

Exhibit No.: 120
Issue: Rebuttal Witness Overview;
Economic Considerations; Fuel
Adjustment Clause and Tracker
Requests; Prospective Amortization
Tracking; Rate Case Expense; Clean
Charge Network Pilot; MECG/OPC's
Management Audit
Recommendation; Merger Transition
Costs
Witness: Darrin R. Ives
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2014-0370
Date Testimony Prepared: May 7, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

REBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
May 2015

KCP&L Exhibit No. 120
Date 6-15-15 Reporter AT
File No. ER-2014-0370

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REBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2014-0370

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

2 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
3 64105.

4 **Q: Are you the same Darrin R. Ives who pre-filed Direct and Supplemental Direct**
5 **Testimony in this matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your Rebuttal Testimony?**

8 A: I will provide an overview of the witnesses filing Rebuttal Testimony on behalf of
9 Kansas City Power & Light Company (“KCP&L” or “Company”) in addition to
10 providing Rebuttal Testimony for KCP&L in response to certain sections of the Missouri
11 Public Service Commission (“MPSC” or “Commission”) Staff’s (“Staff”) Revenue
12 Requirement and Cost of Service Report (“Staff Report”), the witnesses of the Office of
13 the Public Counsel (“OPC”), and the Missouri Energy Consumers’ Group (“MECG”) on
14 the following issues: (1) Economic Considerations; (2) Fuel Adjustment Clause (“FAC”) and
15 Tracker Requests; (3) Prospective Amortization Tracking; (4) Rate Case Expense;
16 (5) Clean Charge Network (“CCN”) Pilot; (6) MECG/OPC’s Management Audit
17 Recommendation; and (7) Merger Transition Costs.

1 Q: Who will be providing Rebuttal Testimony for KCP&L?

2 A: In addition to the matters I will address described above, the following is a list of the
3 witnesses who will provide Rebuttal Testimony for KCP&L along with a general
4 description of the issues they will address:

- 5 • Robert B. Hevert – return on equity (“ROE”) and cost of capital;
- 6 • H. Edwin Overcast – regulatory mechanisms;
- 7 • Tim M. Rush – revenues, economic relief pilot program, fuel adjustment clause,
8 trackers, solar rebates, income eligible weatherization program , , class cost of service
9 and rate design, miscellaneous tariff issues;
- 10 • Wm. Edward Blunk – fuel and purchased power expense;
- 11 • Burton L. Crawford – La Cygne Environmental project and fuel and purchased power
12 expense;
- 13 • Forrest Archibald – La Cygne Environmental project;
- 14 • Paul M. Ling – La Cygne Environmental project;
- 15 • Ronald A. Klote – miscellaneous accounting and revenue requirement adjustments;
- 16 • Melissa K. Hardesty – taxes;
- 17 • John R. Carlson – Southwest Power Pool (“SPP”) transmission fees;
- 18 • Ryan A. Bresette – administrative and general costs;
- 19 • Joshua F. Phelps-Roper – critical infrastructure protection (“CIP”) and cyber security
20 efforts; and
- 21 • John J. Spanos – depreciation.

22 I would note that the Company has attempted to address all issues raised by other parties
23 in their Direct Testimony which the Company contests, but the Company’s inadvertent

1 failure to address an issue raised by any party does not constitute agreement by the
2 Company. I would also note that pages 62-63 of the Staff Report contain the following
3 sentences:

4 Staff is in the process of conducting a construction audit of the La Cygne
5 Environmental Retrofit Project costs that KCPL has sought to include in
6 its rate base and cost of service in this rate case. Staff will provide the
7 results of its construction audit during the true-up phase of this rate case.
8 (emphasis added)

9 Disallowance proposals (whether based on allegations of imprudence or the results of a
10 construction audit) must be raised in either Direct or Rebuttal Testimony, and certainly
11 not for the first time in True-Up Testimony. KCP&L has so advised Staff. (See
12 Schedule DRI-8 attached hereto).

13 1. ECONOMIC CONSIDERATIONS

14 **Q: The Staff Report discusses the various rate increases authorized by the Commission**
15 **of KCP&L since 2006. Have customers gotten any benefits from these rate**
16 **increases?**

17 A: Yes, they have. KCP&L has made significant investments in its system in the past
18 decade as a part of the Comprehensive Energy Plan (“CEP”) to increase generating
19 capacity, improve reliability, replace aging infrastructure and meet the requirements of
20 environmental regulations. In the *Non-Unanimous Stipulation and Agreement* that was
21 approved by the Commission in Case No. EO-2005-0329, *In the Matter of a Proposed*
22 *Experimental Regulatory Plan of Kansas City Power & Light Company* (referred to as
23 the Comprehensive Energy Plan/CEP), KCP&L committed to undertake commercially
24 reasonable efforts to make the following investments:

- 25 • To build 100MW of wind generation in 2006;
- 26 • To explore the potential for an additional 100MW of wind in 2008;

- 1 • Proceed with environmental investments related to Iatan 1 and La Cygne 1 for
2 accelerated compliance with environmental regulations;
- 3 • To invest in transmission and distribution facilities and upgrades;
- 4 • To build 800-900MW of new coal-fired generation at the Iatan Station,
5 including state-of-the-art environmental equipment; and
- 6 • Propose a portfolio of demand response, energy efficiency and affordability
7 programs for approval by the Commission.

8 KCP&L has successfully completed these investments for the benefit of its customers.

9 In addition, the Company has made significant achievements in the area of
10 renewable energy:

- 11 • In 2011, KCP&L negotiated two wind-based Power Purchase Agreements
12 (“PPA”) for a total of 231.9MW, both of which became operational in 2012.
 - 13 ○ On November 3, 2011, KCP&L signed a PPA for 56MW of hydro-
14 based generation from existing facilities in Nebraska under the control
15 of Central Nebraska Public Power Irrigation District. Energy delivery
16 under this PPA commenced on January 1, 2014.
- 17 • In 2013, KCP&L negotiated a 200MW wind-based PPA which is to become
18 operational in late 2015.
- 19 • Through September 30, 2014 KCP&L has issued nearly \$30 million in solar
20 rebates to eligible customers since the Solar Photovoltaic Rebate Program tariff
21 was initiated in 2010. Additionally, KCP&L has installed a 100kW solar facility
22 at the Paseo High School in Kansas City with an additional 80kW of solar
23 installed in 2012.
- 24 • KCP&L has invested approximately \$1.23 billion in its environmental retrofit of
25 the La Cygne Generating Station.

26 With regard to its System Average Interruption Duration Index (SAIDI), an index
27 used to measure reliability, the Company continues to be in the top 25th percentile when
28 compared to 71 other Midwestern utilities through the Edison Electric Institute’s
29 Reliability Survey Report for the years 2011-2013. KCP&L was also awarded the
30 ReliabilityOne award from PA Consulting for having the best reliability performance in

1 the Plains region for the year 2014. This is the eighth consecutive year KCP&L has
2 received this recognition. KCP&L's contact center performance has consistently
3 provided quality of service and performance over the past several years. These are
4 important and measurable benefits to customers. Although the Company believes that
5 regulatory reforms are needed to allow it to continue making such investments that will
6 benefit our customers in the future, these investments are providing benefits to customers
7 now and they will continue to do so in the future. KCP&L has also been focused on
8 complying with ever-more-stringent federal environmental regulations and state laws
9 which impose requirements around environmental compliance and renewable generation.
10 Moreover, energy efficiency programs have reduced energy consumption significantly,
11 and directly reduced the bills of those customers who participate in the programs. Even
12 more importantly, the energy efficiency programs reduce/postpone the need for future
13 additional generation investments benefiting all customers. Of course, compliance with
14 federal environmental regulations and investments in renewables and energy efficiency
15 reduce emissions to the benefit of customers and the general public. However, these
16 investments require KCP&L to seek rate increases, like other electric utilities that are
17 making similar investments. The Commission has recognized the importance of these
18 investments and has consistently approved rate increases designed to allow the Company
19 to recover its prudent costs of making them.

20 **Q: Are you concerned about the financial impact of this rate increase on customers?**

21 A: Yes, I am. I attended all of the local public hearings that the Commission held in this
22 case. I understand that rate increases are never easy for customers to bear, particularly
23 low-income customers and those on fixed incomes. In an effort to mitigate the impact of

1 rate increases on customers, the Company has made every effort to control the costs
2 which can be controlled. However, in the current increasing cost environment, rate
3 increases are necessary if the Company is to pay its fuel costs, comply with
4 environmental and other laws and invest in infrastructure to meet the needs of our
5 customers. KCP&L also believes that it is critical to continue to provide customers with
6 incentives to participate in energy efficiency programs.

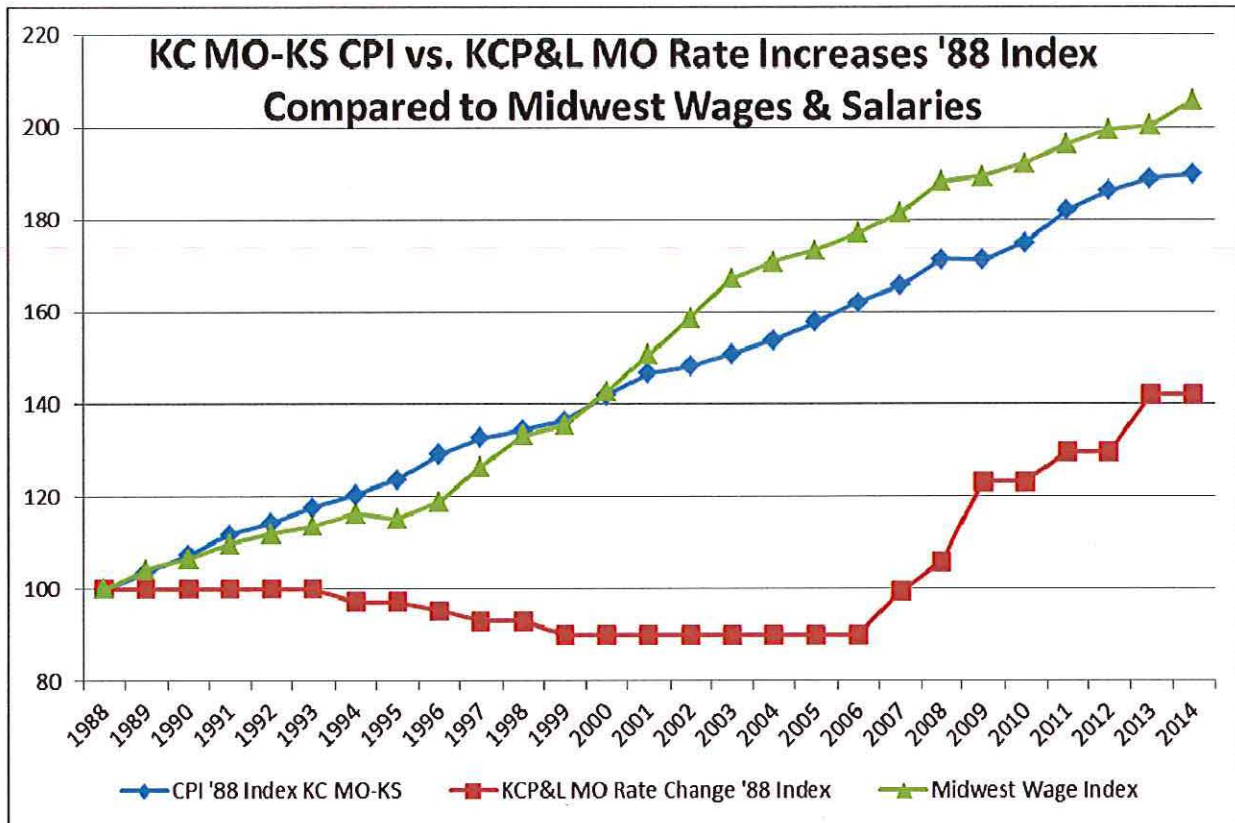
7 **Q: How do KCP&L's rates compare to those of other integrated electric utilities?**

8 A: KCP&L-MO's rates are approximately 15% below the national average, and slightly
9 above (2%) the regional average for investor-owned utilities. As I mentioned in my
10 Direct Testimony, this demonstrates that our KCP&L-MO rates are not outliers today.

