirement are greater than that which was calculated in the retail revenue requirement. Essentially, Missouri retail customers would be credited back more than they would have been charged.

Q. Can you provide a simple illustrative example of this situation?

A. Yes. The simplified example calculation in Figure 1 below shows how transmission revenue crediting at the FERC-authorized ROE (when the FERC-authorized ROE is greater the MPSC-authorized) results in retail customers effectively paying less than the MPSC-authorized return. In this example, the ROE component of the total transmission revenue requirement at an assumed 9.9% MPSC-authorized ROE would $9.9 million (line 5 in the MPSC column of Figure 1). In this example, it is assumed that GMO retail load is 90% of the total transmission load using the GMO transmission facilities and that load for SPP charges to other transmission customers for the use of GMO transmission facilities is 10% of the total transmission load. Thus, GMO retail customers would be expected to pay 90% of the $9.9 million, or $8.91 million (line 8 in the MPSC column of Figure 1). SPP, on behalf of GMO, charges other transmission customers for their use of GMO transmission facilities under the terms of the SPP OATT. Those charges are based on the ATRR in GMO's TFR, which includes GMO's FERC-authorized ROE of 11.1%. The SPP charges to those other transmission customers that are associated with the 11.1 % ROE component of the GMO ATRR would be $1.11 million (line 9 in the FERC column of Figure 1). As previously noted, all of the Company-owned transmission assets and related expenses are included in the gross Missouri retail revenue requirement calculation, and the transmission revenues received from SPP charges to other transmission customers are credited against the gross revenue requirement to arrive at a net retail revenue requirement. The problem is that the full gross revenue requirement is calculated using the MPSC-authorized ROE and the transmission revenue credit is based on the FERC-authorized ROE. This problem can be seen in Figure 1 where the transmission revenue credit of $1.11 million (line 11 of Figure 1), which is based on the 11.1% FERC-authorized ROE, is subtracted from the gross revenue requirement of $9.9 million (line 10 of Figure 1) that is based on the assumed 9.9% MPSC-authorized ROE. In the example in Figure 1, the resulting net retail revenue available for equity of $8.79 million (line 12 of Figure 1) is less than the $8.91 million (line 8 in the MPSC column of Figure 1) that GMO retail customers would be expected to pay. This results in GMO retail customers being effectively only charged for a 9.77% ROE (line 13 of Figure 1) on transmission ratebase rather than the 9.9% ROE for which they should be charged.

Figure 1

	Illustrative Transmission Revenue Crediting Example (without R-80 Adjustment)		MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.90%	11.10%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,900,000	$ 11,100,000
(6)	% of Total Transmission Load - GMO Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for GMO Retail	(5) x (6)	$ 8,910,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 990,000	$ 1,110,000
			$ 9,900,000	11,100,000
(10)	Gross ROE Revenue Requirement @ MPSC ROE (9.9%)	MPSC (5)	$ 9,900,000	
(11)	Less: Transmission Revenue Credit @ FERC ROE (11.1%)	FERC (9)	$ 1,110,000	
(12)	Net GMO Retail Revenue Available for Equity	(10) - (11)	$ 8,790,000	
(13)	Effective ROE paid by GMO Retail Customers	(12) / [(3)*(6)]	9.77%	< Authorized ROE

Note:
This a simplified calculation for illustrative purposes only. The numbers shown are not necessarily representative of actual GMO ratebase, capital structure, load, etc.

Q. How does the R-80 adjustment fix this problem?

A. The R-80 adjustment recalculates the transmission revenues received from other transmission customers through the SPP OATT by changing the ROE in the GMO TFR to the ROE that GMO has requested that the Commission authorize in this rate case. The adjusted transmission revenues from other transmission customers that reflect the ROE requested from the Missouri Commission in this rate case are then credited against the retail revenue requirement. This adjustment fixes the problem and creates a situation where the Missouri retail customers are paying the Missouri Commission authorized return.

