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Witness: Don A. Frerking
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0156

SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
September 2016**

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SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

Case No. ER-2016-0156

1 **Q: Are you the same Don A. Frerking who pre-filed rebuttal testimony in this matter**
2 **on behalf of KCP&L Greater Missouri Operations Company (“GMO” or the**
3 **“Company”)?**

4 A: Yes.

5 **Q: What is the purpose of your surrebuttal testimony?**

6 A: I will respond to the rebuttal testimony of Mr. Keith Majors submitted in this proceeding
7 on behalf the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”
8 or “MPSC”) as it relates to the Company’s and Staff’s adjustment for Transource
9 CWIP/FERC Incentives. I will also respond to the rebuttal testimony of Ms. Karen
10 Lyons submitted on behalf of Staff and Mr. Charles R. Hyneman submitted on behalf of
11 the Office of the Public Counsel (“OPC”) as they relate to the Company’s transmission
12 revenue adjustment for the difference between the returns on equity (“ROEs”) authorized
13 by the FERC and the MPSC. I will also respond to certain aspects of Mr. Hyneman’s
14 rebuttal testimony related to transmission by others expenses that are directly related to
15 both the Transource CWIP/FERC Incentives discussion and the transmission revenues
16 ROE discussion.

17

1 **I. TRANSOURCE CWIP/FERC INCENTIVES**

2 **Q: In the stated purpose for your surrebuttal testimony above, you indicate that you**
3 **will respond to the rebuttal testimony of Staff witness Majors regarding Transource**
4 **CWIP/FERC Incentives. In your pre-filed rebuttal testimony in this case did you**
5 **also address the Transource CWIP/FERC Incentives?**

6 **A:** Yes. I addressed the Transource CWIP/FERC Incentives and specifically GMO’s
7 Adjustment CS-108 and Staff Adjustment E-82.3, which are utilized by GMO and Staff,
8 respectively, to adjust the Test Year amounts in FERC Account 565 (Transmission of
9 Electricity by Others). My discussion related to the Transource CWIP/FERC Incentives
10 is included on pages of 13-19 of my rebuttal testimony in which I was responding to
11 issues identified by GMO in the Staff Report on Revenue Requirement Cost of Service
12 (“Staff Report”), which contains Staff’s Direct Testimony in this case.

13 **Q: Is there anything in Mr. Majors’ rebuttal testimony in this case regarding the**
14 **Transource CWIP/FERC Incentives that would cause you to revise your responses**
15 **in your rebuttal testimony?**

16 **A:** No. The Staff positions addressed in Mr. Majors’ Rebuttal testimony related to the
17 Transource CWIP/FERC Incentives appear to be the same or substantially similar to the
18 positions in the Staff Report.

19 **Q: Is there anything else that you would like to revise or update with respect to your**
20 **rebuttal testimony related to the Transource CWIP/FERC Incentives issue?**

21 **A:** Yes. While responding to Staff Data Request 0194T, which requested an update of
22 GMO’s detailed workpapers that support GMO’s Adjustment CS-108, I realized that it
23 would be more appropriate to utilize Transource Missouri’s Transmission Formula Rate

1 (“TFR”) “True-up” Filings as the source for historical data and assumptions for capital
2 structure, return, and tax rate information. The Transource Missouri TFR “True-up”
3 filings for 2014 and 2015, among other updates, reflect state income tax assumptions that
4 are consistent with those utilized under the Missouri ratemaking scenario. State income
5 tax assumption differences were one of the items addressed by Staff in the Staff Direct
6 Revenue Requirement Report. As a result, state income tax assumptions should no
7 longer be reflected as a difference between the Staff and Company positions with respect
8 the Transource CWIP/FERC Incentives adjustment.

9 II. TRANSMISSION REVENUE

10 **Q: In the stated purpose for your surrebuttal testimony above, you indicate that you**
11 **will respond to the rebuttal testimony of Staff witness Lyons and OPC witness**
12 **Hyneman regarding transmission revenue. In your pre-filed rebuttal testimony in**
13 **this case did you also address transmission revenue?**

14 A: Yes. I addressed transmission revenue, and specifically GMO’s Adjustment R-80,
15 which is utilized by GMO to adjust the Test Year amounts in FERC Account 456.1
16 (Transmission of Electricity for Others). My discussion related to transmission revenue
17 is included on pages of 3-12 of my rebuttal testimony, which was responding to issues
18 identified by GMO in the Staff Report.

19 **Q: Is there anything in Ms. Lyons’ or Mr. Hyneman’s rebuttal testimony in this case**
20 **regarding transmission revenue that would cause you to revise your responses in**
21 **your rebuttal testimony?**

22 A: No. The Staff positions addressed in Ms. Lyons’ rebuttal testimony related to
23 transmission revenues appear to be the same or substantially similar to the positions in

1 the Staff Report. There is also nothing in Mr. Hyneman's rebuttal testimony that would
2 cause me to revise my rebuttal testimony.

3 **Q: Are there any additional comments that you would like to make in this surrebuttal**
4 **testimony regarding points made by Ms. Lyons and Mr. Hyneman in their rebuttal**
5 **testimony related GMO Adjustment R-80?**

6 A: Yes. In some instances Ms. Lyons and Mr. Hyneman's positions are the same or similar,
7 so where possible I will address those same or similar positions together. For positions or
8 statements that are unique to Ms. Lyons or Mr. Hyneman, I will note that and address
9 them separately.

10 **Q: Ms. Lyons and Mr. Hyneman both seem to be taking the position that there is some**
11 **sort of "inconsistency" or "inequity" in the Company's treatment of FERC and**
12 **MPSC ROE differences as they apply to Transmission Revenues in Account 456.1**
13 **vs. Transmission Expenses in Account 565. How do you respond?**

14 A: Ms. Lyons and Mr. Hyneman are suggesting that because the Company has adjusted for
15 Federal Energy Regulatory Commission ("FERC") vs MPSC-authorized ROE differences
16 as they relate transmission revenues for others use of GMO's transmission assets that the
17 Company should somehow, for some unknown reason, also adjust for FERC/MPSC ROE
18 differences as they relate to transmission expenses that the Company pays for the use of
19 other transmission owners' systems on the behalf of retail customers. No adjustment for
20 ROE differences, however, should be made to transmission expenses that the Company
21 pays for the use of other transmission owners systems because there are fundamental
22 differences between the Transmission for Others Revenues in Account 456.1 vs
23 Transmission by Others Expenses in Account 565.

1 **Q: What are those fundamental differences?**

2 A: Those differences are primarily related to which entity owns the transmission facilities
3 and to which commission has jurisdictional rate-making authority over the transmission
4 facilities for which the transmission revenues are being received and the transmission
5 expenses are being paid.

6 **Q: Who owns the transmission facilities for which Transmission for Others Revenues
7 in Account 456.1 are being received?**

8 A: The Company owns those transmission facilities. The Company receives those
9 transmission revenues when other wholesale transmission customers utilize the
10 Company-owned transmission facilities.

11 **Q: Who owns the transmission facilities for which Transmission by Others Expenses in
12 Account 565 are being charged?**

13 A: Those transmission facilities are primarily owned by other transmission-owning
14 companies. The Company is charged transmission expenses for its use, on behalf of its
15 retail customers, of those other transmission-owning companies' transmission facilities.

16 **Q: Your response above noted that the transmission facilities for which Transmission
17 by Others Expenses in Account 565 are being charged are “primarily” owned by
18 other transmission-owning companies. Are, then, some of the charges in Account
19 565 for the Company’s use of Company-owned transmission facilities?**

20 A: Yes. There are some charges in Account 565 related to the Company’s use of Company-
21 owned transmission facilities. As I noted in my rebuttal testimony on pages 11-12,
22 however, the Company has adjusted for those in GMO Adjustment R-80 by excluding the
23 related revenues from the ROE adjustment. The net result of that exclusion is that the

1 transmission revenues in Account 456.1 for GMO's use of GMO-owned transmission
2 facilities and the transmission expenses in Account 565 for GMO's use of GMO-owned
3 transmission facilities offset each other.

4 **Q: Which commission has jurisdictional rate-making authority over the transmission**
5 **facilities for which Transmission for Others Revenues in Account 456.1 are being**
6 **received?**

7 A: The wholesale transmission revenues in Account 456.1 are received based on rates under
8 the jurisdictional authority of FERC and are primarily based on GMO's FERC-approved
9 TFR and administered under the FERC-approved Southwest Power Pool, Inc. ("SPP")
10 Open Access Transmission Tariff ("OATT"). While the MPSC does not have rate-
11 making authority over the rates upon which the wholesale transmission revenues in
12 Account 456.1 are based, it obviously has retail rate-making authority, and those retail
13 rates are based, in part, on the same Company-owned transmission facilities that are also
14 used to generate the wholesale transmission revenues in Account 456.1. That is why
15 Account 456.1 wholesale transmission revenues must be credited against the gross retail
16 revenue requirement to produce a reduced net retail revenue requirement and, thus, avoid
17 double recovery. The problem, however, occurs when the Account 456.1 wholesale
18 transmission revenues that are being credited against the gross retail revenue requirement
19 are based on FERC-approved rates that include a FERC-authorized ROE that is different
20 than the MPSC-authorized ROE. Crediting back more to retail customers than was built
21 into their gross retail revenue requirement, because of differences between FERC- and
22 MPSC-authorized ROEs, creates an improper arbitrage situation that is controlled by the
23 MPSC. GMO Adjustment R-80 eliminates this improper arbitrage situation.

1 **Q: Which commission has jurisdictional rate-making authority over the transmission**
2 **facilities for which Transmission by Others Expenses in Account 565 are being**
3 **charged?**

4 A: The transmission expenses in Account 565 charged to GMO are based on rates under the
5 jurisdictional authority of the FERC and are primarily based on other transmission-
6 owning companies' FERC-approved TFRs and are administered under the FERC-
7 approved SPP OATT. The MPSC does not have rate-making authority over the rates
8 upon which the transmission expenses in Account 565 are based, nor does it have retail
9 rate-making authority over the transmission facilities upon which those charges to GMO
10 are based (other than those facilities owned by GMO). The MPSC, thus, does not have
11 jurisdiction to authorize the ROE to be used in the rates charged to GMO for the use of
12 transmission facilities owned by others. Thus, there is no ROE difference to adjust for,
13 because the FERC-authorized ROEs for those other transmission-owning companies are
14 the only relevant ROEs.

15 **Q: Does GMO have the option to pay amounts other than those it is being charged for**
16 **the use of others transmission facilities?**

17 A: No. GMO has no option to pay any other amounts for the allocated use of transmission
18 facilities owned by other transmission owners that have been lawfully charged to GMO
19 as a transmission customer under the FERC-approved SPP OATT. GMO is incurring
20 these charges for the use of others' transmission facilities on behalf of its retail
21 customers.