11 **Q: The Staff Report (page 11) compares increases in KCP&L's electric rates to the
12 average weekly wage increases, the Consumer Price Index, and Producer Price
13 Index for the years 2007-2013. Have you reviewed how KCP&L's electric rates
14 have compared to such indexes over a longer period of time?**

15 A: Yes. We have reviewed how KCP&L's rates have compared to such indexes since 1988,
16 the year after the Wolf Creek Nuclear Station was placed in rate base, until today. The
17 Company's first significant build cycle since the construction of Wolf Creek was the CEP
18 that included the construction of Iatan 2 as well as other initiatives. A comparison of
19 rates that does not include that period of time between Wolf Creek and the CEP is
20 incomplete. From 1988 to the present, KCP&L's Missouri electric rates have increased
21 by 42.06% while the Consumer Price Index for the Kansas City, Missouri urban area has
22 increased by 89.66%. Wages have increased 105% for the same period. The following

1 chart demonstrates graphically that KCP&L's rates are increasing over this period at less
2 than the Consumer Price Index and less than Wages and Salaries:



3
4 **Q: Does KCP&L sponsor any programs to help the most vulnerable customer cope**
5 **with rate increases?**

6 **A:** Yes. The Company sponsors a number of programs including the Economic Relief Pilot
7 Program (ERPP), Dollar-Aide Program, and Low-Income Weatherization Programs. The
8 Company also actively participates in community action programs, encourages
9 volunteerism among its employees, and makes charitable contributions intended to
10 benefit various segments of low-income and elderly customer groups.

11 The Company also continues to educate customers on options for managing their
12 accounts, informs customers of ways to reduce their energy usage by participating in
13 energy efficiency programs, provides information on workable payment plans and

1 connects customers with Low-Income Home Energy Assistance Programs (LIHEAP)
2 funding and other financial assistance.

3 2. FUEL ADJUSTMENT CLAUSE AND TRACKER REQUESTS

4 **Q: Is it correct that certain parties have opposed the FAC (including transmission fees**
5 **paid to SPP) and trackers (for property taxes, CIP/cyber security costs, and**
6 **vegetation management costs)?**

7 **A: Yes. Staff, OPC and MCEG have filed testimony opposing the FAC while MCEG has**
8 **filed testimony opposing the trackers**

9 **Q: Do Staff, OPC and MCEG oppose KCP&L's FAC based, at least in part, on the**
10 **assertion that FAC costs are of insufficient magnitude and/or volatility?**

11 **A: Yes. While Staff finds KCP&L's costs to be of sufficient magnitude to warrant an FAC,**
12 **Staff asserts that KCP&L's FAC costs are of insufficient volatility to warrant an FAC.**
13 **(Staff Report, pp. 194-195) OPC and MCEG, on the other hand, assert that KCP&L's**
14 **FAC costs are insufficient in both magnitude and volatility to warrant an FAC. (Mantle**
15 **Direct, pp. 22-24; Brosch Direct, pp. 17-37)**

16 **Q: Does MCEG oppose KCP&L's tracker requests based, at least in part, on the**
17 **assertion that property taxes, CIP/cyber security costs and vegetation management**
18 **costs are of insufficient magnitude and volatility?**

19 **A: Yes. (Brosch Direct, pp. 18-38)**

20 **Q: Do you agree with Staff's assertion that KCP&L's FAC costs are not sufficiently**
21 **volatile to warrant an FAC, with the assertions by OPC and MCEG that KCP&L's**
22 **FAC costs are insufficient in both magnitude and volatility to warrant an FAC, or**

1 **with MECG's assertions that property taxes, and CIP/cyber security costs are of**
2 **insufficient magnitude and volatility to warrant an FAC?**

3 A: I disagree with all of those assertions by Staff, OPC and MECG. That their arguments
4 are wrong can readily be seen by examination of both recent history and a simple forecast
5 of the two-year period after rates from this case are expected to take effect. The
6 historical record unambiguously shows that changes in these cost of service items have
7 caused material earnings shortfalls for KCP&L since current rates took effect in January
8 2013. The forecasts clearly show that if new rates from this case go into effect without
9 the requested mechanisms to address these cost of service items, KCP&L will shortly
10 thereafter experience material earnings shortfalls. If none of the trackers are approved,
11 KCP&L will not be able to utilize this valuable accounting mechanism to manage and
12 recover costs imposed by external circumstances over which it has little or no control.

13 **Q: Please explain how KCP&L's recent history and forecasts demonstrate that its FAC**
14 **costs (with SPP transmission fees shown separately) are of sufficient magnitude and**
15 **volatility to warrant an FAC and that its property taxes and CIP/cyber security**
16 **costs are of sufficient magnitude and volatility to warrant tracker treatment.**

17 A: The following chart depicts for calendar year 2013 through September 30,
18 2017(forecasted for two years post effective rates from this case) (rates from KCP&L's
19 last general rate case took effect on January 26, 2013 and rates from KCP&L's current
20 case are expected to be effective by October 1, 2015) the difference between the rate
21 revenue for fuel and purchased power costs (net of off system sales), SPP transmission
22 fees, vegetation management expense, CIP/cyber security costs and property taxes, and
23 the expenses actually incurred for those items during 2013 and 2014 and amounts

1 forecasted to be incurred for those items in calendar year 2015 and for the two years
 2 following rates effective in this case. The forecasted periods are shown with no
 3 Commission adoption of the Company's requested mechanisms. The chart also depicts
 4 the resulting negative impact on KCP&L's achieved ROE of not having the requested
 5 mechanisms in all periods.

In millions, except basis points	Granted 01/26/13 In Rates	Requested* 10/01/15 In Rates	Rate/Actual/Forecast Difference				
			01/01/13	01/01/14	01/01/15	10/01/15	10/01/16
			12/31/13	12/31/14	12/31/15	09/30/16	09/30/17
1 Fuel & PP (net of OSS)	128.3	121.0	21.3	18.1	7.7	13.5	16.0
2 Transmission by others	13.5	27.4	6.9	12.3	18.7	7.7	8.8
3 Total FAC	141.8	148.4	28.2	30.4	26.4	21.2	24.8
4 Veg management expense	**	9.9	-	-	-	0.1	0.3
5 CIPS/Cyber expense	1.1	1.8	0.4	2.0	5.2	5.2	4.7
6 Property taxes	41.0	51.4	3.9	6.8	8.0	0.3	5.2
7 Pre-tax lag			\$ 32.5	\$ 39.2	\$ 39.6	\$ 26.8	\$ 35.0
8 Base income tax at 38.9%			(12.7)	(15.3)	(15.4)	(10.4)	(13.6)
9 After-tax lag			\$ 19.8	\$ 23.9	\$ 24.2	\$ 16.4	\$ 21.4
10 Common equity in rates			\$ 1,072	\$ 1,072	\$ 1,072	\$ 1,288	\$ 1,288
11 Basis points lag			180	220	230	130	170

**Not available

*Based on the Company's October 30, 2014 Filing.

6
 7 **Q: What conclusions do you draw from this material regarding the first three calendar**
 8 **years after rates effective from KCP&L's last case?**

9 **A:** The rate allowance for fuel and purchased power cost(net of off system sales), SPP
 10 transmission fees, CIP/cyber security costs and property taxes was inadequate in the first
 11 year of new rates, producing an after-tax earnings shortfall of approximately \$19.8
 12 million (or roughly 180 basis points in reduced ROE). The Year 1 earnings shortfall
 13 attributable to these items increased in Year 2, producing an after tax earnings shortfall of
 14 \$23.9 million (or roughly 220 basis points in reduced ROE). The year 3 earnings
 15 shortfall is expected to increase yet again, rising to \$24.2 million (or roughly 230 basis
 16 points in reduced ROE). The impact of these items was both significant and volatile such
 17 that standard ratemaking treatment using historical figures was clearly inadequate, and

1 resulted in KCP&L revenues falling well short of its costs during the three-year period
2 since its rates were last increased.

3 **Q: Can a simple forecast demonstrate that KCP&L's FAC costs (with SPP**
4 **transmission fees shown separately) are of sufficient magnitude and volatility to**
5 **warrant an FAC, and that KCP&L's property taxes and CIP/cyber security costs**
6 **are of sufficient magnitude and volatility to warrant tracker treatment?**

7 A: Yes. The chart depicts a forecast of the twelve-month period from October 1, 2015
8 through September 30, 2016 (which would be year 1 in which rates from this general rate
9 case are in effect). It shows the difference between (1) the rate revenue allowed for fuel
10 and purchased power costs (net of off system sales), SPP transmission fees, CIP/cyber
11 security costs, vegetation management costs and property taxes (assuming the rate
12 allowance for such items is set using historical information based on KCP&L's Direct
13 Filing in this case); (2) the expenses KCP&L actually expects to incur for those items
14 during the twelve-month period immediately after new rates from this case take effect;
15 and (3) the resulting impact on KCP&L's ROE for that twelve-month period.

As can be seen from the chart, in Year 1 following the effective date of new rates
from this case, the rate allowance for these items will fall short of expected actual
experience by \$26.8 million. When income tax effects are factored in, KCP&L's
earnings will be reduced by approximately \$16.4 million. Similarly, the achieved ROE
will fall by approximately 130 basis points compared to what would have otherwise
occurred if costs and revenues had been perfectly matched.

16 The above chart shows that for Year 2 following the effective date of new rates
17 from this case, the expense recovery shortfall for these items increases considerably to

1 \$35.0 million. This translates (after taxes) to an earnings shortfall of \$21.4 million or an
2 ROE reduction of approximately 170 basis points. This is in sharp contrast to what the
3 Company would have experienced had costs and revenues been perfectly matched for
4 these items for the twelve-month period October 1, 2016 through September 30, 2017
5 (the second full year after increased rates from this case take effect).

6 **Q: What conclusions do you draw from this material?**

7 A: The forecasted expense recovery shortfall if the requested mechanisms are not granted by
8 the Commission will be both significant and volatile such that standard ratemaking
9 treatment using historical figures will clearly be inadequate, and will result in KCP&L
10 revenues falling well short of its costs during the two-year period immediately after its
11 rates are increased in this case.

12 **Q: Vegetation management costs presented in the chart above do not appear to be**
13 **significant in magnitude or volatile over the periods presented. Why are you**
14 **requesting a tracker for these costs?**

15 A: As addressed in my direct testimony and supported by the testimony of KCP&L
16 witnesses Kiely and Rush, KCP&L operates its vegetation management program to
17 achieve the best reliability possible across all of its jurisdictions. Each jurisdiction is
18 unique in its composition of rural versus urban circuits, tree population, tree species, tree
19 growth rates, and circuit condition. Because of the variability in jurisdictions, it is
20 sometimes necessary to concentrate vegetation management efforts in a certain
21 jurisdiction in a given year, and less so in the following year. This can make the cost of
22 vegetation management by jurisdiction volatile year-over-year. KCP&L-MO is
23 requesting a tracker for vegetation management in order to maximize the benefit of each

1 dollar spent, and to ensure all of our customers are not over- or under-charged for
2 vegetation management efforts. The Company intends to request a vegetation
3 management tracker in all of its electric jurisdictions for just this reason.