Q. Can you provide a simple illustrative example of how the R-80 adjustment fixes the problem?

A. Yes. The simplified example calculation in Figure 2 below shows how the R-80 adjustment fixes the transmission revenue crediting problem. The calculation in

Figure 2 is the same as that in Figure 1 with one exception. Instead of crediting back transmission revenues that are based on the FERC-authorized ROE of 11.1%, the transmission revenue credit (line 11 of Figure 2) is instead based on what the SPP transmission charges to other transmission customers for use of GMO transmission facilities would be if they had been based on the assumed MPSC-authorized ROE of 9.9% rather than the FERC-authorized ROE of 11.1%. As can be seen in Figure 2, the resulting $8.91 million net retail revenue available for equity (line 12 of Figure 2) is now the same as the $8.91 million (line 8 in the MPSC column of Figure 1) that GMO retail customers would be expected to pay. This results in GMO retail customers now being appropriately charged for a 9.9% requested MPSC-authorized ROE. If the Commission authorizes a different ROE, then that would be utilized in developing the final revenue requirement and compliance tariff sheets at the conclusion of this case.

Figure 2

Illustrative Transmission Revenue Crediting Example (with R-80 Adjustment)

			MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.90%	11.1%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,900,000	$ 11,100,000
(6)	% of Total Transmission Load - GMO Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for GMO Retail	(5) x (6)	$ 8,910,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 990,000	$ 1,110,000
			$ 9,900,000	11,100,000
(10)	Gross ROE Revenue Requirement @ MPSC ROE (9.9%)	MPSC (5)	$ 9,900,000	
(11)	Less: Transmission Revenue Credit @ MPSC ROE (9.9%)	MPSC (9)	$ 990,000	
(12)	Net GMO Retail Revenue Available for Equity	(10) - (11)	$ 8,910,000	
(13)	Effective ROE paid by GMO Retail Customers	(12) / [(3)*(6)]	9.90%	= Authorized ROE

Note:

This a simplified calculation for illustrative purposes only. The numbers shown are not necessarily representative of actual GMO ratebase, capital structure, load, etc.

Q. You also mentioned above that Staff's rationale for not including the R-80 adjustment was flawed. What was Staff's rationale?

A. Staff's rationale for not including the R-80 adjustment, which is discussed on Page 90 of Staff's Cost of Service Report, is also shown below:

> As mentioned above, in its direct case, GMO proposed an adjustment to reduce transmission revenue for the difference in GMO's authorized FERC ROE of 11.1% and GMO's proposed ROE in this case of 9.9%. As a transmission owner, GMO receives transmission revenues from SPP for regional and zonal transmission upgrades. The wholesale transmission revenue adjustment is calculated using the Annual Transmission Revenue Requirement ("ATRR") and using GMO's authorized FERC ROE of 11.1%. The ATTR is used by SPP to allocate revenues and expenses to all transmission owners and transmission customers of SPP. The transmission owners receive allocated revenues based on the ATTR and the transmission customers are charged for allocated costs based on the ATTR. The ATTR may include incentives such as allowing CWIP in the revenue requirement, ROE adders, etc. GMO's authorized FERC ROE of 11.1% includes a ROE adder for being a member of a regional transmission organization ("RTO") of 50 basis points.
>
> Other SPP transmission owners submit the ATTR that may include the previously discussed incentives. GMO will then receive its allocated share of the transmission costs that include these incentives. Since no adjustment was made to its transmission expense for the incentives that are included in the costs GMO receives from SPP and charges to its customers, Staff did not reduce transmission revenues for the difference in GMO's authorized FERC ROE of 11.1% and its proposed ROE of 9.9% in this case.