1 **Q: Given these fundamental differences between the Transmission for Others Revenues**
2 **in Account 456.1 vs Transmission by Others Expenses in Account 565, are the Staff**
3 **and OPC suggestions that Account 565 also somehow be adjusted to reduce FERC-**
4 **approved ROEs if the Commission allows GMO Adjustment R-80 proper rate-**
5 **making?**

6 A: No. I am not a lawyer, but in my opinion it would constitute an illegal taking.

7 **III. TRANSMISSION BY OTHERS EXPENSE**

8 **Q: In the stated purpose for your surrebuttal testimony above, you indicate that you**
9 **will respond to the rebuttal testimony of OPC witness Hyneman regarding certain**
10 **aspects of Mr. Hyneman’s rebuttal testimony related to transmission by others**
11 **expenses that are directly related to both the Transource CWIP/FERC Incentives**
12 **discussion and the transmission revenues ROE discussion. To what were you**
13 **referring?**

14 A: I will address Mr. Hyneman’s comments on pages 44-49 of his rebuttal testimony, which
15 he refers to as OPC’s third concern about GMO’s transmission expense proposal and
16 describes as:

17 OPC’s third concern is that GMO had, in the past, a great opportunity to
18 eliminate or at least mitigate, increased transmission costs. The ability to
19 increase transmission revenues, when netted against transmission
20 expenses, results in lower net transmission expense. GMO had an
21 opportunity to significantly increase its transmission revenues and thus
22 reduce its transmission expense but decided to transfer this opportunity to
23 GPE and GPE’s nonregulated ventures.

24 GMO had the opportunity to build, own and include in its rate base two
25 SPP regional transmission projects. These projects are the GMO’s Iatan-
26 Nashua transmission project and GMO’s Sibley-Nebraska City
27 transmission project. (“GMO’s Transmission Projects”).

28 Instead of building and owning these very valuable regional transmission
29 assets, GMO’s nonregulated parent company GPE made the decision to

1 transfer the ownership rights of these projects to a nonregulated joint
2 venture with another entity named Transource.

3 **Q: Was the situation to which Mr. Hyneman is referring regarding the novation of the**
4 **Notifications to Construct (“NTC”) for the Iatan-Nashua and Sibley-Nebraska City**
5 **projects from KCP&L and GMO to Transource Missouri, LLC (“Transource**
6 **Missouri”) addressed in Case No. EA-2013-0098?**

7 A: Yes. Case No. EA-2013-0098 ultimately resulted in a Stipulation and Agreement among
8 the parties, which included the Staff and OPC, that was approved by the Commission.

9 **Q: So the situation discussed in “OPC’s third concern” has previously been addressed**
10 **by the Commission?**

11 A: That is correct. I believe that Mr. Hyneman’s arguments regarding “OPC’s third
12 concern” are mooted by the Commission-approved Stipulation and Agreement in EA-
13 2013-0098, but I will nonetheless respond to some of Mr. Hyneman’s assertions here,
14 because I believe that it is instructive in explaining the flaws in Mr. Hyneman’s rationale
15 as it relates not only to this specific situation but also to Mr. Hyneman’s arguments
16 regarding the Company’s transmission revenues ROE adjustment (GMO Adjustment R-
17 80).

18 **Q: Are there any mischaracterizations in Mr. Hyneman’s description of “OPC’s third**
19 **concern” above that you would like to address?**

20 A: Yes. Mr. Hyneman’s description of “OPC’s third concern” seems to imply that the Iatan-
21 Nashua and Sibley-Nebraska City projects are now owned by a “nonregulated” entity.
22 Again, I am not an attorney, but it is my understanding that Transource Missouri, as the
23 owner of the projects, is defined as an electrical corporation under Chapter 393 of the
24 Missouri Statutes and, as such, is subject to certain jurisdictional authority of the

1 Commission under Chapter 386 of the Missouri Statutes. Transource Missouri is not
2 rate-regulated by the MPSC, but it is rate-regulated by FERC. The rates charged for
3 transmission service on the Transource Missouri-owned facilities are developed based on
4 implementation of the FERC-approved Transource Missouri TFR and are administered
5 under the FERC-approved SPP OATT.

6 **Q: Are there any other mischaracterizations in Mr. Hyneman’s description of “OPC’s**
7 **third concern” above that you would like to address?**

8 A: Yes. Mr. Hyneman’s description of “OPC’s third concern”, whether intentionally or
9 unintentionally, blurs the important distinction between transmission revenues and
10 transmission expenses. I previously addressed the fundamental differences between
11 transmission revenues and transmission expenses earlier in my surrebuttal testimony.

12 **Q: On page 47 of Mr. Hyneman’s rebuttal testimony he indicates that he performed a**
13 **financial analysis in Case No. EA-2013-0098 that “indicated a detriment to GMO’s**
14 **customers in nominal dollars of \$27 million after 5 years, \$48 million after 10 years**
15 **and \$76 million after twenty years.” Do these amounts seem reasonable given the**
16 **level of costs that would be allocated to GMO for these projects based on GMO**
17 **region-wide Load Ratio Share in SPP?**

18 A: No, they do not. Charles J. Locke, provided surrebuttal testimony in Case No. EA-2013-
19 0098 on behalf of KCP&L and GMO in which he provided a thorough response to Mr.
20 Hyneman’s rebuttal testimony in EA-2013-0098, explaining why Mr. Hyneman’s
21 financial analysis produced unreasonable results. I have attached a copy of Mr. Locke’s
22 EA-2013-0098 surrebuttal testimony in its entirety as Schedule DAF-1, but the following
23 excerpt from Mr. Locke’s *Purpose and Summary* section on pages 3-5 of his EA-2013-

1 0098 surrebuttal testimony provides a brief discussion of the unreasonableness of Mr.
2 Hyneman's results:

3 Q: Can you briefly summarize Mr. Hyneman's conclusions regarding the
4 comparison of the cost to GMO's retail customers under the scenario of
5 Transource Missouri taking ownership of the Projects versus the scenario
6 of GMO retaining ownership?

7 A: The crux of Mr. Hyneman's conclusions is at page 16 of his Rebuttal
8 Testimony where he presents a table that summarizes his analysis of the
9 cost impact to GMO's retail customers if the MoPSC approves the
10 Applications. Mr. Hyneman contends there will be a \$76 million detriment
11 to GMO's retail customers over 20 years from approval of the
12 Applications in this case.

13 Q: Do you agree with Mr. Hyneman's conclusions?

14 A: No. When applied to these regional transmission Projects, his analysis
15 produces an outcome that is not logical. Mr. Hyneman developed an
16 exhibit (Schedule CRH-1) for the Projects that demonstrates the annual
17 impact on GMO's customers of adopting his recommendation. His
18 schedule asserts that if the MoPSC denies these Applications and assumes
19 his ratemaking approach, it would mean that:

20 1. The Companies would be required to incur \$444.8 million to
21 construct the Projects, of which GMO's retail customers are
22 responsible for only 4% (\$17.8 million);

23 2. GMO retail customers would pay nothing, not even for their
24 share of the investment that SPP has found will produce benefits;
25 and

26 3. Starting in the first year the Projects are in service, GMO retail
27 customers would receive a \$5.9 million annual payment to reduce
28 the costs they pay for other services provided by GMO.

29 Not only does Mr. Hyneman's analysis produce an unwarranted windfall
30 for GMO customers, it also constitutes improper ratemaking by reasonable
31 standards.

32 Q: What accounts for the outcome produced by Mr. Hyneman's analysis?

33 A: The key issue that accounts for Mr. Hyneman's outcome described
34 above is the cost-of-service method used. Mr. Hyneman believes that in
35 setting GMO's retail rates for its 4% share of the regional Projects,
36 GMO's customers should receive credits for the revenues received from
37 third parties for those parties' 96% share of the Projects. The regional

1 nature of the Projects, with the vast majority of the expenditure being
2 made to serve third parties, results in Mr. Hyneman's revenue crediting
3 proposal producing a large and unwarranted customer windfall. Mr. Ives
4 and I will address a number of flawed areas in Mr. Hyneman's analysis, as
5 well as in Mr. Kind's position that shares similar assumptions.

6 **Q: So the results of Mr. Hyneman's financial analysis somehow showed that GMO**
7 **customers should not only not pay their allocated share of the projects but should**
8 **instead be essentially paid \$5.9 million per year. How is that reasonable?**

9 A: It is not reasonable. Mr. Hyneman's financial analysis relies upon the improper arbitrage
10 situation resulting from crediting back transmission revenues based on a FERC-
11 authorized ROE that is greater than the MPSC-authorized ROE in the gross retail revenue
12 requirement. This improper arbitrage situation is magnified for regionally allocated
13 projects.

14 **Q: Can you describe the scenario/recommendation/"analysis" that Mr. Hyneman used**
15 **to produce the benefits that he claimed?**

16 A: Yes. The following steps describe the scenario that was proposed by Mr. Hyneman in
17 order to extract the benefits that he claims.

18 1. First, under Mr. Hyneman's scenario the Company should be ordered or
19 otherwise forced or coerced to place the Transource Transmission Projects in
20 retail rate base. This placement in retail rate base is despite the fact that:

- 21 • The projects were directed to be constructed by SPP for a regional, not
22 zonal, purpose and would not have been built without that regional
23 purpose and the associated region-wide cost allocation;
- 24 • The GMO SPP region-wide Load Ratio Share allocation of these
25 projects is only approximately 4% and the KCP&L SPP region-wide

1 Load Ratio Share allocation of these projects is only approximately
2 8%;

- 3 • These projects would have more than doubled the combined
4 transmission rate base of GMO and KCP&L; and
- 5 • The Company's stated intent was to not place these projects, or other
6 SPP-directed projects that are subject to region-wide cost allocation, in
7 retail rate base.

8 2. Next, under Mr. Hyneman's scenario the full amount of the revenue
9 requirement for these projects should be included in the calculation of rates to
10 be charged to retail customers and that full revenue requirement should be
11 calculated utilizing a Missouri Commission-authorized ROE that is less than
12 the FERC-authorized ROE that is utilized to calculate the revenue requirement
13 that is charged in transmission rates to other transmission customers under the
14 SPP OATT.

15 3. Then, the transmission revenues received from other transmission customers
16 under the SPP OATT that were based on the transmission revenue
17 requirements that included the FERC-authorized ROE, should be credited
18 against the full gross retail revenue requirement that was calculated at the
19 lower Missouri Commission-authorized ROE to more than reimburse those
20 retail customers for other transmission customers' allocated share of the
21 revenue requirements.

1 **Q: In your rebuttal testimony in this case you included simple illustrative examples**
2 **that showed the problem created by revenue crediting with FERC vs MPSC**
3 **differences and how GMO Adjustment R-80 fixed the problem. Were those**
4 **illustrative examples intended to show the impacts for transmission projects that are**
5 **allocated region-wide?**

6 A: No. The simple illustrative examples were intended to show the impacts for transmission
7 facilities that were primarily built for a zonal (i.e., local) purpose.