4 **Q: Any other points you want to make regarding the chart?**

5 A: Yes. While the requested mechanisms would match recovery and costs in these specific
6 areas, and would have mitigated the expense recovery shortfall impact on achieved ROE
7 in 2013 and 2014 by 180 and 220 basis points, respectively, KCP&L would still have
8 been subjected to significant regulatory lag from capital investments and in other cost of
9 service categories. As described by witness Tim Rush in his rebuttal testimony, based on
10 KCP&L's Missouri surveillance reports for 2013 and 2014, the KCP&L-MO's earned
11 ROE was 6.5% and 5.9%, respectively. Had the expense recovery shortfall impacts been
12 mitigated by the requested mechanisms the adjusted earned ROE for 2013 and 2014
13 would have been 8.3% and 8.1%, respectively. KCP&L-MO's authorized ROE for these
14 period was 9.7%, thus KCP&L-MO would have still faced 140 and 160 basis points of
15 negative regulatory lag in 2013 and 2014, respectively. This clearly indicates that the
16 requested mechanisms do not remove all risk from the Company, rather they move
17 KCP&L closer to having a reasonable opportunity to achieve their Commission-
18 authorized ROE.

19 **Q: Has any party to this case argued that KCP&L should not be allowed to recover its**
20 **costs for fuel and purchased power costs, SPP transmission fees, CIP/cyber security**
21 **costs, vegetation management costs or property taxes?**

22 A: No they have not.

1 Q: Has any party to this case argued that these same costs as experienced during the
2 test year are likely to be largely the same in the year following the implementation
3 of new rates from this case? Have they presented evidence indicating that the test
4 year costs are representative of the costs going forward?

5 A: No they have not.

6 Q: Has any party to this case argued that the Company should not have a reasonable
7 opportunity to earn its authorized rate of return?

8 A: No they have not.

9 Q: Do you believe the Company has a reasonable opportunity to earn its authorized
10 rate of return in the year following the implementation of new rates from this case,
11 if the Company is not allowed to manage its fuel and purchased power, SPP
12 transmission fees, property taxes, CIP/cyber security costs and vegetation
13 management costs through the recovery mechanisms requested in this case?

14 A: No I do not, which I have demonstrated with the table and discussion presented above.

15 Q: How do you believe the Commission should assess tracker requests?

16 A: Tracker requests made during rate cases should be granted if it is determined that basing
17 the rate allowance for such costs on historical levels, with no ability to account for
18 changes in those cost levels likely to occur in the future, is likely to lead to a mismatch of
19 costs and revenues with resulting earnings impacts during the future period when rates
20 will be effective. Factors relevant to the determination could include: the magnitude of
21 the earnings impacts associated with changes in levels of the relevant cost of service
22 item; the degree to which the relevant cost of service item is subject to management
23 control; and overall cost of service trends for the Company under consideration.

1 The evidence in this proceeding clearly demonstrates that FAC/and or tracker
2 treatment is necessary for fuel and purchased power costs (net of off system sales), SPP
3 transmission fees, property taxes, CIP/cyber security costs and vegetation management
4 costs for KCP&L to have a meaningful opportunity to achieve its authorized rate of
5 return after rates are set in this case.

6 **3. PROSPECTIVE AMORTIZATION TRACKING**

7 **Q: How does Staff propose to treat Iatan Unit 2 and common operations and**
8 **maintenance (“O&M”) expense and future amortization of previously tracked Iatan**
9 **Unit 2 and common O&M expenses?**

10 **A:** Staff proposes to discontinue the Iatan Unit 2 and common O&M tracker since a level of
11 historical O&M expense has been established for Iatan Unit 2 and common operations.
12 (Staff Report, p. 117, ll. 24-25) Additionally, Staff proposes that the Commission require
13 KCP&L to track any over-recovery associated with any amortization as a result of the
14 Iatan Unit 2 O&M tracker such that any over-recovery may be addressed in the
15 Company’s next rate case. (Staff Report, p. 118, ll. 7-9)

16 **Q: Does KCP&L agree with Staff’s proposed discontinuance of KCP&L’s Iatan Unit 2**
17 **and common O&M expense tracker?**

18 **A:** Yes. KCP&L has also proposed to discontinue the Iatan Unit 2 and common tracker.

19 **Q: What consideration must be given in the true-up regarding the Iatan Unit 2 and**
20 **common O&M expenses?**

21 **A:** Since vintage 4 of the Iatan 2 and common O&M expense tracker ends in January 2015,
22 the Company requests that for the period February through May 2015, that vintage 5
23 Iatan 2 and common O&M expenses continue to be tracked for the stub period until the

1 true-up date in this rate case. This regulatory asset or regulatory liability will then be
2 included in the true-up phase of this case.

3 **Q: Does KCP&L agree with Staff's proposal to establish a tracker for the future**
4 **amortization of previously tracked Iatan Unit 2 and common O&M expenses?**

5 A: While I agree that this approach could be reasonable provided that the Commission
6 1) makes clear that the tracking treatment also applies to under-recovery, and 2) accords
7 similar tracking treatment to property taxes, CIP/cyber security costs and, if not included
8 in the fuel clause, SPP transmission fees, it is essential that the Commission consider
9 balance when applying this concept. Addressing regulatory amortizations only, as Staff
10 proposes, without giving due consideration to the mechanisms requested by the Company
11 to address costs of service areas in which recovery is inadequate to allow the Company a
12 reasonable opportunity to earn its authorized return could result in a further imbalance in
13 the Company's ongoing ability to have a fair and reasonable opportunity to earn the
14 return authorized by the Commission in this case.

15 The effort by Staff to adjust regulatory amortizations on a retroactive basis is
16 addressed more fully by witness Ron Klote in his rebuttal testimony.

17 4. RATE CASE EXPENSE

18 **Q: What is this issue?**

19 A: This issue is comprised of three sub-issues: 1) the total level of rate case expense to be
20 recovered in rates; 2) the period of time over which this total amount of rate case expense
21 should be normalized; and 3) the period of time over which depreciation study costs (an
22 element of rate case expense) should be normalized. I will address each item in turn.

1 **a. All Prudently Incurred Rate Case Expenses Should be Included in Rates**

2 **Q: What is the Company's position regarding the treatment of rate case expense in this**
3 **proceeding?**

4 A: The Company is recommending that the Commission utilize its traditional approach for
5 rate case expenses.

6 **Q: Please explain your understanding of the approach that the Commission has**
7 **traditionally utilized for the recovery of rate case expenses.**

8 A: The Commission has recognized that the cost of processing a rate case is a normal and
9 essential cost of business of any regulated public utility. As the Commission
10 acknowledged in its Order in the investigatory docket on rate case expense treatment
11 (Case No. AW-2011-0330), the Commission's "current rules and practice" are such that
12 "regulated utilities generally recover all costs they incur in presenting a rate case before
13 the Commission."¹ More precisely, regulated utilities have generally recovered in rates
14 reasonable and prudently incurred expenses that they incur in presenting rate cases to the
15 Commission for resolution. Often, the reasonable and prudently incurred rate case
16 expenses have been converted to an annualized level to be recovered over a number of
17 years and included in base rates without a tracker mechanism recognizing that rate cases
18 are not filed annually. In KCP&L's last case, the Commission annualized the reasonable
19 and prudent rate case expenses utilizing a three year period in recognition that rate cases
20 are not typically filed annually.

¹ *Order Directing Staff to Investigate and Opening a Repository File*, Case No. AW-2011-0330 (filed April 27, 2011).

1 **Q: How has KCP&L proposed to address rate case expenses in this case?**

2 A: In this case, the Company annualized rate case costs by including an amortization of
3 costs incurred in the 2012 rate case (Case No. ER-2012-0174) (“2012 Rate Case”) which
4 are still being amortized at the time of the true-up in this case and projected costs for the
5 current rate proceeding annualized using a three year period. The projected costs for the
6 current case will be trued-up as part of the true-up process in this rate case. Annualized
7 rate case costs were then compared to annualized rate case expense included in the test
8 year to properly reflect rate case expense in cost of service in this rate case. KCP&L
9 estimated costs based on the consultants and attorneys it anticipates will be used in this
10 case and based on the scope of work anticipated, assuming a fully litigated rate case.
11 After comparing the level of the annualized rate case expense costs currently in rates with
12 the estimated rate case costs in this proceeding and the remainder of costs to be
13 annualized from the 2012 Rate Case, the Company made an adjustment of (\$840,542) to
14 lower the cost of rate case expense to be included in rates on a going forward basis.
15 Under the Company’s approach, \$718,349 of prudently incurred rate case expenses
16 would be included in customer rates per year as an outcome of this case.

17 **Q: Are Staff and OPC recommending a departure from the Commission’s traditional**
18 **approach of allowing the recovery of reasonable and prudently incurred rate case**
19 **expenses in rates?**

20 A: Yes. Both Staff witness Keith Majors and OPC witness William Addo are
21 recommending an automatic 50% disallowance of rate case expenses incurred by the
22 Company for this case without any evidence (or even so much as an allegation) of
23 imprudence by the Company. From the Company’s perspective, these proposals are an

1 arbitrary disallowance of 50% of prudently incurred rate case costs necessary to provide
2 electric service in Missouri.

3 **Q: What is Staff recommending in the Staff Report?**

4 A: In the Staff's case, Staff included \$36,386 in rate case expense, and spread the cost of
5 recovery of KCP&L's depreciation study over five years. Staff also removed rate case
6 expense amortizations from previous rate cases from the test year.

7 **Q: What is the rationale for including this amount in rate case expense?**

8 A: According to the Staff Report, "Rate case expense accumulated by KCPL as of December
9 31, 2014 equals \$218,318. Half of this amount recovered over a three year period
10 translates into an annual \$36,386 of rate case expense recovery. This amount would not
11 be subject to true-up for actual expense incurred, or any over or under-recovery
12 recognized."² Staff also states that "Staff will continue to examine this case's rate case
13 expense to verify that costs are reasonable and prudently incurred and update total rate
14 case expense. Staff's rate case expense recommendation in this case represents a
15 normalized amount and should not be tracked for under or over recovery after this rate
16 proceeding."³

17 **Q: What is Mr. Addo recommending in his testimony?**

18 A: In his Direct Testimony, Mr. Addo states: "Public Counsel's position is that prudently
19 incurred rate case expenses in this case should be shared equally between the Company's
20 shareholders and ratepayers; and that the ratepayers' portion be normalized over 2

² Staff Report, p. 131, ll. 6-10.

³ Id. at 131, ll. 13-16.

1 years.”⁴ He includes the amount of rate case expenditures through October 20, 2014, and
2 stated that OPC will update its position in subsequent testimony.⁵

3 **Q: Why are Staff and OPC advocating that 50% of rate case expense be disallowed in**
4 **this case?**

5 A: Both Mr. Majors and Mr. Addo argue that both ratepayers and shareholders benefit from
6 the rate case process. Mr. Majors states that “Customers have a vested interest in
7 ensuring that they pay just and reasonable rates for safe and adequate service and
8 shareholders have a vested interest in ensuring an opportunity to receive a reasonable
9 return on their investment. If the utility determines that the rates it charges its customers
10 are inadequate, the rate making process before the Commission is the sole venue to
11 remedy that situation.”⁶ Similarly, Mr. Addo states that shareholders benefit in the form
12 of allowed return on equity, and ratepayers benefit in the form of safe, adequate, and
13 reliable service.⁷

14 **Q: Do you agree with the recommendations of Staff and OPC to disallow 50% of the**
15 **reasonable and prudently incurred rate case expenses in this case?**

16 A: No. There is no justification for the Commission to take a radically different approach
17 from the manner it and other commissions have historically treated reasonable and
18 prudently-incurred rate case expense even if shareholders do benefit from an increase in
19 rates.