Q. Why is Staff's rationale flawed?

A. First, as a point of clarification, while GMO's TFR template has a placeholder for CWIP in ratebase and some of the other ROE incentives mentioned by Staff, GMO does not currently have FERC approval to apply those incentives to any projects in its TFR. The only incentive that GMO currently has FERC approval for in its TFR is the 50 basis point ROE adder for being a member of an RTO. The application of any of the other incentives would require GMO to get specific FERC approval on a project specific basis. The real flaw in Staff's rationale, however, is in the second paragraph of Staff's discussion above where Staff suggests that the R-80 adjustment to adjust transmission revenues that GMO receives from other transmission customers should not be included because GMO made no adjustment for "its transmission expense for the incentives that are included in the costs GMO receives from SPP and charges to its customers." There is absolutely no basis for GMO to make such an adjustment to the "Transmission by Others" expenses recorded in FERC Account 565 that are charged to GMO as a transmission customer under the SPP OATT for the allocated use of transmission facilities that are <u>owned by other</u> transmission owners in SPP. These charges are for ATRRs calculated in the other transmission owners' FERC-approved TFRs and charged to transmission customers under the FERC-approved SPP OATT. GMO has no option to pay any other amounts for the allocated use of transmission owned by other transmission owners that have been lawfully charged to GMO as a transmission customer under the FERC-approved SPP OATT. Staff's rationale that the R-80 adjustment should not be included because GMO did not make a similar adjustment to unrelated and lawfully-incurred payments for its allocated use of other transmission owners' transmission facilities is flawed.

Q. You mention that there is no basis to make the ROE adjustment for "Transmission by Others" expenses charged to GMO for the allocated use of transmission facilities that are owned by other transmission owners in SPP. What about the SPP charges to GMO as a transmission customer for the allocated use of transmission facilities that are owned by GMO?

A. GMO addressed this by excluding from the R-80 adjustment the transmission revenues that GMO, as a transmission owner, receives from SPP that are related to charges to GMO as a transmission customer. By doing this, GMO's SPP revenues and GMO's SPP expenses for the GMO use of GMO-owned transmission facilities offset each other. The net result is that charges to GMO retail customers for the use of transmission facilities owned by GMO are based on the ROE authorized by the Missouri Commission.

II. TRANSOURCE ADJUSTMENTS

Q. What are the Transource Adjustments?

A. As noted in Section VIII.E.26 of the Staff Report, GMO included in its Direct revenue requirement filing in this case three adjustments related to the Stipulation and Agreement reached by the parties and included in the Commission's Report and Order in File No. EA-2013-0098 ("Transource Missouri CCN Case"). These three adjustments are:

- Transource – Transferred Asset Values (GMO Adjustment CS-105 & Staff Adjustments E-174.1, E-175.1, & *E-169.1?*)
- Transource CWIP/FERC Incentives (GMO Adjustment CS-108 & Staff Adjustment E-82.3)
- Transource Account Review (GMO Adjustment CS-110 & Staff Adjustments E-145.4, E-148.2**,** & E-160.2)

Q. What issues would you like to address regarding the Transource Adjustments in the Staff Report?

A. I will address Staff's proposed treatment of each of the three adjustments individually, but the Company only has substantive concerns regarding the Transource CWIP/FERC Incentives adjustment.

A. *Transource – Transferred Asset Values (GMO Adjustment CS-105 & Staff Adjustments E-174.1, E-175.1, & E-169.1?)*

Q. What concerns, if any, do you have regarding Staff's proposed treatment of the Transource – Transferred Asset Values adjustment?

A. It appears to the Company that Staff is in agreement with GMO's adjustment. The Staff Report, however, references this adjustment as Staff Adjustment E-169.1, but it appears to be referenced in the Staff Accounting Schedules as Staff Adjustment E-174.1 for the MPS rate jurisdiction and Staff Adjustment E-175.1 for the L&P rate jurisdiction and for GMO Consolidated. The Company believes that there are simply typographical errors in the adjustment referencing and that the Company and Staff are in agreement on this adjustment. If, however, there are other adjustments being made by Staff (e.g., in Staff Adjustment E-169.1), the Company respectfully reserves the right to address any such differences.

B. *Transource CWIP/FERC Incentives (GMO Adjustment CS-108 & Staff Adjustment E-82.3)*

Q. Can you briefly describe the purpose of this Transource CWIP/FERC Incentives adjustment?

A. Yes. As noted in Section VIII.E.26 of the Staff Report, this adjustment is intended to address certain rate treatment agreements made by KCP&L and GMO in the Transource Missouri CCN Case. These rate treatment agreements made by KCP&L and GMO are discussed on pages 27-28 of the Commission Report and Order in File No. EA-2013-0098 in Appendix 4, Section 2 and are shown below.