8 **Q: Can you update those simple illustrative examples to show the impacts for projects**
9 **that are allocated region-wide?**

10 A: Yes. For simplicity, and to show the impacts of for region-wide projects vs zonal
11 facilities, I will keep all the assumptions the same except that I will change the zonal load
12 ratio share assumptions to reflect region-wide load ratio share assumptions. The zonal
13 load ratio share assumptions that I used in the illustrative examples in my rebuttal
14 testimony assumed that 90% of the GMO zonal load was attributable to GMO's retail
15 customers and that 10% was attributable to other customers in SPP. Figures 1 and 2
16 below were included in my rebuttal testimony. Figure 1 shows that crediting for
17 transmission revenues based on the FERC-authorized ROE results in GMO customers
18 effectively only being charged for an ROE of 9.77% rather than the 9.9% ROE for which
19 they should be charged. Figure 2 shows that crediting back transmission revenues based
20 on the MPSC-authorized ROE that was used to develop the gross retail revenue
21 requirement fixes the problem and results in GMO customers being charged for an ROE
22 of 9.9%, which they should be charged.

1

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.

2

3

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.

4

1 The region-wide load ratio share assumptions that I used in the illustrative examples in
 2 Figures 3 and 4 below, which show the impacts for region-wide projects, assumed that
 3 4% of the SPP region-wide load is attributable to GMO's retail customers and that 96% is
 4 attributable to other customers in SPP. Figure 3 shows that crediting for transmission
 5 revenues based on the FERC-authorized ROE results in GMO customers effectively
 6 being charged a *negative* ROE (-18.9%) rather than the 9.9% ROE for which they should
 7 be charged. Figure 2 shows that crediting back transmission revenues based on the
 8 MPSC-authorized ROE that was used to develop the gross retail revenue requirement
 9 fixes the problem and results in GMO customers being charged for an ROE of 9.9%,
 10 which they should be charged.

11 **Figure 3**

Regional Project - 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		4%	4%
(7) % of Total Transmission Load - SPP Charges to Others		96%	96%
		100%	100%
(8) Allocated ROE Revenue Requirement for GMO Retail	(5) x (6)	\$ 396,000	\$ 444,000
(9) Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	\$ 9,504,000	\$ 10,656,000
		\$ 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)	\$ 10,656,000	
(12) Net GMO Retail Revenue Available for Equity	(10) - (11)	\$ (756,000)	
(13) Effective ROE paid by GMO Retail Customers	(12) / [(3)*(6)]	-18.90%	< Authorized ROE

Note:

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

12

1

Figure 4

Regional Project - 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		4%	4%
(7) % of Total Transmission Load - SPP Charges to Others		96%	96%
		100%	100%
(8) Allocated ROE Revenue Requirement for GMO Retail	(5) x (6)	\$ 396,000	\$ 444,000
(9) Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	\$ 9,504,000	\$ 10,656,000
		\$ 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)	\$ 9,504,000	
(12) Net GMO Retail Revenue Available for Equity	(10) - (11)	\$ 396,000	
(13) Effective ROE paid by GMO Retail Customers	(12) / [(3)*(6)]		9.90% = Authorized ROE

Note:

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

2

3 **Q: Is that *negative* effective ROE in your simple illustrative example in Figure 3**
 4 **essentially the scenario that Mr. Hyneman is proposing in his financial analysis?**

5 **A: Yes.**

6 **Q: In your opinion does the scenario constructed by Mr. Hyneman result in proper rate**
 7 **making?**

8 **A: No. The scenario constructed by Mr. Hyneman results in a seriously improper subsidy of**
 9 **GMO ratepayers, which is the “unwarranted windfall” referred to in Mr. Locke’s**
 10 **surrebuttal testimony in Case No. EA-2013-0098.**

11 **Q: Was Mr. Hyneman’s proposed ratemaking scenario part of the Stipulation and**
 12 **Agreement(s) and subsequent Commission Report and Order in Case No. EA-2013-**
 13 **0098?**

1 A: No. The parties to the Stipulation and Agreement(s) in Case No. EA-2013-0098, which
2 included the Staff and OPC along with the Companies and other parties, agreed to a much
3 more reasonable approach to adjust for various differences between MPSC and FERC
4 ratemaking treatments for the Transource Missouri transmission projects for the benefit
5 of Missouri retail customers. That adjustment is included as GMO Adjustment CS-108
6 & Staff Adjustment E-82.3 and has been addressed in the Staff Revenue Requirement
7 Report, in the rebuttal testimony of Staff witness Majors in this case, and in my rebuttal
8 and surrebuttal testimony in this case.

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

10 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) Case No. ER-2016-0156
A General Rate Increase for Electric Service)

AFFIDAVIT OF DON A. FRERKING

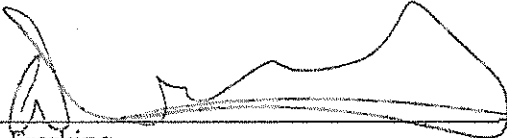
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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.

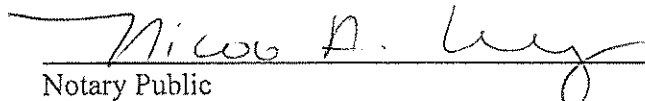
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of nineteen (19) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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 2nd day of September, 2016.



Notary Public

My commission expires: Feb. 4, 2019

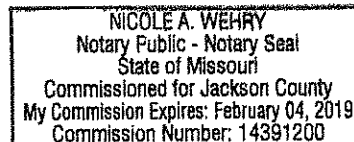


Exhibit No.:
Issue: Public Interest
Witness: Charles J. Locke
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company and
KCP&L Greater Missouri Operations Company
Case No.: EA-2013-0098
EO-2012-0367
Date Testimony Prepared: March 6, 2013

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2013-0098 and EO-2012-0367

SURREBUTTAL TESTIMONY

OF

CHARLES J. LOCKE

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY
AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
March 2013**

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

2 A: My name is Charles J. Locke. My business address is 1200 Main Street, 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”) as Manager,
6 Regulatory Affairs.

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

8 A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company
9 (“GMO”) (collectively referred to as the “Companies”).

10 **Q: What are your areas of responsibility?**

11 A: My responsibilities include regulatory matters related to the Federal Energy Regulatory
12 Commission (“FERC”), including the submission of rate schedule and tariff filings,
13 recovery of transmission costs, and regulatory issues involving Southwest Power Pool,
14 Inc. (“SPP”), which serves as the Regional Transmission Organization (“RTO”) for both
15 KCP&L and GMO.

16 **Q: Please describe your education, experience, and employment history.**

17 A: I received a Bachelor of Science degree in economics from Southwest Missouri State
18 University and a Master of Arts degree in economics from the University of Missouri-
19 Kansas City. I have been employed by Kansas City Power & Light Company since 1981
20 and have performed or supervised numerous functions including load research, load
21 forecasting, cost-of-service analysis, rate design, billing services, risk analysis, and tariff
22 administration. I assumed my current responsibilities for FERC and SPP regulatory
23 matters in 2004.

1 **Q: Are you familiar with the Companies' role in SPP?**

2 A: Yes. I currently serve as the Companies' representative on the SPP Regional Tariff
3 Working Group ("RTWG"), as vice chairman of the full committee and as chairman of
4 the Billing Determinants Task Force under the working group. The RTWG is the SPP
5 stakeholder group responsible for drafting proposed changes to the SPP Open Access
6 Transmission Tariff ("SPP Tariff"). I have participated in deliberations of SPP's Markets
7 and Operations Policy Committee and have represented the RTWG before the SPP Board
8 of Directors regarding transmission cost allocation tariff changes. I also participate in
9 and follow developments in other SPP committees including the Cost Allocation
10 Working Group ("CAWG"). The CAWG has a key role as an advisory group for the
11 Regional State Committee ("RSC"), which provides input and direction from state
12 commissioners to the SPP decision-making process regarding cost allocation issues and
13 other matters. Having served on the RTWG since 2004, I have actively participated in
14 development of the SPP Tariff in many areas including transmission planning,
15 transmission facility cost allocation, and energy markets.

16 **Q: Have you previously testified in Case Nos. EO-2012-0367 or EA-2013-0098, which**
17 **address the applications ("Applications") filed by the Companies and Transource**
18 **Missouri, LLC ("Transource Missouri") on August 31, 2012?**

19 A. No.

20 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
21 **Commission ("MoPSC" or "Commission") or before any other utility regulatory**
22 **agency?**

23 A: I have submitted testimony to the MoPSC in Case Nos. EO-2012-0135 and EO-2012-

1 0136 and have been actively involved in numerous proceedings before the MoPSC
2 including technical conferences, settlement meetings, and workshops. I have also
3 presented testimony to the FERC and the Kansas Corporation Commission.

4 **I. PURPOSE AND SUMMARY**

5 **Q: What is the purpose of your testimony?**

6 A: The purpose of my testimony is to address the Rebuttal Testimony of MoPSC Staff
7 (“Staff”) witness Charles R. Hyneman and the Office of the Public Counsel (“OPC”)
8 witness Ryan Kind by explaining the appropriate framework for evaluating the cost-of-
9 service impact on GMO’s retail customers from Transource Missouri’s proposed
10 ownership of the Iatan-Nashua and Sibley-Nebraska City Projects (collectively,
11 “Projects” and individually, “Project”). This framework is a key element of the points
12 that Witness Darrin Ives makes in his Surrebuttal Testimony to refute the conclusions
13 reached in the Rebuttal Testimony of Mr. Hyneman, echoed by Mr. Kind, that approval
14 of the Applications is detrimental to the public interest because it would result in
15 “significantly higher GMO cost of service and electric utility rates for the foreseeable
16 future” (Hyneman Rebuttal at p. 7, lines 1-2). In support of Mr. Ives’ Surrebuttal
17 Testimony, I will explain that the development of regional transmission projects requires
18 a new approach to the retail ratemaking treatment of the resulting costs and revenues. I
19 also make related comments regarding the testimony of Staff witness Michael Stahlman.

20 **Q: Can you briefly summarize Mr. Hyneman’s conclusions regarding the comparison**
21 **of the cost to GMO’s retail customers under the scenario of Transource Missouri**
22 **taking ownership of the Projects versus the scenario of GMO retaining ownership?**

1 A: The crux of Mr. Hyneman's conclusions is at page 16 of his Rebuttal Testimony where
2 he presents a table that summarizes his analysis of the cost impact to GMO's retail
3 customers if the MoPSC approves the Applications. Mr. Hyneman contends there will be
4 a \$76 million detriment to GMO's retail customers over 20 years from approval of the
5 Applications in this case.

6 **Q: Do you agree with Mr. Hyneman's conclusions?**

7 A: No. When applied to these regional transmission Projects, his analysis produces an
8 outcome that is not logical. Mr. Hyneman developed an exhibit (Schedule CRH-1) for
9 the Projects that demonstrates the annual impact on GMO's customers of adopting his
10 recommendation. His schedule asserts that if the MoPSC denies these Applications and
11 assumes his ratemaking approach, it would mean that:

- 12 1. The Companies would be required to incur \$444.8 million to construct the
13 Projects, of which GMO's retail customers are responsible for only 4% (\$17.8
14 million);
- 15 2. GMO retail customers would pay nothing, not even for their share of the
16 investment that SPP has found will produce benefits; and
- 17 3. Starting in the first year the Projects are in service, GMO retail customers would
18 receive a \$5.9 million annual payment to reduce the costs they pay for other
19 services provided by GMO.