20 I agree that both customers and shareholders can benefit from the rate case
21 process. As the Staff Report points out, customers benefit from a rate case process that

⁴ Addo Direct, p. 30, ll. 11-13.

⁵ *Id.* at 30-31.

⁶ Staff Report, p. 133, ll. 10-15.

⁷ Addo Direct, p. 31, ll. 10-12.

1 determines the just and reasonable rates that are to be paid for safe, adequate, and reliable
2 service. Shareholders also benefit from a rate case process that gives the company a
3 meaningful opportunity to earn a reasonable return on shareholders' investments in plant
4 dedicated to the public use. Under the current regulatory system, the only manner in
5 which these objectives may be accomplished is through the rate case process which is
6 mandated by law.

7 Rate case expenses are no different from other costs that provide benefits to
8 customers (i.e. generation, transmission and delivery expenses) because both
9 shareholders and customers benefit from the company's continued operation. Simply
10 put, periodic rate increases are necessary, just and reasonable, and provide a benefit to the
11 customer by keeping the public utility financially healthy and in a position to provide the
12 customers with safe and adequate service at just and reasonable rates. The customer is
13 the primary beneficiary when a utility is able to fulfill its statutory obligation to provide
14 safe, adequate and reliable service. This fundamental objective can only be accomplished
15 if the company is able to attract investment by providing a reasonable return to its
16 shareholders. As we have suggested throughout this case, rate cases and the regulatory
17 mechanisms approved in rate cases are necessary and essential if the company is to be in
18 a position to adequately attract capital and give it a reasonable opportunity to earn its
19 authorized rate of return.

20 It would make no sense to me to automatically disallow – in the absence of any
21 evidence or allegation of imprudence – 50% of other costs which benefit both the
22 shareholder and the customer. For example, shareholders benefit from the construction
23 of new power plants because the construction generally increases the shareholders'

1 earnings levels, while customers benefit from the additional capacity used to serve them.
2 Following the logic of Staff and OPC, half of those power plant costs would be
3 disallowed since both the shareholders and customers benefit from those costs. Such a
4 regulatory practice with power plant costs would quickly drive the public utility into dire
5 financial straits, and adversely impact its ability to provide safe and adequate service to
6 its customers.

7 In KCP&L's 2010 rate case (Case No. ER-2010-0355) ("2010 Rate Case")
8 involving inclusion in rates of Iatan 2, Commissioner Jarrett pointed out the fact that
9 those who argue for sharing rate case expense with the shareholders overlook the shared
10 benefits inherent in all the costs a utility incurs in providing service:

11 What these arguments fail to recognize is that both shareholders and
12 ratepayers benefit from all kinds of spending by the utility. Ratepayers
13 receive many benefits from expenses that are born solely by the ratepayers
14 (for example, executive bonus programs used to retain excellent managers
15 typically are not included in rate base). Should this Commission require
16 the ratepayers to pay a share of those expenses because they receive the
17 benefit of a properly managed utility? I do not think any ratepayer
18 advocate would argue for that. Rate case expense is a necessary cost of
19 doing business because utilities have a legal obligation to provide safe,
20 adequate and reliable service to ratepayers, and that meeting that
21 obligation may only be achieved through the rate making process. When
22 their costs rise, the utilities' only recourse is to come to the Commission
23 and ask for a rate increase to recover those additional costs. Routinely
24 Staff and other parties vigorously oppose such increases. Utilities must
25 hire lawyers and experts to prove their case because utilities have the
26 burden of proof. It has been my experience that utilities rarely, if ever,
27 receive everything they ask for.

28 In a cost based regulatory system, like we have here in Missouri, recovery
29 of prudently incurred costs by the utility ensures a balance of the
30 regulatory paradigm. Singling out a cost for different rate treatment,
31 where the same rationale for different treatment could be applied to any
32 other cost, risks disincentivizing utilities to meet their statutory
33 obligations. Because the rate increase proceeding is the only mechanism
34 available to the utility for meeting its regulatory obligations, I believe it is

1 inappropriate, in a cost based regulatory system, to disallow any prudently
2 incurred rate case expenses.⁸

3 **Q: The Staff Report asserts that “Generally, utility management has a high degree of**
4 **control over rate case expense.” Do you agree with this statement?**

5 **A:** I agree that management has some discretion in how it presents its rate case, but it is also
6 important to remember that the burden of proof is on the company in rate cases.⁹ I also
7 believe that much of the rate case expenses are driven by the quantity and complexity of
8 the issues that are raised by other parties to the case. The complexity and number of
9 issues raised by other parties often drives the need to hire outside consultants and outside
10 counsel. While we hope to settle many of the issues raised by the parties before the
11 hearing, the Company believes it needs to be prepared to try the issues raised by other
12 parties in the event a settlement is not possible.

13 These cases also typically involve massive amounts of discovery that are issued
14 by Staff, OPC and numerous intervenors. For example, in this case, as of the date of the
15 preparation of this Rebuttal Testimony, the Company has answered approximately 905
16 data requests issued by Staff (with numerous subparts), 223 data requests issued by OPC,
17 227 data requests issued by MECG, and 44 data requests issued by other intervenors. In
18 addition, the Company has held at least 21 meetings with Staff auditors, and completed
19 extensive searches of the Company’s records and email systems in order to answer the
20 data requests of Staff, OPC and intervenors. The Company has a team of 3 full time
21 persons largely dedicated to managing data requests, as well as many others working to
22 supply answers to this discovery. With this level of personnel dedicated to providing

⁸ Concurring Opinion of Commissioner Terry M. Jarret in the Report And Order, Case Nos. ER-2010-0355 and ER-2010-0356 (filed on May 20, 2011).

⁹ Section 393.150(2), RSMo.

1 answers to the data requests and other informal requests for information from the parties
2 to this case, the Company has been able to largely avoid discovery disputes that were
3 presented to the Commission or the Regulatory Law Judge for resolution.¹⁰ The level of
4 effort to satisfy the data needs of the other parties contributes to the overall cost of
5 processing a rate case. While most of the process of answering data requests utilizes
6 primarily internal KCP&L personnel, outside consultants and/or outside counsel are
7 sometimes involved in reviewing the responses.

8 **Q: The Staff Report also notes that attorneys, consultants and other services can either**
9 **be provided by in-house personnel or can be procured by an outside party. It also**
10 **observes that the Company has attorneys in-house with significant prior experience**
11 **in Missouri rate proceedings. Do you have any comments?**

12 **A:** Yes. It is reasonable and necessary to use outside consultants and outside counsel who
13 have particular expertise and experience in the issues in this rate case to help prosecute
14 the case before the Commission. The Company's rate case team must address the
15 positions, facts, and legal arguments raised by the other parties who oppose the
16 Company's requests.

17 In this case, the Staff Report was authored by at least twenty-four (24) Staff
18 experts, in addition the Direct Testimony of Cary Featherstone was filed on April 3,
19 2015. Additionally, on April 3, 2015, OPC and other intervenors in the case have filed
20 the Direct Testimony of nine (9) additional witnesses. The record reflects that thirty-five
21 (35) outside persons have signed Non-Disclosure Agreements (NDAs) in this case
22 indicating that they are authorized to review highly confidential and proprietary

¹⁰ In fact, all of the discovery conferences to date that were scheduled have been canceled since there were no discovery disputes to be addressed by the Regulatory Law Judge in this case.

1 information on behalf of one or more of the parties to this case, in addition to the in-
2 house experts of Staff and OPC who are not required to sign and file NDAs.

3 The Company has chosen to use primarily its in-house experts to address the
4 claims of Staff, OPC and numerous intervenors. These employees, of course, have duties
5 far broader than only supporting the Company's rate filings. Moreover, their testimony is
6 often Company-specific and not necessarily based upon an expertise that is industry-
7 wide. While relying principally on these in-house personnel, the Company found it
8 necessary to file the Direct Testimony of three (3) outside experts. These outside experts
9 have performed: (1) the depreciation study required by the Commission's rules (Spanos);
10 (2) a cost of capital/capital structure analysis using industry-wide data (Hevert); and (3) a
11 highly specialized study to determine the cost of dismantling KCP&L's non-nuclear
12 generating units (Rogers). For Rebuttal Testimony, KCP&L is also using the services of
13 three outside experts: Messrs. Spanos and Hevert, as well as Mr. Overcast on the topic of
14 regulatory mechanisms. These types of testimonies and studies are generally performed
15 by outside experts in rate cases in Missouri.

16 KCP&L has a right to utilize the resources it needs to respond to the issues and
17 arguments raised by Staff, OPC and intervenors who have opposed the request to increase
18 the rates. From the Company's perspective, it is also important that the Commission
19 have a complete record that will enable it to consider all relevant factors and reach a
20 proper resolution of the case as it determines the just and reasonable rates that will be
21 charged to the customers in the future.

1 **Q: Is the Staff Report correct that KCP&L has in-house attorneys with experience in**
2 **processing Missouri rate cases?**

3 A: Yes. KCP&L is using two in-house counsel who have extensive experience processing
4 Missouri rate cases. They have worked diligently to prepare and process this rate case.
5 However, given the number of parties represented by a multitude of lawyers, and the
6 complexity of the issues that are being addressed in this case, the Company found it
7 necessary to employ two attorneys as outside counsel who have represented the Company
8 in numerous rate cases and other Commission proceedings in the past to supplement the
9 in-house legal team. These two outside counsel have been involved in all KCP&L rate
10 cases since the CEP was approved by the Commission in 2005. The Company believes
11 its legal team (both in-house and outside counsel) has the expertise and experience to
12 address the legal arguments raised by Staff, OPC and intervenors. However, the
13 Company does not believe it would be prudent or reasonable to only rely upon its in-
14 house staff of attorneys to process this case.

15 **Q: Are there Commission regulations that contribute to the level of rate case expense?**

16 A: Yes. As the Commission knows, the Commission has promulgated regulations that
17 require the Company to periodically perform depreciation studies,¹¹ and explain the
18 Company's rate requests in detail.¹² In addition, the Commission's rules mandate
19 extensive information necessary to support requests for FACs and other regulatory
20 mechanisms that are being requested in this case.¹³ Under the regulations related to
21 FACs, the Company is required to file a general rate case with the effective date of new

¹¹ See 4 CSR 240-2.160(1); 4 CSR 240-3.175.

¹² See 4 CSR 240-3.030; 4 CSR 240-3.160.

¹³ See 4 CSR 240-20.090 and 4 CSR 240-3.161.

1 rates no later than four (4) years in order to continue to utilize a FAC.¹⁴ While the
2 Company believes these may be appropriate regulations, it is apparent that such
3 requirements will inevitably add to the cost of processing rate cases.

4 **Q: Does conduct of the parties contribute to the level of rate case expense?**

5 A: Yes. When parties re-argue issues that have already been decided in previous cases
6 without any new or different bases for the arguments, the Company is forced to address
7 those already decided matters again, which causes rate case expense to be higher than it
8 otherwise would have been. There are at least two examples in this case: 1) Staff's
9 position on transition costs; and 2) Staff's position on construction accounting for the
10 La Cygne Environmental project.