> 2. In particular, Section II(A) of the Stipulation provides for certain rate treatment respecting costs allocated to KCP&L or GMO by SPP involving FERC items such as authorized return on equity ("ROE"), capital structure, construction work in progress ("CWIP"), or other FERC transmission rate incentives for the Iatan-Nashua Project and

the Sibley-Nebraska City Project facilities located in KCP&L's and GMO's respective service territories that are constructed by Transource Missouri. KCP&L and GMO have agreed to make these adjustments in all rate cases so long as the transmission facilities are in service.

A. Rate Treatment – Affiliate Owned Transmission

1. With respect to transmission facilities located in KCP&L certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, KCP&L agrees that for ratemaking purposes in Missouri the costs allocated to KCP&L by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if KCP&L's authorized ROE and capital structure had been applied and there had been no Construction Work in Progress ("CWIP") (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. KCP&L will make this adjustment in all rate cases so long as these transmission facilities are in service.

2. With respect to transmission facilities located in GMO certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, GMO agrees that for ratemaking purposes in Missouri the costs allocated to GMO by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if GMO's authorized ROE and capital structure had been applied and there had been no CWIP (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. GMO will make this adjustment in all rate cases so long as these transmission facilities are in service.

Q. What is Staff's position regarding the Transource CWIP/FERC Incentives adjustment?

A. The Staff reviewed GMO's proposed adjustment and recommended that it be revised in various respects in order to, as they state in the Staff Report, "make it consistent with the Commission's Report and Order in File No. EA-2013-0098."

Q. What revisions did Staff make to the Company's proposed Transource CWIP/FERC Incentives adjustment?

A. The staff's revisions and rationale of the revisions are discussed on Page 163 of the Staff Report and are shown below:

> Staff's proposed changes are as follows:
>
> - Depreciation rates – depreciation rate differences between the Missouri and FERC jurisdictions do not result from FERC Transmission Rate Incentives, and therefore should not be included in the difference calculation
> - State income tax rates – differences in assumed state income tax rates do not result from FERC Transmission Rate Incentives, and therefore should not included in the difference calculation
> - Cost of debt – differences in the assumed cost of long term debt do not result from FERC Transmission Rate Incentives, and therefore should not be included in the difference calculation
> - Allowance for Funds Used During Construction ("AFUDC") – this amount, representing the capitalized financing cost for the projects, was adjusted to reflect GMO and KCPL's actual AFUDC rates over time.

Q. Do you agree with these Staff revisions to the Company's proposed Transource CWIP/FERC Incentives adjustment?

A. No, but the level of disagreement and the reasons for disagreement are different for each of the changes, so I will discuss Staff's proposed changes individually.

1. Depreciation Rates

Q. What disagreement, if any, do you have with Staff's change regarding depreciation rates?

A. The Company does not, necessarily, disagree with Staff's position that there should not be an adjustment for differences between Transource Missouri FERC-authorized depreciation rates and the transmission depreciation rate that have been approved by the MPSC for use by KCP&L and GMO. The Company first made this Transource CWIP/FERC Incentives adjustment in the Company's Direct filing in the KCP&L rate case in Case No. ER-2014-0370. In the initial filing, KCP&L did not adjust for depreciation rate differences in the Transource CWIP/FERC Incentives adjustment. Based on subsequent adjustment discussions with Staff during that case, the Company's understanding of Staff's position was that depreciation rate differences should be reflected in the Transource CWIP/FERC Incentives adjustment. As a result, the Company reflected the depreciation rate differences in subsequent updates to the adjustment during the course of the proceedings in ER-2014-0370. The Company is willing to accept Staff's position in the Staff Report in this case (i.e., to utilize Transource Missouri FERC-authorized depreciation rates and to not reflect differences between those rates and the KCP&L and GMO MPSC-authorized depreciation rates). Please note that the Transource Missouri FERC-authorized depreciation rates applicable to the two Transource Missouri projects are currently lower on a weighted average basis than the KCP&L/GMO MPSC-authorized rates. The Company, however, respectfully requests that an agreed upon methodology be consistently applied going forward in this case and future KCP&L and GMO rate cases.