20 Not only does Mr. Hyneman's analysis produce an unwarranted windfall for GMO
21 customers, it also constitutes improper ratemaking by reasonable standards.

1 **Q: What accounts for the outcome produced by Mr. Hyneman’s analysis?**

2 A: The key issue that accounts for Mr. Hyneman’s outcome described above is the cost-of-
3 service method used. Mr. Hyneman believes that in setting GMO’s retail rates for its 4%
4 share of the regional Projects, GMO’s customers should receive credits for the revenues
5 received from third parties for those parties’ 96% share of the Projects. The regional
6 nature of the Projects, with the vast majority of the expenditure being made to serve third
7 parties, results in Mr. Hyneman’s revenue crediting proposal producing a large and
8 unwarranted customer windfall. Mr. Ives and I will address a number of flawed areas in
9 Mr. Hyneman’s analysis, as well as in Mr. Kind’s position that shares similar
10 assumptions.

11 **Q: How does this compare with the cost allocation methodology the Companies**
12 **support?**

13 A: Under the SPP Tariff, GMO’s customers will pay 4% of the annual cost of the Projects.
14 This is based on the cost allocation method that FERC has approved for regional projects
15 in SPP under the “highway” method that I will later describe. Moreover, as has been
16 noted by the Companies’ witness Todd Fridley in his Direct Testimony, the Projects were
17 approved simultaneously with a number of other regional transmission system upgrades
18 because SPP determined that these upgrades would bring substantial benefit to the SPP
19 region. With these substantial regional benefits in mind, the Projects should not produce
20 a windfall to GMO customers through the application of historical retail ratemaking
21 simply because they are built in GMO’s service area. When cost allocation is determined
22 in the appropriate manner, GMO customers pay a cost proportionate to their load, just as

1 all other customers served by SPP pay their proportionate share, regardless of who
2 constructs the facilities or where they are located.

3 **Q: Do you agree with Mr. Hyneman's conclusion that there will be a \$76 million**
4 **detriment over 20 years to GMO's retail customers if the MoPSC approves the**
5 **Applications?**

6 A: No. There would be no detriment if proper cost allocation principles are employed. Mr.
7 Hyneman takes a wrong turn in setting up the scenario under which the Companies retain
8 ownership of the Projects. He assumes that the historical treatment of *local* transmission
9 facilities and associated incidental transmission revenues in a retail rate case would apply
10 to these SPP-directed, *regional* transmission Projects. I will refer to Mr. Hyneman's
11 application of wholesale transmission revenue as an offset in the retail cost-of-service
12 analysis as "Full Revenue Crediting." This faulty assumption yields the seriously flawed
13 result discussed above, whereby GMO retail customers would bear no cost for Projects
14 from which they receive a benefit and instead would receive a \$5.9 million annual
15 payment from the Projects. It demonstrates the fact that Full Revenue Crediting is not
16 appropriate for regionally cost allocated projects that are paid for by *all* customers across
17 the SPP region, not just by GMO customers, and that are built to serve customers across
18 the SPP region.

19 **Q: Please explain how the rate impact shown in Mr. Hyneman's testimony occurs.**

20 A: Although the detailed answer to that question will be provided later in my testimony, the
21 short answer is that applying Full Revenue Crediting to regional projects results in
22 GMO's retail customers receiving a subsidy of millions of dollars each year. In

1 providing the detailed answer to the question, I will describe Full Revenue Crediting and
2 explain how it would result in an unwarranted subsidy if applied to these Projects.

3 **Q: Now that you have summarized the problem with the conclusions of Mr. Hyneman**
4 **and Mr. Kind, where should a detailed description of these issues begin?**

5 A: A detailed description of the problem with Mr. Hyneman's and Mr. Kind's conclusions,
6 and of the appropriate ratemaking treatment for the Projects, requires an explanation of
7 the evolution of regional transmission service.

8 **II. REGIONAL TRANSMISSION SERVICE**

9 **Q: What is the Companies' role in SPP?**

10 A: KCP&L and GMO participate in SPP in a number of different roles, but for the purpose
11 of this discussion it is helpful to focus on two basic functions they serve: Transmission
12 Owner and Transmission Customer. The SPP Tariff makes a clear distinction between
13 these two roles, and the distinction is essential to understanding the way in which the
14 transmission grid has been organized and operated subsequent to the issuance of FERC
15 Order No. 888 in 1996. It is particularly important to make this clear distinction when
16 dealing with issues of vertically integrated utilities like KCP&L and GMO because such
17 companies operate as both Transmission Customer and Transmission Owner.

18 **Q: Please describe the role of KCP&L and GMO as Transmission Owners.**

19 A: A Transmission Owner makes transmission investments and seeks to recover this cost,
20 including both a return on and return of the investment. As Transmission Owners,
21 KCP&L and GMO have placed their transmission facilities under the functional control
22 of SPP, which provides benefits to KCP&L and GMO retail customers through SPP's
23 provision of numerous planning and Transmission Provider functions. On behalf of

1 KCP&L, GMO, and the other Transmission Owners throughout the SPP region, SPP has
2 developed comprehensive regional transmission plans with both short-term and long-term
3 views. Although KCP&L and GMO continue to conduct traditional transmission
4 planning for local reliability purposes, those plans must fit within SPP's overall scope.
5 As the Transmission Provider, SPP must conduct its planning in compliance with
6 complex and detailed FERC rules (e.g., FERC Order Nos. 888, 889, and 890). This helps
7 Transmission Providers such as SPP to provide non-discriminatory open-access service to
8 all Transmission Customers. As a result of this planning activity, SPP issues
9 Notifications to Construct ("NTC") for new transmission facilities that are needed to
10 ensure reliability, facilitate more economic power transactions, and/or achieve certain
11 public policy goals.

12 **Q: How does a Transmission Owner in SPP recover its costs for facilities that SPP**
13 **directs it to construct?**

14 A: When a Transmission Owner under the SPP Tariff builds a new transmission facility in
15 response to an NTC, the ongoing annual transmission revenue requirement for that
16 facility is recovered through the SPP Tariff. KCP&L, GMO, and almost all other
17 Transmission Owners under the SPP Tariff utilize FERC-approved transmission formula
18 rates that permit the calculation of the annual revenue requirement necessary to cover the
19 cost of a transmission facility constructed at SPP's direction.

20 SPP charges the Transmission Customers pursuant to its tariff in order to collect
21 the amount necessary to cover the Transmission Owner's revenue requirement for the
22 facility. SPP, in turn, provides the resulting revenue to the constructing Transmission
23 Owner. This cost recovery mechanism has been a part of the SPP Tariff since 2005 when

1 the Base Plan funding mechanism was first established. Because this cost recovery
2 mechanism covers the Transmission Owner's full revenue requirement for such facilities,
3 there is no remaining balance to be recovered through retail rates by including those
4 facilities in retail rate base.

5 **Q: Does SPP also collect revenue for facilities it did not direct to be constructed?**

6 A: Yes. For the most part, these are either legacy facilities that a Transmission Owner built
7 primarily to serve its own native load before 2005 or facilities recently constructed by a
8 Transmission Owner to meet its local reliability needs that were not part of SPP's
9 regional plan. This revenue received from SPP is the result of point-to-point service on
10 the SPP system and network service taken by third parties connected to the respective
11 Transmission Owners' facilities, and in this testimony will be referred to as "Zonal
12 Revenue."

13 **Q: How does Zonal Revenue differ from revenue received for SPP-directed projects?**

14 A: Zonal Revenue is different in nature from that received for projects directed by SPP, such
15 as the Iatan-Nashua and Sibley-Nebraska City Projects, because it originates from the
16 cost of facilities built at the Transmission Owner's discretion and for the primary purpose
17 of serving local area needs. It is also important to recognize that Zonal Revenue received
18 from SPP does *not* cover the Transmission Owner's full revenue requirement for such
19 facilities, the balance of which is recovered through retail rates by including those
20 facilities in retail rate base.

1 **Q: Do SPP-directed projects, such as the Iatan-Nashua and Sibley-Nebraska City**
2 **Projects, need to be included in retail rate base for purposes of cost recovery?**

3 A: No. With regard to establishing FERC rates and treatment under the SPP Tariff, these
4 projects are handled much differently from transmission facilities built for local purposes.
5 In order to ensure full cost recovery for SPP-directed projects (other than generator
6 interconnection facilities, which have a special set of FERC-defined rules), there is no
7 need for the Transmission Owner's rate base, operating and maintenance expenses, and
8 revenues for such projects to be included in retail cost-of-service calculations. This is
9 because the full revenue requirement is collected by SPP on behalf of the Transmission
10 Owner. All that is needed in the retail cost-of-service calculation is the Transmission
11 Customer's share of the regional transmission service cost for such projects, which SPP
12 charges to the Companies as Transmission Customers and which the Companies record in
13 Account 565 (Transmission of Electricity by Others). For GMO's retail customers, this
14 would cover the 4% load share of the Projects.

15 **Q: What cost recovery mechanisms have been established for SPP-directed projects?**

16 A: In recent years, SPP Tariff modifications related to cost allocation have included the
17 establishment of the original Base Plan funding method, the Balanced Portfolio, and the
18 revised Base Plan funding that is commonly referred to as "highway-byway." The
19 highway-byway method has been used by SPP since 2010. Under the highway-byway
20 method, the cost of an SPP-directed transmission project is recovered in one of three
21 possible ways, depending on the voltage of the transmission facility. For facilities above
22 300 kV (referred to as "highways"), the costs are spread across all Transmission
23 Customers in the SPP region in proportion to their load share. The costs of lower voltage

1 facilities (“byways”) are allocated either entirely to the local load zone or to a
2 combination of local loads and regional loads.

3 **Q: Please describe the role of KCP&L and GMO as Transmission Customers.**

4 A: Transmission Customers use the transmission system primarily to serve their own load or
5 to enable the transaction of power in wholesale energy markets. SPP Transmission
6 Customers pay SPP, as the Transmission Provider, for this use of the system. As
7 Transmission Customers, KCP&L and GMO must request network and point-to-point
8 transmission service from SPP to ensure that they can serve native load obligations from
9 their power resources and to conduct economic wholesale power transactions.

10 **Q: How do Transmission Customers pay for transmission service?**

11 A: In general, Transmission Customers pay for transmission service through two different
12 sets of SPP charges:

- 13 1. Rates based on the cost of the Transmission Owners’ facilities that SPP directed
14 for construction, which are billed under SPP Tariff Schedule 11; and
- 15 2. Rates based on the cost of the Transmission Owners’ facilities built primarily for
16 local purposes, which are billed under SPP Tariff Schedules 7, 8, and 9 and which
17 result in Zonal Revenue.

18 Other than Schedule 9, which is exempted by stipulations approved by the MoPSC in
19 Case Nos. EO-2006-0142 and EO-2009-0179 that I will discuss later in my testimony,
20 KCP&L and GMO must pay the full amount of these rates applicable to the requested
21 service, regardless of which Transmission Owners constructed the relevant facilities.