11 **Q: Staff supported a 50% disallowance of rate case expense on the grounds that "a
12 sharing mechanism creates an incentive, and eliminates a disincentive, on the
13 utility's part to control rate case expense to reasonable levels." Do you agree?**

14 A: No. An arbitrary disallowance of 50% of the reasonable and prudently-incurred rate case
15 expense does not create an incentive to control rate case expenses. This approach will
16 merely make it more difficult for the Company to earn its authorized rate of return. It is
17 appropriate and reasonable for the Commission to review rate case expenses as to
18 reasonableness and prudence. The Commission has disallowed rate case expense costs in
19 the past on grounds of imprudence¹⁵, and this serves as ample incentive for the Company
20 to make certain that its rate case expenses are reasonable. However, an arbitrary
21 disallowance of half of all prudently incurred rate case expenses is not reasonable or good
22 public policy.

¹⁴ See 4 CSR 240-20.090(6)(A).

¹⁵ *Report And Order, Re Missouri Gas Energy*, Case No. GR-2004-0209, pp. 72-78.

1 **Q: Does the approach advocated by Staff and OPC raise other concerns?**

2 A: Yes. A fundamental problem with an arbitrary disallowance of 50% of prudently
3 incurred rate case expense is that it effectively serves to restrict the Company's ability
4 and right to direct its presentation of its case, and to choose its legal and regulatory
5 strategy before the Commission in rate case litigation that is required to obtain adequate
6 levels of rates. In the past, the Commission has recognized a public utility's right to
7 make these decisions as long as its costs are prudently incurred: "The Commission is
8 hesitant to disallow expenses incurred by MGE in prosecuting its rate case. The
9 company is entitled to present its case as it sees fit and the Commission will not lightly
10 intrude into the Company's decision about how best to present its case."¹⁶

11 **Q: Does KCP&L have an incentive to control its rate case expenses?**

12 A: Yes. We strive to balance cost control measures with providing the best level of service
13 possible. Rate case expense is a normal part of doing business within a regulated system.
14 Attached as Schedule DRI-9 is a flowchart which depicts the process the Company
15 utilizes to manage rate case expense. This process helps ensure the monitoring and
16 control of those costs. Like other expenses necessary to provide service to customers, the
17 Company strives to be as efficient as possible in the presentation of its case while
18 attempting to clearly explain its position on the issues to the Commission. The Company
19 knows that its rate case expenditures will be carefully and thoroughly reviewed by the
20 Staff and other parties to determine their reasonableness and prudence. In addition, the
21 Company does not recover its rate case expenses on a dollar for dollar basis under the
22 traditional method of handling rate case expenses. Often, the rate case expenses are
23 amortized over a greater number of years than the period between rate cases. As a result,

1 the amortizations are sometimes prematurely terminated before all prudently incurred rate
2 case expenses are actually recovered. The Company has an incentive to be efficient in
3 the presentation of its rate cases as well as the purchase of other services necessary to
4 provide safe and adequate electric service to our customers.

5 **Q: Staff also asserted that “KCPL in recent cases has incurred rate case expenses**
6 **substantially higher than historical levels, and higher than other large utilities in**
7 **Missouri.” Do you have any comments?**

8 A: In 2005, in Case No. EO-2005-0329, the Company entered into a Stipulation and
9 Agreement with a number of the parties to that case that included many agreements
10 including the agreement to construct wind turbines, environmental retrofit of Iatan I, and
11 the construction of Iatan 2, a new coal-fired power plant as well as initiate energy
12 efficiency and demand response programs. The CEP contemplated at least two
13 mandatory rate cases and two optional rate cases. As it turned out, the Company needed
14 to file four rate cases during the term of the CEP. Two of those cases involving Iatan 1
15 and Iatan 2 were unusually complex and controversial. The audits of these two projects
16 involved massive amounts of discovery, and an unprecedented number of issues were
17 addressed by the Company in response to testimony filed by Staff, OPC and various
18 intervenors. The complexity of these two cases contributed to the unusually large amount
19 of rate case expenses. In those cases, the Commission reviewed the reasonableness and
20 prudence of individual rate case expenses and made disallowances where it believed
21 expenses were excessive or imprudent. However, it did not make any arbitrary
22 disallowances of prudently incurred rate case expenses, as suggested by Staff and OPC in
23 this proceeding.

¹⁶ *Report And Order, Re Missouri Gas Energy*, Case No. GR-2004-0209, p. 75.

1 **Q: Are KCP&L's rate case expense levels increasing over time?**

2 A: No. With the exception of the Iatan 1 and Iatan 2 rate cases which were quite unusual in
3 scope and complexity, KCP&L's rate case expense levels have not been increasing over
4 normal inflationary levels.

5 **Q: The Staff Report analogizes rate case expenses to discretionary expenses such as**
6 **charitable contributions and lobbying expenses. Do you agree with these analogies?**

7 A: No. Unlike charitable contributions and lobbying expenses, rate case expenses are not
8 discretionary. If the Company's cost of service has increased, it is necessary for the
9 Company to file a rate case in order to adjust the rates to reflect its ongoing cost of
10 service. In fact, if an electric company is authorized to utilize an FAC, it is required by
11 Commission regulation to periodically file rate cases if it is to continue to utilize the
12 FAC. The same is required by Commission rule if a utility makes use of a demand side
13 investment mechanism. As I just mentioned, the Company was also required to file at
14 least two mandatory rate cases (with two optional rate cases) under the Commission-
15 approved CEP. Periodic rate cases have been required to reflect KCP&L's increasing
16 investment in the facilities approved by the Commission in its CEP.

17 As discussed in our direct case, this rate case is largely driven by the Company's
18 investment in the governmentally-mandated environmental retrofits of the La Cygne
19 generating facility, and the upgrades at the Wolf Creek nuclear unit to meet federal
20 standards. While the Company could have arguably reduced (or eliminated) its charitable
21 contributions and lobbying expenses during the test year, the Company did not believe it
22 had a realistic possibility of avoiding the filing of this rate case, especially given the poor
23 earnings levels that I have described in my Direct Testimony. In other words, this rate

1 case is essential to establishing just and reasonable rates, and giving the Company a
2 meaningful opportunity to earn a reasonable rate of return on its investments.

3 **Q: The Staff Report also discusses the Commission's April 27, 2011 Order which**
4 **established Case No. AW-2011-0330, and the Staff's report which was filed in that**
5 **matter. Did the Staff survey other states in that report to determine what**
6 **approaches are traditionally used to reflect rate case expense by other state**
7 **Commissions?**

8 **A:** Yes. In Case No. AW-2011-0330, the Staff surveyed other states to determine how these
9 states treated rate case expense. Based upon the Staff report, it appears that none of the
10 states that responded to the survey utilized the approach being advocated by Staff and
11 OPC to disallow 50% of prudently incurred rate case expenses.

12 On page 8 of 16 of the Report, it stated:

13 A total of 50 public utility commissions received Staff's questionnaire,
14 and responses were received from 22 agencies. All of these responses can
15 be found in Attachment 4 to this report. Of the 22 commissions that sent a
16 response, four PUCs responded to Staff's questions by stating that rate
17 case expense was essentially a non-issue in their jurisdictions due to use of
18 incentive or formula rate regulation in those jurisdictions. Of the
19 remaining PUCs, most indicated that their policy towards recovery of rate
20 case expense was very similar to the current policy of the Missouri
21 Commission – no sharing or cap on the total amount of recovery of this
22 item, and all prudent expenditures allowed recovery. In several instances,
23 Staff went beyond the survey responses and performed additional research
24 to obtain information on other states' rate case expense policies.
25 (emphasis added) (footnote omitted)

1 Q: The Staff report in Case No. AW-2011-0330 discusses some prior decisions related
2 to rate case expense treatment in Missouri. Do you have any comment on this
3 portion of the Staff report in Case No. AW-2011-0330?

4 A: With the exception of one case,¹⁷ the cases cited in the Staff report in Case No. AW-
5 2011-0330 stand for the proposition that the Commission historically has recognized that
6 a public utility is entitled to present its case as it believes appropriate, and the
7 Commission will not lightly intrude into the company's decisions about how best to
8 present its case. The Staff report cites a decision in Re Missouri American Water
9 Company, Case No. WR-93-212 in which the Commission disallowed excessive outside
10 attorney costs included in rate case expense, and stated:

11 The Commission does not want to put itself in the position of discouraging
12 necessary rate cases by discouraging rate case expense. The operative
13 words, here, however, are necessary and prudently incurred. The record
14 does not reflect efforts at cost containment and consequently it does not
15 support that these expenses have been prudently incurred.

16 The Staff report also mentioned that at various times in the past 30 years, parties
17 have proposed possible sharing of rate case expenses between the public utility's
18 shareholders and ratepayers. However, with the exception of Case No. ER-85-265¹⁸, the
19 Commission has never adopted a 50% disallowance of rate case expense, as advocated by
20 Staff and OPC in this case.

¹⁷ Re Arkansas Power & Light Company, Case No. ER-85-265.

¹⁸ Mr. Addo also discusses the Arkansas Power & Light Company decision in Case No. ER-85-265.

1 Q: Please explain your understanding of the circumstances underlying the
2 Commission's decision to adopt a 50% disallowance in the Arkansas Power & Light
3 Company ("AP&L") case, Case No. ER-85-265.

4 A: After reading the *Report And Order* in Case No. ER-85-265, it is my understanding that
5 this case involved a review of the Grand Gulf nuclear power plant in Mississippi. Over
6 the objection of AP&L, the Federal Energy Regulatory Commission had allocated 36
7 percent of the nuclear plant to AP&L which served southeast Missouri and most of
8 Arkansas. In the portion of the Commission decision that considered the appropriate
9 treatment of rate case expenses, the Commission stated in part:

10 The Commission considers the rate case expenses associated with the
11 nuclear power plants to be abnormal and not representative of normal rate
12 case expense for a utility. In this case, Company is seeking recovery for
13 four rate case filings in one nine month period. This is not a normal
14 occurrence. Company expenses have been increased due to its repeated
15 filings and inability to predict the date of commercial operation of Grand
16 Gulf. The Mines have proposed no recovery because of these frequent
17 filings. The Commission does not believe this appropriate since Company
18 must file with the Commission to seek rate increases and approval of other
19 matters. The Commission, though, has determined that Public Counsel's
20 proposal of a one-half sharing in this case has validity. The Commission
21 can only conclude that the increased rate filings are an attempt by
22 Company to protect shareholders from any regulatory lag. No benefit to
23 ratepayers can be derived from these premature and frequent filings. The
24 Commission would also point out that Company has incurred rate case
25 expense by seeking recovery for expenses which the Commission has had
26 a long and consistent history of disallowing.

27 The Commission considers the sharing of rate case expense appropriate in
28 this case since Company has increased its rate case activity to protect the
29 shareholders.¹⁹

30 This *AP&L* decision appears to be the sole exception to the Commission's traditional
31 approach for the treatment of rate case expenses. It appears to also be an aberration from
32 other cases because the public utility was "seeking recovery for four rate case filings in

1 one nine month period.” I don’t believe this aberration should guide the Commission in
2 this case.

3 **Q: Mr. Addo attaches to his testimony two orders of the New Jersey Board of Public**
4 **Utilities which approve settlements of water cases that included provisions for the**
5 **sharing of rate case expenses. Do you have any comments?**

6 A: Yes. Obviously, these cases were settled cases in which the parties voluntarily entered
7 into agreements to resolve their differences. I don’t think water rate case settlements
8 from another state should be used as a guide for this Commission to depart from its
9 traditional policy of allowing the recovery of reasonable and prudently-incurred rate case
10 expenses.