2. State Income Tax Rates

Q. What disagreement, if any, do you have with Staff's change regarding state income taxes?

A. The Company does not, necessarily, disagree with Staff's position that there should not be an adjustment for differences between state income tax assumptions in the Transource Missouri FERC-authorized transmission formula rate ("TFR") and the state income tax assumptions in a Missouri jurisdictional revenue requirement calculation scenario. Similar to the prior discussion regarding depreciation rates, the Company did not adjust for state income tax assumption differences in the Transource CWIP/FERC Incentives adjustment in its Direct filing in the ER-2014-0370 KCP&L rate case, but subsequently did so based on the Company's understanding of Staff's position during that case. The Company is willing to accept Staff's position in the Staff Report in this case (i.e., to utilize the state tax assumptions in Transource Missouri's TFR and to not reflect differences, if any, between those and the state tax assumptions in a Missouri jurisdictional revenue requirement calculation scenario). Please note that for the 2016 rate year the state tax assumptions in the Transource Missouri TFR were the same as those that would be used in a Missouri jurisdictional revenue requirement calculation scenario.

3. Cost of Debt

Q. What disagreement, if any, do you have with Staff's change regarding cost of debt?

A. Staff's suggestion that "differences in the assumed cost of long-term debt do not result from FERC Transmission Rate Incentives" is illogical. In its application in ER12-2554, and specifically in the direct testimony of Transource Missouri witness

Matt Vermillion, Transource Missouri discussed the risks and challenges that Transource Missouri would face in obtaining financing for each of the Projects and how the rate incentives requested would help support investment grade credit ratings, which in turn would bolster Transource Missouri's ability to obtain debt capital on reasonable terms. The requested, and subsequently approved, rate incentives, helped to mitigate lender concerns regarding uncertainties in cash flows. It is highly unlikely that Transource Missouri would have been able to acquire debt financing on as favorable terms as it did without the rate incentives that FERC granted. Making an adjustment to remove the rate incentives while keeping the debt rates at levels that would likely not have been available to Transource Missouri with the accompanying rate incentive would, thus, be inappropriate.

4. Allowance for Funds Used During Construction ("AFUDC")

Q. What disagreement, if any, do you have with Staff's change regarding AFUDC?

A. The Company does not completely disagree with Staff change regarding AFUDC. In GMO's Direct filing, we utilized the MPSC-authorized GMO and KCP&L, as applicable, weighted average cost of capital ("WACC") to calculate the AFUDC in the theoretical Missouri ratemaking scenario. In the Company's discussions with Staff regarding this adjustment, Staff suggested that it would be more appropriate to use a normal AFUDC "rate", which includes a short-term debt component to calculate the AFUDC in the theoretical Missouri ratemaking scenario. The WACC does not include short-term debt. The Company agrees with Staff that is more theoretically correct to use a normal AFUDC rate. The Company, however, does not agree with Staff's use of GMO and KCP&L's <u>actual</u> AFUDC rates over time. Using the actual AFUDC rates ignores the fact that, had KCP&L and GMO built these projects, the Companies would have had to finance several hundred million dollars of additional CWIP for the projects during a time when the Companies had other significant amounts of construction expenditures. The Company is willing to accept Staff's position regarding calculating this adjustment by utilizing the normal AFUDC rate calculation, but only if the actual GMO and KCP&L AFUDC rates are adjusted to reflect the additional CWIP associated with the projects.

C. *Transource Account Review (GMO Adjustment CS-110 & Staff Adjustments E-145.4, E-148.2, & E-160.2)*

Q. What concerns, if any, do you have regarding Staff's proposed treatment of the Transource Account Review adjustment?

A. It appears to the Company that Staff is in agreement with GMO's adjustment, and, as such, the Company has no concerns with Staff's treatment of this adjustment in its Direct filing in this case.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2016-0156

AFFIDAVIT OF DON A. FRERKING

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Don A. Frerking, being first duly sworn on his oath, states:

1. My name is Don A. Frerking. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Regulatory Analyst – Lead.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of nineteen (19) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Don A. Frerking

Subscribed and sworn before me this 15th day of August, 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200