22 Because Schedule 9 includes costs for facilities built primarily to serve native
23 load, KCP&L and GMO do not pay Schedule 9 charges to SPP, and the costs cannot be

1 fully recovered by KCP&L and GMO without inclusion in retail rate base. Conversely,
2 KCP&L and GMO do have to pay Schedule 11 charges because those facilities are built
3 by Transmission Owners and for Transmission Customers throughout the SPP region,
4 and the costs can be fully recovered without inclusion in retail rate base.

5 As a result of Schedule 11, a portion of the rates that KCP&L and GMO pay as
6 Transmission Customers is attributable to and covers the cost of facilities that KCP&L
7 and GMO constructed as Transmission Owners.

8 **Q: What is the rationale for making this distinction between Transmission Owners and**
9 **Transmission Customers?**

10 A: This approach keeps all parties, both Transmission Customers and Transmission Owners,
11 on comparable footing in regard to both rates and conditions of service, and promotes
12 principles of open and equitable access to the grid. Some entities in SPP are
13 Transmission Customers only and do not own any transmission facilities. Others are
14 Transmission Owners only and do not take any transmission service. Still others, like
15 KCP&L and GMO, are vertically integrated utilities and function in both roles. As a
16 result, FERC has established rules that strictly prohibit vertically integrated utilities from
17 using their capabilities and information as Transmission Owners to obtain advantages
18 over Transmission Customers of other utilities. With its clear separation between
19 Transmission Customers and Transmission Owners, the SPP Tariff maintains comparable
20 treatment of these different entities and promotes transmission service that is not
21 influenced by cross-subsidization issues.

1 **Q: What benefits are derived from SPP-directed projects such as the Iatan-Nashua and**
2 **Sibley-Nebraska City Projects?**

3 A: The transmission projects built at the direction of SPP provide a wide array of benefits
4 for customers, not only in Missouri but throughout the SPP region. These projects help
5 unlock key benefits that were previously unattainable given the traditional local utility
6 view of transmission planning. The following is a list of types of benefits received from
7 SPP-directed projects.

- 8 1. Provide long-term firm transmission service, which is of benefit to the
9 Transmission Customer that requested service.
- 10 2. Enhance system reliability.
- 11 3. Lower the power supply cost of member utilities by mitigating transmission
12 congestion and reducing energy losses.
- 13 4. Improve the ability of the grid to transport power from wind farms in order to
14 meet renewable energy targets and reduce variable energy supply costs.

15 Evaluation and projection of the benefits associated with upgrades to SPP network
16 facilities is an ongoing effort supported by SPP staff and member companies, as well as
17 state regulators through the CAWG and RSC. In fact, evaluation of the benefits is a
18 necessary task as the SPP Tariff requires a triennial review of the costs and benefits of
19 transmission system upgrades with the goal that the benefits be generally commensurate
20 with the costs incurred by Transmission Customers. This is referred to as the Regional
21 Cost Allocation Review, which is a process that will require ongoing direction from the
22 RSC.

1 **Q: What implications does the regional cost-benefit framework have for retail**
2 **ratemaking?**

3 A: In addressing this question, I focus on the regional SPP-directed projects, whose costs are
4 allocated to the entire region on the basis of load. Many of the same points are applicable
5 to the other SPP-directed projects, but the projects that are 100% regional for cost
6 allocation purposes are key because they demonstrate the ratemaking issues most clearly,
7 and because both the Iatan-Nashua and Sibley-Nebraska City Projects fall into this
8 category.

9 The regionally allocated projects are not built by the Transmission Owner for the
10 purpose of serving its native load. Rather, they are built to serve the entire SPP region in
11 order to achieve one or more of the benefits previously noted. Their fundamental
12 purpose is regional, not local. Such projects would not exist if not for regional purpose,
13 action, and cost allocation. If the constructing Transmission Owner also has retail load
14 and thus is served as a Transmission Customer under the SPP Tariff, the charges assessed
15 to that Transmission Customer will be based on its load in the same manner as charges to
16 every other SPP Transmission Customer taking network service.

17 To reiterate, the regionally allocated projects are built for the purpose of serving
18 the entire region, not just the incumbent Transmission Owner's native load. The costs
19 under the SPP Tariff are assessed on an equal per kW basis to the entire region, not just
20 to the incumbent Transmission Owner's native load. Therefore, a Transmission Owner
21 that constructs a regional project is literally serving customers in all states in the SPP
22 region.

1 On their own and without regional direction and cost recovery, the Companies
2 would not attempt a transmission project of the magnitude of the Iatan-Nashua and
3 Sibley-Nebraska City Projects (\$444.8 million) whose purpose is to serve the entire
4 region. To attempt such a project on an individual company basis would carry too much
5 financial risk. Without regional cost recovery, the investment would need to be placed in
6 retail rate base. The risk of rate base disallowance in retail rate proceedings on that size
7 of investment would be very high given that the project would be for the purpose of
8 serving the region rather than only native load. This demonstrates that local and regional
9 projects require different treatments so that purpose and cost responsibility are properly
10 aligned.

11 This is why regionally allocated projects should be treated on a regional basis for
12 ratemaking purposes. Although a regional project may be built in only one or two states,
13 customers in all states in the SPP region have a collective interest in the project because
14 they are being allocated a share of the costs. This concept must then be reflected in the
15 manner in which the project's costs are incorporated in retail rates.

16 **III. DEVELOPMENT OF RETAIL RATES INCLUDING REGIONAL COSTS**

17 **Q: What is the effect if regionally allocated, SPP-directed projects are included in retail**
18 **rate base for purposes of cost recovery, as Mr. Hyneman proposes?**

19 **A:** The result is the inappropriate Full Revenue Crediting that I mentioned earlier in my
20 testimony. Under this method, the entire investment in regional projects is included in
21 retail rate base at a net value that reflects related accumulated depreciation reserve (i.e., at
22 net original cost). The cost of service for this investment includes depreciation, a return
23 on the net plant value, and recovery of operating and maintenance expenses and taxes

1 (combined this is the “Gross Retail Cost of Service”). As a final step, the revenue
2 collected by SPP for these projects from other, third-party wholesale Transmission
3 Customers is used as an offset against the Gross Retail Cost of Service so that retail
4 customers pay only the difference. The Full Revenue Crediting treatment occurs when
5 the total amount of third-party revenue received from SPP is used as such an offset.

6 On its face, this revenue crediting appears to eliminate double compensation for
7 the same investment (once by SPP and again from retail customers through including
8 100% of the investment in retail rate base). However, the approach is flawed because
9 retail customers are responsible for considerably less than 100% of the investment in
10 regional projects. For example, GMO’s retail customers are responsible for only 4% of
11 the Iatan-Nashua and Sibley-Nebraska City Projects’ cost. The problem with Full
12 Revenue Crediting becomes evident when the amount received from SPP (and used as a
13 revenue credit) exceeds the total of the Gross Retail Cost of Service and the SPP
14 transmission charge, where retail customers receive benefits at no cost, or as Mr.
15 Hyneman’s analysis shows, a reduction in cost. In other words, the retail customers are
16 inappropriately subsidized.

17 **Q: Please explain this ratemaking process step-by-step, using the numbers from Mr.**
18 **Hyneman’s analysis.**

19 **A:** For simplicity, I will use the larger Sibley-Nebraska City Project as the example in this
20 description. This is also helpful because the numbers I reference can be tied to Mr.
21 Hyneman’s analysis on Schedule CRH-1, page 3 of 4, for the first year of his analysis.
22 Mr. Hyneman also applies the same principles to the smaller Iatan-Nashua Project and

1 sums the results to reach his conclusion of the purported total impact on GMO's retail
2 customers.

3 Step 1: Setting the SPP Revenue Requirement

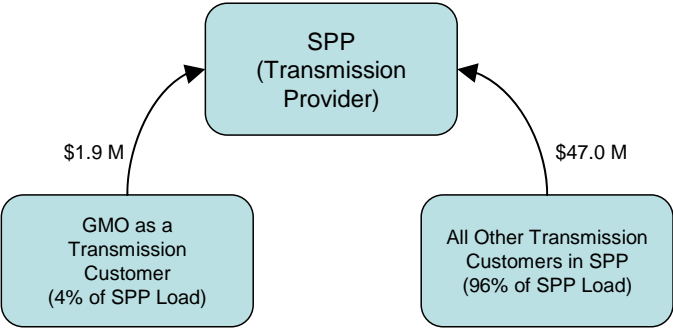
- 4 • GMO, as the Transmission Owner, builds the Sibley-Nebraska City Project at a
5 cost of \$380 million and puts it into service. GMO's FERC-approved formula
6 rate under the SPP Tariff calculates the cost of service ("GMO SPP Revenue
7 Requirement") for the Project.
- 8 • In Mr. Hyneman's analysis, the GMO SPP Revenue Requirement is calculated to
9 be \$48.9 million in Year 1.

10 Step 2: Cost Allocation to Transmission Customers

- 11 • SPP has determined that the Sibley-Nebraska City Project is a regional project
12 built to serve and provide benefits to all SPP Transmission Customers. Therefore,
13 under SPP's FERC-approved cost allocation methodology, SPP collects the GMO
14 SPP Revenue Requirement from all Transmission Customers in SPP based on
15 load share.
- 16 • In Mr. Hyneman's analysis, of the \$48.9 million GMO SPP Revenue
17 Requirement, approximately \$1.9 million (4%) is collected from GMO as a
18 Transmission Customer and \$47.0 million (96%) is collected from other
19 Transmission Customers in SPP. It is also helpful to think about this as 4% of the
20 total project investment, or \$15.2 million, built to serve GMO's retail customers.

1

Illustration of Step 2



2

3

Step 3: Recovery of Cost by the Transmission Owner

4

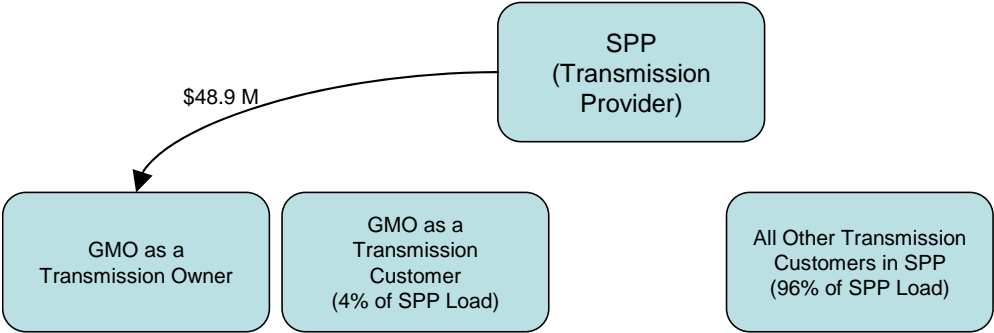
- In Mr. Hyneman’s analysis, SPP pays the GMO SPP Revenue Requirement of \$48.9 million to GMO as the Transmission Owner to compensate GMO for its investment and operating costs.