11 **Q: Do you believe that this case is the appropriate time to adopt a new policy with**
12 **regard to the treatment of rate case expenses in Missouri?**

13 A: No, absolutely not. If the Commission wants to review its policy with regard to the
14 treatment of rate case expenses, it should be done in a rulemaking proceeding in which all
15 affected public utilities and other stakeholders may participate and express their positions
16 on the proposed change.

17 **b. Normalization Period for Rate Case Expense**

18 **Q: What is this issue?**

19 A: KCP&L and Staff have proposed a three-year normalization (i.e., averaging) of rate case
20 expense, while OPC proposes a two-year normalization.

21 **Q: Why has KCP&L proposed to normalize rate case expense over three years?**

22 A: Although KCP&L has filed a rate case every 21 months, on average, since 2006, one of
23 our goals is to reduce the frequency of rate case filings. While necessary on occasion,

¹⁹ Re Arkansas Power & Light, 28 Mo.P.S.C. (N.S.) 435, 447 (May 4, 1986).

1 rate cases are expensive and time consuming for all parties involved. Company
2 management knows that customers do not like it when we file rate cases; however, there
3 are times when we have no alternative to maintain the financial wherewithal to provide
4 the service our customers expect and deserve.

5 **Q: How does KCP&L evaluate whether and when to file a rate case?**

6 A: At the most elementary level, we compare cost of service to available revenues, both
7 currently and into the relatively near-term future (one and two years out), and when there
8 is, or is expected to be, a significant mismatch between revenues and cost of service, we
9 make plans to file a rate case.

10 **Q: Can rate case treatment affect the frequency of subsequent rate case filings?**

11 A: Yes. If new rates result in a mismatch of costs and revenues, KCP&L will be required to
12 begin the analysis necessary to determine when a rate case filing is justified. So, for
13 example, if the allowance in rates for a certain cost item falls short of actual experience
14 for that cost item, this begins to add pressure to file a rate case. If there are many such
15 mismatches, or if there are just a few such mismatches of substantial impact, the
16 Company will almost certainly find it necessary to file a rate case. This is especially true
17 if 1) the cost of service item is not susceptible to significant management control, 2)
18 revenue growth is minimal, and/or 3) the Company is making substantial capital
19 expenditures. It should be noted that for KCP&L, revenue growth is presently minimal
20 and it expects to continue making substantial capital expenditures.

1 **Q: How do you think rate case treatment to be granted in this case may affect how**
2 **quickly KCP&L files its next rate case?**

3 A: Although KCP&L would prefer to be able to delay implementing new rates for three
4 years, recent history would suggest that may not be possible. If KCP&L is permitted to
5 use an FAC including SPP transmission fees and if trackers are approved for property
6 taxes and CIP/cyber security costs, it is possible that KCP&L would not have to
7 implement new rates for as long as three years after rates from this case take effect.
8 Absent the ability to use an FAC and permission to track property taxes and CIP/cyber
9 security costs, KCP&L will likely need to file another rate case earlier in order to protect
10 its right to earn a fair and reasonable return.

11 **c. Amortization Period for Depreciation Study Costs**

12 **Q: What is this issue?**

13 A: Staff proposes to amortize depreciation study costs over a five-year period, while the
14 Company proposes to amortize depreciation study costs as part of rate case expense over
15 a three-year time period.

16 **Q: How frequently must the Company prepare a depreciation study?**

17 A: Pursuant to Commission rule (4 CSR 240-3.160(1)(A)), KCP&L must submit a
18 depreciation study (including data base and property unit catalog) with each general rate
19 case filing unless the Commission's Staff received these items from the utility during the
20 three years prior to the rate case filing. In any event, the Company must submit a
21 depreciation study (including data base and property unit catalog) no less frequently than
22 every five years.

1 **Q: How frequently do you expect KCP&L to file general rate cases in the future?**

2 A: Our goal is to minimize the frequency of future general rate case filings, but our ability to
3 do so depends significantly on the outcome of this rate proceeding and the other factors
4 discussed throughout this testimony. Since 2006, KCP&L has filed rate cases every 21
5 months, on average. Another factor to consider, however, is the fact that KCP&L has
6 requested a FAC in this general rate case. According to the Commission's FAC rule (4
7 CSR 240-20.090(6)(A)), KCP&L would need to file a general rate case to cause new
8 rates to go into effect no later than four years after the effective date of the commission
9 order implementing the FAC in order to continue its ability to use the FAC. As a result, I
10 expect KCP&L will file its next general rate case no later than 37 months after new rates
11 from this case take effect.

12 **Q: Does this expected general rate case frequency for KCP&L support use of a five-**
13 **year amortization period for depreciation study costs as recommended by Staff?**

14 A: No. History since 2006 suggests that KCP&L will file its next general rate case well
15 before five years after this case concludes. Additionally, KCP&L is the only investor-
16 owned utility in the state without an FAC, and KCP&L fully expects to have an FAC in
17 place following this general rate case. If so, KCP&L will be required by the provisions
18 of the FAC rule cited above to file its next general rate case so that it will conclude no
19 later than four years after the conclusion of this case.

20 **Q: What amortization period do you recommend for depreciation study costs?**

21 A: I recommend that depreciation study costs be amortized over three years as that is
22 consistent with KCP&L's recent rate case history, the Company's goal of reducing the
23 frequency of rate case filings (provided it can actually achieve earnings close to its

1 Commission-authorized level), the Commission's rule requiring the Company to
2 periodically prepare depreciation studies and the Commission's FAC rule which would
3 require the Company to periodically file general rate cases, assuming it is granted an
4 FAC in this case.

5 5. CLEAN CHARGE NETWORK PILOT

6 **Q: What is this issue?**

7 A: Staff and OPC/MECG (OPC/MECG are using a common witness) oppose rate recovery
8 of any costs related to the CCN pilot proposed by the Company as a means of exploring
9 the potential benefits of deploying electric vehicle charging stations as a part of regulated
10 utility service.

11 **Q: Why do Staff and OPC/MECG oppose rate recovery of any costs related to the CCN
12 pilot?**

13 A: On pages 204-208 of the Staff Report, Staff questions whether electric vehicle charging
14 stations should be considered a regulated utility service, and OPC/MECG clearly argue
15 that electric vehicle charging stations should not be provided as a regulated utility
16 service. (Kollen Direct, p. 28) Staff and OPC/MECG also argue that KCP&L had not
17 incurred expenses for the CCN pilot so that the O&M expense adjustment proposed by
18 KCP&L was a selective post-test year adjustment lacking a corresponding revenue
19 adjustment. (Staff Report, p. 209; Kollen Direct, p. 28; Addo Direct, p. 36) OPC/MECG
20 argue that because the CCN pilot is a discretionary project on the part of KCP&L, cost
21 recovery should be denied. (Kollen Direct, p. 28) Staff also expresses concerns that the
22 CCN pilot may have a detrimental impact from a demand side management ("DSM")
23 perspective (Staff Report, p. 209) and an as yet unquantifiable impact on power plant

1 emissions and operations. (Staff Report, p. 210) Finally, Staff opines that the CCN pilot
2 violates the Commission's promotional practices rule. (Staff Report, pp. 210-213)

3 **Q: Do you agree that these arguments justify denying recovery of costs related to the**
4 **CCN pilot?**

5 **A:** No, and I will address each argument in turn.

6 **a. KCP&L's Role in the Clean Charge Network Pilot is the Provision of Regulated**
7 **Electric Service**

8 **Q: Please describe the facilities KCP&L has constructed and will construct that will be**
9 **provisioned in connection with the CCN pilot.**

10 **A:** As I explained in my Supplemental Direct Testimony filed on February 6, 2015, KCP&L
11 announced on January 26, 2015, its planned CCN for the installation and operation of
12 more than 1,000 electric vehicle charging stations capable of supporting more than
13 10,000 electric vehicles. These 1,000+ charging stations will be located throughout
14 KCP&L's MO and KS jurisdictions and KCP&L Greater Missouri Operations
15 Company's ("GMO") jurisdictions. This pilot project is large enough to be impactful,
16 but is moderately sized from a capital expenditure perspective and extends KCP&L's
17 commitment to environmental sustainability. Along with KCP&L's environmental
18 upgrades at several local power plants, renewable energy portfolio and energy efficiency
19 programs, and KCP&L's recent announcement regarding cessation of burning coal at
20 certain KCP&L and GMO generating units between 2016 and 2021, the KCP&L CCN
21 will reduce carbon emissions and help the Kansas City region attain Environmental
22 Protection Agency ("EPA") regional ozone standards which is beneficial to the entire
23 Kansas City region. In this case, KCP&L is requesting the inclusion of \$385,947 for
24 expenses related to this pilot program (approximately 55% of which would be allocable

1 to KCP&L's Missouri jurisdiction). In addition, the CCN is expected to be an overall
2 company investment of approximately \$20 million serving the KCP&L and GMO service
3 territories. The Company expects that the charging stations placed in service in
4 KCP&L's Missouri service territory that are in service as of the end of the true-up period
5 (May 31, 2015) will be included in plant in service that is included in rate base as a part
6 of the revenue requirement in this case. KCP&L included a budgeted plant in service
7 amount expected at the end of the true-up period in its initial filing. This amount will be
8 trued-up to actual as of May 31, 2015 including reflection of KCP&L's Missouri service
9 territory share of the company's investment in the CCN that is operational at that date.
10 That amount is currently expected to be in the range of \$7 to \$9 million at that time if the
11 CCN is fully deployed in the service territory by that date.

12 **Q: What would the bill impact be on a typical Residential customer?**

13 A: The Company has estimated the bill impact for a typical Residential KCP&L-MO
14 customer to be about \$1.79 per year, or about 15 cents per month. This estimate is based
15 on a \$7.6 million capital investment and is high level, but representative of what the
16 impact will be.

17 **Q: Please describe how drivers of electric vehicles will obtain access to the electric
18 vehicle charging stations that are part of the CCN pilot.**

19 A: The first step is to obtain a CCN card that will enable an electric vehicle user to access
20 the station. These Radio Frequency Identification cards are provided at electric vehicle
21 dealerships and can also be requested via Chargepoint's website directly or via KCP&L's
22 website. Once these cards are in hand the charging station user will activate their cards

1 by creating a CCN account. The activation of the card will allow the user to charge their
2 electric vehicle at any of the CCN charging stations by swiping it at the site.

3 **Q: Will drivers of electric vehicles be required to pay for use of the electric vehicle**
4 **charging stations that are part of the CCN pilot?**

5 A: Not initially. For a period of two years, that electricity will be paid for at KCP&L's
6 standard tariff rates by either the owner of the host site (in the case of Level 2 regular
7 speed charging stations) or by Nissan (in the case of Level 3 fast charging stations).

8 **Q: What KCP&L standard tariff rates would apply to the electricity used at the**
9 **electric vehicle charging stations that are part of the CCN pilot?**

10 A: The vast majority of the stations are Level 2 regular speed charging stations. These
11 stations will be served on the same standard tariff rate as the host site. For example, if
12 the host site is served on the Company's Large General Service Commercial rate, then
13 the Level 2 charging station will also be served on the Large General Service
14 Commercial rate. The Level 3 fast charging stations will be served on the Company's
15 Small General Service Commercial rate.

16 **Q: Did Staff witnesses express concerns as to whether or not electric vehicle charging**
17 **should be offered as a regulated service by KCP&L in their Direct Testimony?**

18 A: Yes, on pages 204-208 of the Staff Report, Staff questions whether electric vehicle
19 charging stations should be considered a regulated utility service. In the Staff Report,
20 Michael L. Stahlman and Byron M. Murray raise the following concerns or issues: (1)
21 The electric vehicle CCN pilot is an activity that should not be subject to Commission
22 regulation; and (2) If the service is regulated, Staff contends that regulation would give
23 uncertainty as to whether the current and future charging station hosts/owners would be

1 able to charge customers to recover the expenses to install, operate, and maintain
2 charging stations or could only be permitted to have the stations if they provide the
3 service for free. (Staff Report, p. 208)

4 **Q: Did MECG/OPC witness Lane Kollen also address this issue in his Direct**
5 **Testimony?**

6 A: Yes. Mr. Kollen briefly addressed this proposal and raised similar concerns discussed by
7 Staff. In particular, Mr. Kollen contends the program activities are best undertaken by
8 KCP&L or an affiliate as a competitive and unregulated business activity or by third
9 parties. (Kollen Direct, p. 28)

10 **Q: Do you agree with Staff and MECG/OPC's assertion that the CCN pilot should not**
11 **be a regulated utility service?**

12 A: No, I do not. KCP&L will provide electric service to the electric vehicle charging
13 station, just like KCP&L would provide electric service to a house, apartment, apartment
14 building, office building, street light, irrigation well-pump or manufacturing site. There
15 is no difference in the provision of service; the difference is with the traditional view of a
16 "customer". In the case of the provision of electric service to electric vehicles, the
17 customer is not "fixed" like a home owner, but instead is "mobile". The electric vehicle
18 driver may not even be a resident within the Company's certificated service territory.

19 **Q: Why does this alternative view of a customer matter?**

20 A: It is a complete paradigm shift in terms of how we think of certain customers. It is in
21 large part why a pilot is necessary to study how the company is to serve this load. Since
22 its inception the company has planned, and built infrastructure to provide service to fixed
23 load, usually a building of some sort. The end-uses within the buildings have changed

1 dramatically over time, but from the Company's perspective the load is still a building.
2 As homes, offices, and manufacturing plants are built, the company responds with
3 investments to serve that anticipated load. We build to the load. In this case, in
4 anticipation of future load in the form of electric vehicles, the load must come to us and
5 the infrastructure (charging stations) must be suited to this new category of load and type
6 of customer. A pilot is a logical way to make that initial investment in infrastructure,
7 provide structure to the effort, and determine the most beneficial path forward for all
8 customers in the long run, fixed or mobile.

9 **Q: Why should the CCN pilot be a regulated service?**

10 A: This pilot has the potential to substantially benefit all electric customers in the future by
11 spreading the cost of providing electric service over greater usage, particularly off-peak
12 usage. Traditionally this would be called "valley-filling". It would make the KCP&L
13 electric system more efficient by filling the load shape valleys during periods of lower
14 load and thereby increasing the overall system load factor. What that means is the same
15 power plant investment can produce more sales, and the fixed costs of the power plant are
16 spread over more kWh, lowering the cost per kWh for everyone.

17 **Q: Wouldn't that happen whether or not this is a regulated service or not?**

18 A: Possibly, however the rates charged to drivers for the charging session play a role in the
19 driver's choice of when to charge. While KCP&L intends to use the pilot period of this
20 project to study usage patterns and determine appropriate rates, it is likely the company
21 will request Commission approval of some form of Time of Use rate for charging in
22 order to encourage off-peak charging. As an unregulated service, the charging rate
23 structure would likely be whatever the market will bear. It may or may not be based on

1 the time-of-use, but whatever the rate is, it will not be subject to the approval of the
2 MPSC and will not likely be set with any consideration as to the impact on all electric
3 customers.

4 **Q: Staff expressed concern that some of the electric charging activity may occur during**
5 **on-peak periods. Do you share that concern?**

6 A: Obviously it is possible that some of the usage could occur during the day in a summer
7 month when the KCP&L system is experiencing a peak period. However, with regard to
8 the CCN pilot, the Company is partnering with host sites that would logically
9 accommodate charging during the day while drivers are working or shopping, generally
10 earlier in the day prior to the on-peak period. The pilot program will give us better
11 information regarding the usage data associated with electric vehicle charging and
12 provide us insight to design rates to encourage off peak charging. As a regulated service
13 the Commission will have the opportunity to consider the impact of the electric vehicle
14 charging rate structure on all customers. Additionally the Company does not anticipate
15 the pilot program to be so large that it will have any appreciable effect upon the
16 Company's peak demand during the pilot period.

17 **Q: Beyond the use of a rate structure that would encourage customers to charge off**
18 **peak, does the Company have any other avenue to mitigate the potential increase to**
19 **the peak load?**

20 A: Yes, the ChargePoint network has the capability to curtail charging during peak periods
21 and provide Demand Response when needed.

1 **Q: Is this Demand Response option likely to occur if electric vehicle charging is offered**
2 **as an unregulated product?**

3 A: No, an unregulated entity would not have load information to make a determination that
4 curtailment should occur and likely would have no incentive to call for Demand
5 Response.

6 **Q: Staff has contended that regulation would give uncertainty as to whether the**
7 **current and future charging station hosts would be able to charge customers to**
8 **recover the expenses to install, operate, and maintain charging stations or could**
9 **only be permitted to have the stations if they provide the service for free. (Staff**
10 **Report, p. 208) Do you have any comments?**

11 A: KCP&L's electric service to the charging stations will be regulated by the Commission as
12 is KCP&L's other service to end users. During the pilot project, the owners of electric
13 vehicles will be provided the charging service at no cost by the host sites. Again, the host
14 sites would pay KCP&L using existing tariffs for the electricity usage. In the future,
15 KCP&L will review pricing options for charging the owners of the electric vehicles for
16 their usage and seek Commission approval of tariffs reflecting those options. To be clear,
17 there is no anticipated charge from hosts for the provision of electric service to electric
18 vehicle drivers.

19 **Q: Did Staff also express concerns regarding the impact that the CCN pilot may have**
20 **from a DSM perspective (Staff Report, p. 209) and; an as yet unquantifiable impact**
21 **on power plant emissions and operations? (Staff Report, p. 210)**

22 A: Yes they did, citing information provided in my Supplemental Direct Testimony filed in
23 this case.

1 **Q: Do you have similar concerns?**

2 A: Yes, but having concerns further supports the need for this pilot project. The goals
3 associated with DSM are generally stated in terms of reduced kWh and kW sales, but the
4 real goal has never been reduced sales, but reduced emissions through delayed or reduced
5 need for power plant generation. Staff states (Staff Report, p. 210) that “although Staff
6 agrees that vehicle emissions may be reduced through the use of electric vehicles,
7 emissions from the power plants that charge the vehicles will not decrease as a result of
8 the charging stations. While the emissions may on net be beneficial, Staff cannot
9 quantify how much, if any emissions may be reduced, how the increased emissions
10 would factor into meeting new environmental regulations and how the operations of the
11 current power plants would be impacted.” Electric vehicles have the potential to reduce
12 emissions in total, making this electric end use a perfect complement to traditional
13 electric utility driven DSM with a goal to reduce emissions. Lack of certainty is not a
14 reason for doing nothing, or a reason to make this an unregulated venture. Rather, it is
15 precisely why we should conduct this pilot and work with Mid-America Regional
16 Council to assess emission reductions from increased electric vehicle penetration. The
17 Company believes growth in the purchase and use of electric vehicles is a foregone
18 conclusion. Electric sales will occur in some fashion to serve this emerging end-use. We
19 can either stand by and react as it happens, or we can work with the Commission and
20 other stakeholders to study the impact of electric vehicle charging with the goal to shape
21 the usage pattern to the benefit of all customers.

1 **Q: Do you have other concerns as to the provision of this service by an unregulated**
2 **entity?**

3 A: Yes, I do. I am advised by counsel that as an electrical corporation and public utility
4 under Missouri statutes, KCP&L has certain rights and responsibilities. The Company is
5 required to provide electric service literally to anyone, anywhere, at any and all times in
6 its certificated service territory in accordance with its tariffed rules of service. Obviously
7 there are any number of rules and regulations and policies that a customer is subject to,
8 but the basic tenet is service to all at all times. In exchange, the Company is granted the
9 exclusive right to sell electricity within its certificated service territory. As found in the
10 Company's Rules and Regulations, 5.03 RESALE AND DISTRIBUTION: "...the
11 Company will not supply electric service to a Customer for resale or redistribution by the
12 customer." Unless the Commission determines that requiring payment for electricity
13 used to charge electric vehicles is something other than the sale or resale of electricity,
14 only KCP&L may provide this service in its certificated service territory. It is my
15 understanding that unregulated entities would be prohibited from doing so.

16 **b. Rate Recovery of CCN Costs is Reasonable**

17 **Q: What are the concerns raised by Staff and MECG/OPC regarding the recovery of**
18 **costs and expenses related to the CCN?**

19 A: Staff and OPC/MECG argue that KCP&L had not incurred expenses for the CCN pilot so
20 that the O&M expense adjustment proposed by KCP&L was a selective post-test year
21 adjustment lacking a corresponding revenue adjustment. (Staff Report, p. 209; Kollen
22 Direct, p. 28; Addo Direct, p. 36) OPC/MECG argue that because the CCN pilot is a

1 discretionary project on the part of KCP&L, cost recovery should be denied. (Kollen
2 Direct, p. 28)

3 **Q: Do you agree with Staff that the costs of this program are projected?**

4 A: Yes. As I explained in my Supplemental Direct Testimony, this is a pilot program that
5 did not exist during the test year. KCP&L hopes to learn from these installations,
6 gathering information during the pilot period to be shared with stakeholders in
7 developing a longer term view. KCP&L is interested in discussing with interested
8 stakeholders issues related to this pilot program including, but not limited to, impacts on
9 retail customers, impacts on KCP&L, pricing alternatives, and other issues. Recognizing
10 that there will be costs associated with this pilot program, KCP&L is requesting that the
11 Commission include an amount of money in the revenue requirement to cover these
12 expenses. While KCP&L understands the hesitancy to include these projected costs in
13 rates, KCP&L is proceeding with the installation of charging stations under the CCN
14 pilot and there can be no doubt that some level of operating and maintenance (“O&M”)
15 expense will be required. As a protection to including an estimate of O&M expense in
16 rates, KCP&L suggests that a reasonable alternative would be for the Commission to
17 order tracker treatment for O&M expenses related to the CCN pilot.

18 **Q: Do you have any comments regarding the concerns raised by Mr. Kollen?**

19 A: Yes. I have already discussed most of the points he raised. However, I would note that
20 KCP&L does not believe that KCP&L is providing a “subsidy” to customers owning
21 electric vehicles. The program is based upon tariff rates which are approved by the
22 Commission and recover the cost of providing the service. Charging station hosts or
23 Nissan will be paying for the electric usage at tariffed rates approved by the Commission.

1 To the extent that electric vehicle owners themselves are receiving charging services for
2 free, it is important to note that it is the owners of the host sites or Nissan that are
3 providing the inducement to use their services, not KCP&L. Many of the host sites (e.g.
4 Hy-Vee) will be providing the charging service as an inducement for customers to
5 frequent their businesses. KCP&L also believes that the information contained in my
6 Supplemental Direct Testimony, including Schedules DRI-1 through DRI-7 provide a
7 wealth of information to demonstrate that the proposed program is in the public interest.