5

6

7

Illustration of Step 3



8

9

- After Step 3, GMO as the Transmission Owner has been made “whole,” having made the investment and recovered its approved revenue requirement.

10

11

- GMO as a Transmission Customer has incurred \$1.9 million to serve its retail customers (paid to SPP in Step 2) and must now seek to recover that expense in

12

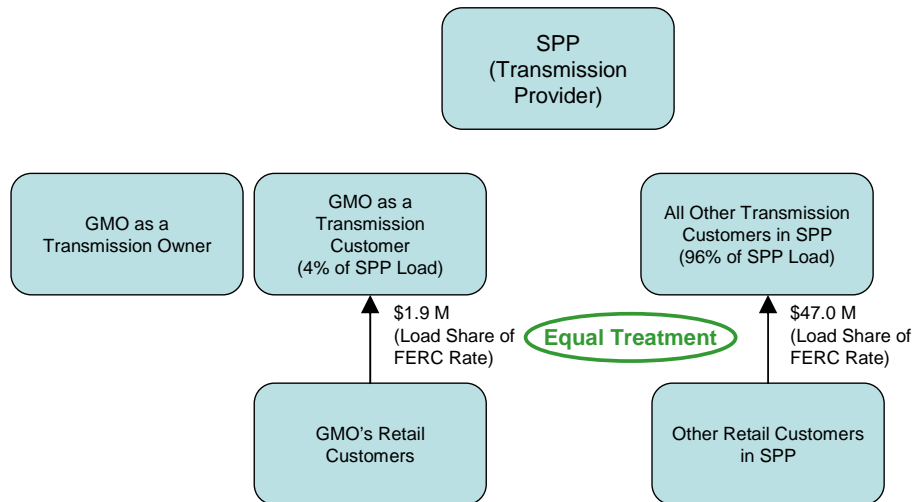
13

its retail rates.

1 Step 4: Retail Ratemaking – Appropriate Treatment

- 2 • GMO as the Transmission Customer should collect this \$1.9 million expense,
3 incurred to provide service to its retail customers who receive the benefits of
4 regional projects, in its retail rates.
- 5 • In a consistent manner, all other Transmission Customers in SPP will recover
6 their share of the Project (\$47.0 million) from their retail customers.
- 7 • There is no need to include the Project investment in retail rate base because the
8 full revenue requirement for the Project is set through the SPP Tariff and revenue
9 collected is sufficient to cover that amount.
- 10 • This is a fair and reasonable outcome for all customers in SPP, including GMO's
11 retail customers, and it is fair and reasonable for GMO.

12 Illustration of Step 4 – Appropriate Treatment

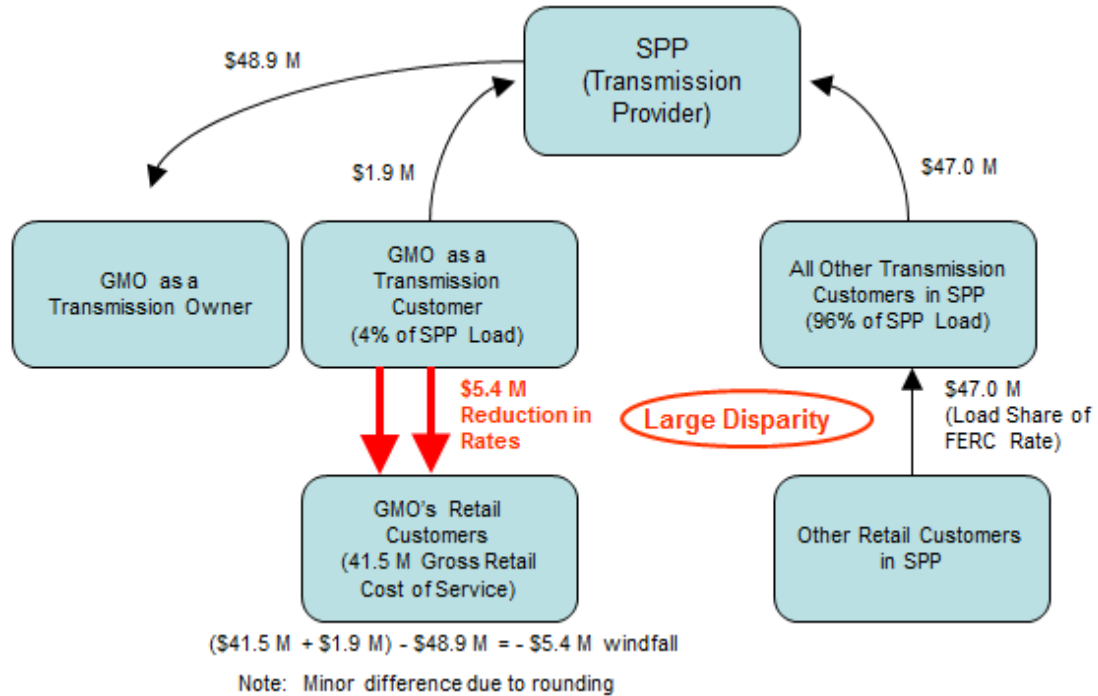


1 **Incorrect Step 4: Retail Ratemaking with Full Revenue Crediting Treatment**

- 2 • In Mr. Hyneman’s analysis, ratemaking problems occur because 100% of the
3 same Project is also assumed to be included in GMO’s retail rate base, even
4 though GMO retail customers are responsible for only 4% of the Project costs.
- 5 • By including the \$380 million cost of the Project in retail rate base, GMO’s Gross
6 Retail Cost of Service is set at \$41.5 million, an amount that reflects the MoPSC
7 approved parameters such as return and depreciation rates.
- 8 • At this point, GMO cannot “collect twice” on the same Project (once as a
9 Transmission Owner in Step 3 and again here by including the full Gross Retail
10 Cost of Service in retail rates).
- 11 • To “correct” this situation, Mr. Hyneman assumes that all of the \$48.9 million of
12 revenue, received by GMO as Transmission Owner from Transmission Customers
13 in SPP, is used to offset GMO’s Gross Retail Cost of Service of \$41.5 million and
14 the \$1.9 million for its load share.
- 15 • The net effect is that the cost to GMO’s retail customers actually goes *down* by
16 \$5.4 million (\$41.5 million Gross Retail Cost of Service plus \$1.9 million for its
17 load share less \$48.9 million collected by GMO as a Transmission Owner through
18 SPP), even though GMO customers are responsible for 4% of the Project cost.

1

Illustration of Incorrect Step 4



2

3 **IV. PUBLIC INTEREST ASSESSMENT**

4 **Q: Did witnesses for Staff and OPC make their determinations regarding detriment to**
5 **the public interest by applying the methodology just described in Incorrect Step 4?**

6 **A:** Yes. Staff and OPC assumed that future retail rates for GMO would be established as
7 described in Incorrect Step 4. Mr. Hyneman, on behalf of Staff, included in his Rebuttal
8 Testimony an analysis that was intended to assess whether there would be a net detriment
9 to the public interest if the MoPSC grants the Companies' Applications (Hyneman
10 Rebuttal at pp. 15-16 and Schedule CRH-1). Although he did not perform an
11 independent analysis, Mr. Kind assumed a ratemaking methodology similar to that of
12 Staff in his Rebuttal Testimony on behalf of OPC (Kind Rebuttal at pp. 10-11 and 20).

13 Both witnesses purportedly compared the long-term overall revenue requirement
14 impact on GMO's retail customers if Transource Missouri constructs and owns the
15 Projects to the case in which GMO constructs and owns the Projects. For ease of

1 reference, I will refer to the latter as the “GMO Ownership Case.” The key assumption
2 of these witnesses that drives the large magnitude of alleged detriment to Missouri retail
3 customers is the assumption that Full Revenue Crediting is appropriate for regionally
4 allocated projects. It clearly is not.

5 **Q: What is the effect of applying Full Revenue Crediting in the GMO Ownership Case**
6 **as calculated in the testimony of Mr. Hyneman?**

7 A: Mr. Hyneman assumes the Projects will be fully included in GMO’s retail rate base in
8 future MoPSC rate proceedings. As I explained previously, his faulty assumption results
9 in a net reduction of the total cost to GMO’s retail customers of approximately \$5.4
10 million in the first year for the Sibley-Nebraska City Project. Adding the results of his
11 parallel analysis for the Iatan-Nashua Project results in a combined reduction in cost to
12 GMO’s retail customers of \$5.9 million in the first year. He continues this approach for
13 20 years, claiming a reduction in the total cost to GMO’s retail customers of
14 approximately \$76 million. Again, this unwarranted windfall to GMO’s retail customers
15 is in addition to the fact that Mr. Hyneman would have them bear no cost for the Projects,
16 not even for their share of the investment that SPP has found will produce benefits. It
17 defies logic that the Staff and OPC would assert a \$76 million windfall to GMO retail
18 customers if GMO invests \$444.8 million in constructing regional transmission projects.

19 **Q: Does Mr. Hyneman rely on this alleged reduction in the total cost to GMO’s retail**
20 **customers of approximately \$76 million to conclude that ownership of the Projects**
21 **by Transource Missouri would result in a detriment to public interest?**

22 A: Yes. Mr. Hyneman mistakenly asserts a detriment based solely on the revenue crediting
23 assumption just noted. He states in his Rebuttal Testimony at page 15, lines 17-19: “By

1 transferring the Transmission Projects to Transource Missouri, GMO will lose the future
2 transmission revenues of from [sic] the Project, as it will not own the Projects, and this is
3 the basis of the quantification of the GMO customer detriment.” In other words, he
4 effectively asserts that GMO customers would lose the subsidy created by Full Revenue
5 Crediting.

6 **Q: Do you have any further comments regarding the effect of Staff and OPC’s**
7 **assumption of Full Revenue Crediting for regionally allocated projects?**

8 A: Yes. It is inappropriate to assume Full Revenue Crediting for SPP-directed, regional
9 projects for a number of reasons. First, although SPP directed the Companies to build the
10 Projects, SPP will allocate only 4% of the cost to GMO as a Transmission Customer with
11 the remaining 96% allocated to other Transmission Customers in SPP. In other words,
12 only about \$17.8 million of the total \$444.8 million cost of the Projects is attributable to
13 serving GMO’s retail customers. It would be unfair and unreasonable for GMO’s retail
14 customers to receive an annual \$5.9 million *reduction* in rates as a result of what is
15 effectively a \$17.8 million investment to serve GMO’s retail customers. This
16 inconsistency results from making the incorrect assumption that Full Revenue Crediting
17 would be applied to these regional Projects.

18 Second, it is noteworthy that the alleged detriment of \$76 million over 20 years is
19 approximately 17% of the size of the entire \$444.8 million investment in the Projects and
20 over four times the portion of that investment attributable to GMO’s retail customers.
21 Why should such a difference arise merely due to shifting the ownership from one entity
22 to another?

1 A third way of looking at the problem is to compare the effective return on equity
2 (“ROE”) paid by different sets of retail customers as a result of Full Revenue Crediting.
3 Schedule CJL-1 shows the effective ROE that would be paid by GMO’s retail customers
4 for the Sibley-Nebraska City Project if GMO constructs the Project with Full Revenue
5 Crediting. In this analysis, all other potential variables are held constant in order to focus
6 on the ROE effects alone. As the schedule shows, the effective ROE for GMO’s retail
7 customers resulting from such ratemaking treatment is *negative* 47.9 percent. This
8 contrasts starkly with the FERC-approved returns that would be paid by retail customers
9 in all other regulatory jurisdictions in SPP for the very same facility. This clearly is not
10 treating customers in separate jurisdictions in a comparable manner.

11 Consequently, the Full Revenue Crediting assumption by Staff and OPC creates
12 an unreasonable situation with respect to relative responsibility for costs. Obviously, the
13 large negative effective ROE for GMO’s retail customers in this scenario also contrasts
14 with the 9.7 percent ROE that the MoPSC established for GMO in the most recent
15 general rate case, No. ER-2012-0175. While the MoPSC has consistently been clear that
16 issues of future ratemaking cannot be determined prospectively (i.e., future Commissions
17 cannot be bound by the current Commission regarding future rate case decisions), an
18 effort must be made to frame the analyses in this case upon sound regulatory principles
19 that do not result in distorted rate outcomes.

20 Finally, GMO’s retail customers would receive a “double dip” from the Projects.
21 GMO’s retail customers (like other load in SPP) would receive a share of the benefits
22 described earlier in my testimony that result from these improvements to the transmission
23 network, the achievement of which is the reason SPP originally directed construction of

1 the Projects. At the same time, GMO's retail customers (unlike other load in SPP) would
2 receive the large and unwarranted rate subsidy that I have discussed at length.

3 **Q: How does the faulty assumption of Full Revenue Crediting for regional facilities**
4 **affect the test of whether the Companies' Applications are not detrimental to the**
5 **public interest?**

6 A: Given his assumptions behind the GMO Ownership Case, it is not difficult to understand
7 why Mr. Hyneman's analysis purported to show such a large detriment to customers.
8 When the first year effect of a supposed \$5.9 million reduction in cost to GMO's retail
9 customers is applied against the scenario of Transource Missouri ownership, there is no
10 reasonable way for the numbers to work in favor of Transource Missouri. The
11 benchmark against which the Transource Missouri proposal is being assessed is fatally
12 flawed. To correct this problem, the GMO Ownership Case must be adjusted to reflect a
13 more appropriate rate treatment that I will later describe.

14 **Q: Do you agree with the analogy applied by Mr. Kind in his Rebuttal Testimony (at p.**
15 **10, footnote 2) in an effort to explain the purpose of applying Full Revenue**
16 **Crediting in the GMO Ownership Case?**

17 A: No. Mr. Kind's analogy is not applicable to regional projects. Mr. Kind utilizes the
18 analogy of revenue credits from wholesale power sales as an offset against the cost of
19 service of power production facilities, which is not comparable to the situation of
20 regional transmission projects. The power production facilities owned by the Companies
21 were constructed for the primary purpose of serving native load customers. Therefore,
22 the primary purpose of such facilities is within the Companies' local service areas. For
23 this reason, 100% of the cost of those facilities is properly allocated to the Companies'

1 own native load through inclusion in retail rate base and cost of service. There is no
2 allocation of the cost of those facilities to customers of other companies or to customers
3 in states wherein KCP&L and GMO have no retail load.

4 This is not the same as the regional transmission investment where other parties
5 are responsible for 96% and GMO retail customers are responsible for only 4% of the
6 facility's cost. Proper ratemaking for that situation is not to assume that 100% of the
7 facility is for GMO retail customers. SPP regional transmission projects are constructed
8 for the purpose of serving customers throughout the entire SPP footprint and have costs
9 that are allocated on a load share basis throughout the region under the SPP Tariff. For
10 this reason, Mr. Kind's analogy is not a relevant comparison.

11 **Q: Are there other analogies that more fairly illustrate the ramifications of the Full**
12 **Revenue Crediting method for regional facilities?**

13 A: Yes. A number of hypothetical examples can be used to illustrate this subsidy of
14 ratepayers in one jurisdiction, using revenues derived from rates established in another
15 jurisdiction. For example, imagine a utility with a retail service area crossing a state line,
16 with the return on equity granted in one state jurisdiction somewhat higher than the return
17 granted in the other. Conventional ratemaking methodology in this situation would have
18 each state allocate its portion of the rate base, property depreciation, and expenses to its
19 own rate jurisdiction. Each state then would apply its own rate of return to the allocated
20 rate base and add the allocated depreciation and expenses in order to calculate the
21 revenue requirement for the service area in that state.

22 However, applying the reasoning of Mr. Hyneman and Mr. Kind, the state with
23 the lower rate of return could attempt to apply Full Revenue Crediting. Rather than an

1 allocation based on each state's respective share, the state with the lower rate of return
2 could attempt to include the full rate base of the utility in its cost-of-service analysis and
3 deduct the amount of revenue derived from the state with the higher ROE. The result of
4 such an exercise would be to reduce the utility's total ROE to the level of the state with
5 the lower ROE, where the retail customers would pay rates based on an effective ROE
6 that is lower than the level actually authorized. In effect, it would be a subsidy of the
7 retail customers in that state using revenues derived from rates established in another
8 jurisdiction.

9 **Q: Is it the Companies' position that regional projects should be excluded from the**
10 **retail cost-of-service calculation other than the load share of such projects' cost**
11 **billed by SPP?**

12 A: Yes. Such treatment is consistent with the comparability principles behind the SPP
13 Tariff's distinction between Transmission Customers and Transmission Owners, and is
14 reasonable and fair. The retail cost of service should exclude the regional projects' rate
15 base and include only the expense related to the load share of the projects' cost charged
16 by SPP. This would allow retail load in GMO's service area to pay its share of regional
17 projects with the same rate of return as other companies' retail load pays for the same
18 projects. Thus, retail customers across the SPP footprint would be treated similarly with
19 regard to the regional cost of the projects. This eliminates the problem of a grossly
20 distorted negative ROE paid by GMO retail load, as previously described. Likewise,
21 GMO would earn a return on such projects on a basis comparable to other SPP
22 Transmission Owners, including those without any retail load. In addition to promoting
23 comparability among Transmission Customers and Transmission Owners, this rate

1 treatment would facilitate the Companies' participation in future transmission grid
2 development in Missouri. Of course, the MoPSC is not being asked to address this issue
3 for purposes of setting rates in this case. The MoPSC only needs to address the issue of
4 retail rate treatment for regional projects so that the assessment of detriment to the public
5 interest in the case can be based upon fair and reasonable ratemaking principles.

6 **Q: What position do the Companies take with regard to crediting Zonal Revenue?**

7 A: The Companies do not object in this case to the concept of crediting Zonal Revenue;
8 however, revenue crediting is not appropriate when applied to regional facilities. The
9 Companies' Zonal Revenue is derived from transmission facilities that were constructed
10 primarily to serve native load customers. Furthermore, those costs are not allocated to
11 the entire region, and the revenue received from third parties for use of those facilities
12 covers only a fraction of the revenue requirement associated with the assets. This
13 approach has not created major rate distortions in the last few years due to the primarily
14 local nature of the Companies' legacy facilities. As I have demonstrated, however, it is a
15 historical ratemaking model that cannot be applied to regional transmission facilities
16 without creating significant rate distortions.

17 To date, the Companies have not placed any transmission facilities into retail rates
18 that are allocated completely on a regional basis in the way that Iatan-Nashua and Sibley-
19 Nebraska City are to be allocated. This is a new situation. If GMO does construct the
20 two Projects, it will require a new approach to rate base and treatment of revenues
21 received from SPP for those regional facilities. Mr. Hyneman's analysis suffers the flaw
22 of apparently assuming that GMO would request to include the Projects in retail rate base
23 in the GMO Ownership Case. For the reasons I have explained, however, GMO does not

1 intend to seek retail rate base inclusion for the Projects. Therefore, not only does Mr.
2 Hyneman's analysis result in distorted ratemaking, but it is grounded on an incorrect key
3 assumption.

4 **Q: Mr. Hyneman notes in his Rebuttal Testimony at p. 12 that GMO's future**
5 **transmission charges from SPP are expected to escalate, and proposes that GMO's**
6 **transmission revenues should be used as an offset to these anticipated expenses. Do**
7 **you agree with that proposal?**

8 A: No. Mr. Hyneman's proposal would not be an appropriate or fair matching of ratemaking
9 components. Mr. Hyneman proposes to take transmission revenues received by GMO in
10 its role as a Transmission Owner and subsidize retail customers because costs incurred by
11 GMO in its role as a Transmission Customer are increasing. This is potentially illegal
12 under the Federal Power Act and the principle of federal preemption. This approach
13 would treat GMO less favorably than other Transmission Owners in SPP with respect to
14 recovery of the cost of building and owning transmission facilities. As a result, there
15 would be a dampening of incentives for Transmission Owners that serve local load to
16 compete to construct regional transmission facilities in Missouri, potentially reducing the
17 type of local involvement in transmission development that can be achieved through
18 either Transource Missouri or GMO.

19 Furthermore, addressing any concerns about the cost of transmission system
20 improvements in a collateral manner through retail rates, such as by reducing the return
21 GMO can earn through wholesale rates, does not focus on the correct issue. If there are
22 concerns about the level of transmission charges, there are direct methods to address such
23 issues through development of SPP Tariff amendments, action by the RSC and CAWG,

1 review and challenge of formula rates, and processes at FERC. In addition, SPP is
2 continually enhancing its transmission planning and project cost monitoring procedures
3 through open forums in which interested parties are welcome to participate. This
4 includes the cost monitoring procedures initiated through the Project Cost Working
5 Group and the Regional Cost Allocation Review process.

6 Finally, such an approach ignores the fact that transmission projects produce
7 benefits for Missouri retail customers. Over the long-term, SPP expects those benefits to
8 match or exceed the transmission charges for the projects. As previously noted, Full
9 Revenue Crediting creates an unwarranted windfall for certain retail customers while
10 ignoring principles of equity and comparability as well as the negative impacts on
11 investment incentives.

12 **Q: Can the Companies cite precedent for not crediting all transmission revenue to**
13 **retail customers in the cost-of-service calculation?**

14 A: Yes. Prior to 2006, KCP&L applied a methodology in its cost-of-service analysis for
15 revenue requirements determination, including the annual surveillance report, which
16 allocated transmission plant and expenses to the wholesale jurisdiction based on the
17 amount of long-term firm third-party transmission service reserved on KCP&L's system.
18 The result was that a larger share of the cost of KCP&L-owned transmission facilities
19 was excluded from the Missouri retail jurisdictional revenue requirement than has been
20 produced by the method utilized in more recent years. Correspondingly, a larger amount
21 of transmission revenue was credited in the wholesale jurisdiction's revenue requirement
22 calculation and thereby not included as a credit in the retail jurisdiction.

1 This allocation procedure was discontinued in 2006 in response to a request by
2 Staff because the impact of the methodology change on the resulting overall revenue
3 requirement was relatively small. This modest impact resulted from the fact that the
4 transmission facilities owned by KCP&L at that time were primarily for local use and the
5 SPP allocation processes, such as Base Plan funding, were either new or non-existent.
6 The facts are now much different.

7 The cost-of-service methodology used before 2006 is very similar to the treatment
8 the Companies suggest be used in the GMO Ownership Case. In order to properly
9 construct the GMO Ownership Case, the regional assets, along with the corresponding
10 expenses and SPP revenues, should be excluded from the Missouri retail cost of service
11 in a similar manner to which transmission costs and revenues for third parties were
12 excluded prior to 2006. In his Surrebuttal Testimony, Mr. Ives utilizes this framework to
13 assess potential detriment to GMO retail customers. He also explains that the
14 Companies' retention of earnings received through established rates, including rates in
15 other jurisdictions, is consistent with the Commission's order in Ameren Missouri's
16 recent rate case, No. ER-2012-0166.

17 **V. FERC RATES AND BUNDLED RETAIL LOAD**

18 **Q: You previously stated that you have comments regarding the Rebuttal Testimony of**
19 **Staff witness Stahlman. What are your concerns regarding his Rebuttal Testimony?**

20 **A:** Mr. Stahlman makes several statements that are either confusing or incorrect regarding
21 the ability of KCP&L and GMO to receive FERC incentive rates and regarding the effect
22 of the agreements under which the MoPSC granted approval for KCP&L and GMO to
23 participate in SPP in Case Nos. EO-2006-0142 and EO-2009-0179. I will clarify and

1 correct his statements to ensure that there is a proper understanding of their implications
2 for the GMO Ownership Case.

3 **Q: Please respond to Mr. Stahlman’s Rebuttal Testimony regarding the ability of the**
4 **Companies to receive FERC incentive rates.**

5 A: At pages 3-5 of his testimony, Mr. Stahlman responds to whether KCP&L and GMO can
6 receive FERC incentive rates similar to those requested by Transource Missouri and
7 authorized by FERC in Docket No. ER12-2554-000. Because he posed the question in
8 the context of Missouri retail impact, the first problem with his response is that Mr.
9 Stahlman failed to clearly distinguish between FERC rates and MoPSC rates. Mr. Ives’
10 Direct Testimony specifically addressed transmission rates set by FERC, stating that
11 “with the exception of the hypothetical capital structure during construction, KCP&L and
12 GMO would request similar incentives to those described above that are being requested
13 by Transource Missouri if they were to maintain ownership of the Projects.” Mr.
14 Stahlman blurred the issue by jumping immediately from this concept to Missouri retail
15 impacts, and thus clarification is needed.

16 Under FERC Order No. 679 and related FERC orders, KCP&L and GMO can
17 request the same incentive rates that Transource Missouri requested. In fact, the existing
18 FERC-approved transmission formula rates for KCP&L and GMO already contain
19 formulaic placeholders for several of these incentives, which would be used if authorized
20 by FERC for the two regional Projects. Therefore, it is reasonable to include FERC
21 incentives, such as the same ROE adder that Transource Missouri received, in the
22 development of the GMO Ownership Case used for assessing detriment.

1 **Q: What concerns do you have about Mr. Stahlman’s discussion of Missouri**
2 **ratemaking?**

3 A: Mr. Stahlman quotes passages from the Stipulation and Agreements that were approved
4 by the MoPSC in Case Nos. EO-2006-0142 and EO-2009-0179 and from the Service
5 Agreements that were attached to the Stipulation and Agreements and subsequently
6 approved by FERC. He also provides his own interpretation of these passages. At page 5
7 of his Rebuttal Testimony, he states: “Both KCPL and GMO operate under Service
8 Agreements that *prevent* the transfer of transmission rate setting for both companies to
9 FERC determined SPP rates [emphasis added].” He goes on to point specifically to
10 Section 3.1 of the Service Agreements to support this position.

11 This statement by Mr. Stahlman could be interpreted in a number of ways, one of
12 which is that the Service Agreement prohibits the MoPSC from allowing the pass-
13 through of SPP charges to the retail customers of KCP&L and GMO if those charges are
14 based on FERC rates for the Companies’ own facilities. Given the question under which
15 this statement is made, Mr. Stahlman may be implying that the MoPSC is prohibited from
16 allowing FERC rates for KCP&L and GMO transmission facilities to affect the
17 Companies’ retail rates. Later in the same paragraph, however, he states, “while FERC
18 incentives may be included in SPP rates for Schedule 9 OATT, they would not apply to
19 KCPL’s and GMO’s transmission investments used to serve Missouri Bundled Retail
20 Load, *unless the Missouri Commission makes the decision* to include such incentives
21 [emphasis added].” These statements are unclear and appear to be contradictory
22 regarding the MoPSC’s ability under the Service Agreements to set rates for KCP&L and
23 GMO retail customers based on SPP’s FERC-established transmission charges.

1 **Q: Do the Service Agreements prevent the MoPSC from setting retail rates based on**
2 **SPP's FERC-established transmission charges?**

3 A: No. The Service Agreements do not prevent the MoPSC from exercising such flexibility
4 in ratemaking. For example, the Service Agreements do not address how the MoPSC
5 may go about setting rates. Therefore, the GMO Service Agreement does not prevent the
6 GMO Ownership Case from being set up, as recommended in my testimony, by including
7 the SPP charge related to the Projects in retail rates without distorting the costs through a
8 subsidy created by Full Revenue Crediting.

9 **Q: Are any other provisions in the Service Agreement pertinent to the manner in which**
10 **the GMO Ownership Case should be established?**

11 A: Sections 3.1 and 3.3 are both pertinent to this matter and provide a clear distinction that is
12 critical to the comparison of the Transource Missouri ownership case to the GMO
13 Ownership Case. Section 3.1 of the Service Agreement prohibits SPP from charging
14 KCP&L and GMO for network transmission service based on Schedule 9 of the SPP
15 Tariff. It does not prevent SPP from charging KCP&L and GMO based on Schedule 11
16 of the SPP Tariff. Section 3.3 of the Service Agreement actually states the opposite
17 regarding Schedule 11, providing that KCP&L and GMO *shall* pay SPP charges based on
18 Schedule 11.

19 The contrasting ways in which Schedule 9 costs and Schedule 11 costs are
20 handled under the Service Agreement relate directly to my earlier discussion of local and
21 regional costs. Schedule 9 includes costs for the legacy and localized facilities that were
22 built for the primary purpose of serving native load. For this reason, KCP&L and GMO
23 do not have to pay Schedule 9 charges to SPP because the associated facilities are built

1 by only KCP&L and GMO and for local purposes, and the costs cannot be fully
2 recovered by KCP&L and GMO without inclusion in retail rate base. Conversely,
3 KCP&L and GMO do have to pay Schedule 11 charges because the associated facilities
4 are built by Transmission Owners throughout the SPP region and for Transmission
5 Customers throughout the SPP region, and the costs can be recovered without inclusion
6 in retail rate base. Therefore, provisions in the Service Agreements are consistent with
7 the rate treatment for regional projects that is supported in my testimony for appropriate
8 development of the GMO Ownership Case.

9 **VI. CONCLUSION**

10 **Q: Please summarize your testimony.**

11 A: In framing the GMO Ownership Case underlying their conclusions regarding detriment to
12 the public interest, Mr. Hyneman and Mr. Kind assumed that Full Revenue Crediting
13 would apply for the two SPP-directed, regional Projects. For the reasons explained in
14 detail in my testimony, this is not appropriate. The assumption of Full Revenue Crediting
15 is an application of the current methodology used for local facilities, which is clearly
16 incompatible with and not appropriate for the new regional projects under development.
17 When the GMO Ownership Case is corrected for this error, there is no detriment to the
18 public interest and, to the contrary, there is a public benefit, as explained in the
19 Surrebuttal Testimony of Mr. Ives.

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

21 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
Transource Missouri, LLC for a Certificate)
of Convenience and Necessity Authorizing it)
to Construct, Finance, Own, Operate, and) Case No. EA-2013-0098
Maintain the Iatan-Nashua and Sibley-)
Nebraska City Electric Transmission)
Projects.)

In the Matter of the Application of Kansas City Power)
& Light Company and KCP&L Greater Missouri)
Operations Company for Approval To Transfer) Case No. EO-2012-0367
Certain Transmission Property to Transource)
Missouri, LLC and for Other Related Determinations.)

AFFIDAVIT OF CHARLES J. LOCKE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Charles J. Locke, being first duly sworn on his oath, states:

1. My name is Charles J. Locke. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company (“KCP&L”) as Manager, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L and KCP&L Greater Missouri Operations Company consisting of (35) 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 herein. 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.

Charles J. Locke
Charles J. Locke

Subscribed and sworn before me this 25th day of February, 2013.

KAREN M. SMITH
Notary Public - NOTARY SEAL - STATE OF MISSOURI
My Commission Expires
April 16, 2016
Jackson County
Commission #12446957

My commission expires: April 16, 2016

**EFFECTIVE RETURN ON EQUITY (ROE) PAID BY RETAIL CUSTOMERS FOR SIBLEY - NEBRASKA CITY PROJECT
WITH FULL REVENUE CREDITING ASSUMPTION**

		Transmission Customer Impacts		Transmission Owner Impact
		GMO	Other SPP	
ROE Component of FERC Revenue Requirement Billed by SPP:				
(1) Project Total Rate Base				\$ 380,000,000
(2) FERC ROE for the Project				12.1%
(3) Equity Percent				50%
(4) Return on Equity Component	(1)x(2)x(3)			<u>\$ 22,990,000</u>
(5) SPP Load Ratio Share		4%	96%	100%
(6) ROE Component of SPP Charge	(4)x(5)	\$ 919,600	\$ 22,070,400	\$ 22,990,000
ROE Component of State Revenue Requirement with Full Revenue Crediting:				
(7) Retail Rate Base with Full Revenue Crediting		\$ 380,000,000		
(8) Missouri ROE for Retail Rates		9.7%		
(9) Equity Percent		50%		
(10) ROE Component of GMO Gross Retail Cost of Service	(7)x(8)x(9)	\$ 18,430,000	\$ -	\$ 18,430,000
(11) Full Revenue Credit	- (4)	\$ (22,990,000)	\$ -	\$ (22,990,000)
(12) ROE Component of SPP Charge	(6)	\$ 919,600	\$ 22,070,400	\$ 22,990,000
(13) Return Available for Equity	(10)+(11)+(12)	<u>\$ (3,640,400)</u>	<u>\$ 22,070,400</u>	<u>\$ 18,430,000</u>
(14) Allocated Project Rate Base	(1)x(5)	\$ 15,200,000	\$ 364,800,000	\$ 380,000,000
(15) Effective ROE	(13) / (14) / (3)	-47.9%	12.1%	9.7%

Note: This simplified analysis is designed to focus only on the effective ROE resulting from Full Revenue Crediting. Therefore, the rate impact on GMO retail customers differs somewhat from results shown by Staff witness Hyneman because the latter analysis includes variation in other factors such as capital structure. However, the essential result of unequal cost responsibility is the same in both analyses.