8 **c. The Clean Charge Network Pilot**

9 **Q: Do you consider this pilot program to be a “promotional practice” under 4 CSR**
10 **240-3.100(13)?**

11 **A:** No. KCP&L’s proposed pilot program does not rely upon “consideration offered or
12 granted by an electric utility or its affiliate to any person for the purpose, express or
13 implied, of inducing the person to select and use the service or use additional service of
14 the utility or to select or install any appliance or equipment designed to use the utility
15 service, or for the purpose of influencing the person’s choice or specification of the
16 efficiency characteristics of appliances, equipment, buildings, utilization patterns or
17 operating procedures.” As I mentioned earlier, the usage for the fast charging stations
18 will be recovered from the Nissan grant of \$300,000 paid to KCP&L, and for the
19 remainder of the charging stations the hosts will be paying for the usage at the charging
20 stations, based upon KCP&L’s tariff rates. Other entities may be “promoting” electric
21 vehicles, but KCP&L is merely supplying the electrical service at tariffed rates. This
22 pilot is not a prohibited promotional practice.

1 6. MECG/OPC's MANAGEMENT AUDIT RECOMMENDATION

2 **Q: Has MECG/OPC requested that the Commission order that a management be**
3 **conducted regarding KCP&L?**

4 **A: Yes.**

5 **Q: Is MECG/OPC's request for a management audit of KCP&L supported by any**
6 **valid factual analysis?**

7 **A: No. KCP&L witness Bresette refutes MECG/OPC's administrative and general**
8 **("A&G") cost level allegations specifically in his rebuttal testimony and I concur with his**
9 **remarks. The Commission has opined on similar allegations and evidence in the past and**
10 **firmly rejected it**

11 . . [t]here is really no way to determine with any degree of
12 certainty that one company is more efficient than another. MGE
13 attempted to do so by comparing its annual operating and maintenance
14 expense to that of other Missouri gas companies. However, as Staff
15 pointed out, operating and maintenance expenses are subject to many
16 variables and are not a good basis for determining management efficiency.
17 Although none of the evidence presented actually demonstrates that MGE
18 is any more or less efficient than other gas companies, there was a lot of
19 evidence filed on that question and its presentation took up a good deal of
20 hearing time. The Commission does not wish to encourage a flood of
21 indeterminate and ultimately pointless testimony on the question of
22 management efficiency in future rate cases (footnotes omitted).²⁰
23

24 In light of KCP&L witness Bresette's testimony and the MGE order cited above, it is
25 clear that MECG/OPC have put forward no meaningful evidence to substantiate their
26 allegations regarding excessive A&G costs. Staff's A&G cost arguments are similarly
27 misplaced. Consequently, there is no basis for the Commission to order the management
28 audit requested by MECG/OPC.

²⁰ Re: Missouri Gas Energy, Case No. GR-2004-0209, *Report and Order*, p. 28.

2. Staff recommends no additional amortization of transition costs in KCP&L's cost of service, and the adoption of Staff's adjustment to remove the test year amount of the transition cost amortization from the cost of service.

Q: What is your response to Staff's position?

A: I strongly disagree with Staff's position presented in Mr. Majors' testimony. This issue was definitively decided by the Commission in the 2010 Rate Case in which the Company was granted a five year amortization of identified transition costs.

Q: Was a similar issue raised again by the Staff in the 2012 Rate Case?

A: Yes. The Staff raised essentially the same arguments again on this issue in the 2012 Rate Case. In the *Non-Unanimous Stipulation And Agreement As To Certain Issues* filed on October 19, 2012 in that rate case, the Company and Staff agreed to resolve the Acquisition Transition Cost issue as follows:

Resolution: The five-year amortization of acquisition transition costs (KCPL annual amount of \$3.8 million, GMO amount of \$4.3 million—MPS \$3.5 million and L&P \$0.8 million) shall continue; however, KCPL and GMO shall not seek recovery of acquisition transition costs in any general electric rate case filed after January 1, 2015. Total Missouri jurisdictional transition costs related to the 2008 acquisition of Aquila are capped at the December 31, 2010 amount of \$41.5 million. No other transition costs related to the 2008 acquisition of Aquila will be deferred for recovery in any general electric ratecase.

	KCPL-MO	MPS	L&P
Total	\$19,344,018	\$17,727,367	\$4,452,471
Remaining to be recovered at True-up	\$14,185,613	\$13,531,890	\$3,398,720
Already Recovered at True-Up	\$5,158,405	\$4,195,477	\$1,053,751
Annual Amount	\$3,868,804	\$3,545,473	\$890,494

1 **Q: Is KCP&L's position on this issue in this case consistent with the Commission's**
2 **decision in the 2010 Rate Case and the Stipulation in the 2012 Rate Case?**

3 A: Yes. For this reason, the Company is frustrated by the Staff's continued insistence on re-
4 arguing transition cost recovery after the Commission has rendered a definitive decision
5 on the issue in the 2010 Rate Case, and Staff and KCP&L entered into the settlement of
6 this issue in the 2012 Rate Case.

7 **Q: Please explain the history of transition costs as discussed in the Merger Report and**
8 **Order in Case No. EM-2007-0374 ("Merger Order").**

9 A: In paragraphs 167 and 168 of the Merger Order, the Commission made a distinction
10 between transaction costs and transition costs:

11 167. Examples of transaction costs include investment banker fees,
12 consulting and legal fees associated with the evaluation, bid, negotiation
13 and structure of the deal. (footnote omitted)

14 168. Transition-related costs are comprised of the costs incurred to
15 integrate Aquila into Great Plains. They are those costs necessary to
16 ensure that the synergy savings are achieved and that the merger process is
17 effective. These costs include severance and retention costs associated
18 with process integration. (footnote omitted)

19 The Commission's Final Conclusion Regarding Transaction and Transition Cost
20 Recovery from page 241 of the Merger Order is as follows:

21 Substantial and competent evidence in the record as a whole supports the
22 conclusions that: (1) the Applicants' calculation of transaction and
23 transition costs are accurate and reasonable; (2) in this instance,
24 establishing a mechanism to allow recovery of the transaction costs of the
25 merger would have the same effect of artificially inflating rate base in the
26 same way as allowing recovery of an acquisition premium; and (3) the
27 uncontested recovery of transition costs is appropriate and justified. The
28 Commission further concludes that it is not a detriment to the public
29 interest to deny recovery of the transaction costs associated with the
30 merger and not a detriment to the public interest to allow recovery of
31 transition costs of the merger.

1 If the Commission determines that it will approve the merger when it
2 preforms its balancing test (in a later section in this Report and Order), the
3 Commission will authorize KCPL and Aquila to defer transition costs to
4 be amortized over five years.⁹³⁰

5 Footnote 930 to this decision stated:

6 The Commission will give consideration to their recovery in future rate
7 cases making an evaluation as to their reasonableness and prudence. At
8 that time, the Commission will expect that KCPL and Aquila demonstrate
9 that the synergy savings exceed the level of the amortized transition costs
10 included in the test year cost of service expenses in future rate cases.

11 **Q: Did the Commission find that the synergy savings projected in the Merger**
12 **application were accurate and reasonable?**

13 **A:** Yes, on page 238 of the Merger Order, the Commission found that,

14 (1) the projected synergies are accurate, realistic and achievable at a very
15 high level of confidence and probability; (2) the synergies actually
16 realized from the merger have a very high probability of exceeding the
17 Applicants' estimates . . .

18 **Q: How were transition costs handled in the 2010 Rate Case?**

19 **A:** In that rate case, the Company presented a Synergy Tracking Model ("Tracker"), which
20 the Commission noted on page 153, paragraph 449 of the 2010 Order,

21 ... demonstrated that the merger synergy savings for non-fuel operations
22 and maintenance expense exceed the amortization of merger transition
23 costs. (footnote omitted)

24 In fact, the Tracker showed \$48.5 million of synergies compared to \$10.4 million annual
25 amortization of transition costs in all jurisdictions (KCP&L Missouri and Kansas and
26 GMO MPS and L&P). This demonstrated that in one year the amount of synergies
27 retained were almost as great as the entire amount of transition costs to be amortized.

28 The Company also presented a synergy project charter database ("Database") that
29 tracked all synergies on a project-by-project basis for internal purposes. The
30 Commission noted on page 153, paragraph 451 of the 2010 Order that,

1 Staff's analysis showed that the amount of synergies in the synergy project
2 database exceeded those in the Commission-ordered tracking system.
3 (footnote omitted)

4 This statement is true when you compare the amounts in the Database to the Tracker
5 because the Database contained ALL synergies from the merger, whereas the Tracker by
6 design only analyzed non-fuel operations and maintenance ("NFOM") synergies. The
7 amount of NFOM synergies in the Database exceeded synergies in the Tracker by \$8,000
8 or less than .02%.

9 Additionally, the Company and Staff presented evidence that the Commission
10 noted on page 154, paragraph 454 of the 2010 Order that,

11 KCP&L and GMO project that total synergy savings through 2013 will be
12 \$344 million. Of that amount, KCP&L and GMO project that ratepayers
13 will receive \$150 million. (footnotes omitted)

14 As noted above, the Commission believed in the Merger Order that there was a
15 high probability of the \$305 million of synergy benefits projected in the merger
16 application being exceeded and this provided evidence to validate that belief.

17 **Q: Did any party to the 2010 Rate Case challenge the reasonableness or prudence of the**
18 **merger transition costs?**

19 **A:** On page 154, paragraph 457, the Commission noted that,

20 No party challenged the reasonableness or prudence of incurring the
21 merger transition costs. In addition, Staff's witness stated that the
22 transition costs incurred by the company were not unreasonable or
23 imprudent. (footnote omitted)

24 **Q: In the 2010 Rate Case, did the Commission find that the Company had complied**
25 **with Merger Order as it related to recovery of merger transition costs?**

26 **A:** Yes, in the Conclusions of Law-Transition Cost Recovery, page 156, paragraph 45, the
27 Commission stated,

1 The Companies accumulated all transition costs consistent with the
2 Merger Order. The Commission concludes that the Companies have
3 complied with the Merger Order as it relates to recovery of transition
4 costs.

5 **Q: In the 2010 Rate Case, did the Commission give any credence to the Staff's**
6 **arguments regarding regulatory lag in the context of transition cost recovery?**

7 A: No, the Commission did not. In fact, in the Commission's Decision-Transition Cost
8 Recovery, page 157, it was stated,

9 No party to this proceeding has challenged the reasonableness and
10 prudence of the claimed transition costs or challenged the amount of
11 synergy savings. While true that the Companies' shareholders have
12 enjoyed the benefit of regulatory lag in retaining synergy savings since the
13 merger was consummated, the Commission finds that this outcome was
14 specifically contemplated in its consideration of the appropriate treatment
15 for synergy savings in the merger case and as set out in the Merger Order.
16 The Commission also finds that it specifically contemplated that synergy
17 savings would be higher than predicted.

18 **Q: In the 2010 Rate Case, did the Commission find that the Company had**
19 **demonstrated that synergy savings exceeded transition costs?**

20 A: The Commission directly states on page 157 of the 2010 Order,

21 The Commission expected that recovery would only occur if the
22 Companies incurred the costs prudently and reasonably and demonstrated
23 that the synergy savings were more than the transition costs. **The**
24 **Companies have done this.** (emphasis added)

25 **Q: In the 2010 Rate Case, did the Commission agree with Staff's argument that**
26 **amortization of transition costs should have begun with the date rates were effective**
27 **in the first rate case after the merger, i.e. September 4, 2009?**

28 A: No, the Commission did not. In fact, the Commission laid out its reasoning on page 158
29 of the 2010 Order as follows,

30 Staff also argues that the companies should have begun amortizing these
31 costs in the previous rate cases per the Merger Order. At first glance, the
32 Merger Order does imply that the five-year amortization will begin from

1 the first rate case after the transaction is consummated. **However, that**
2 **statement is just a restatement of what the Companies were**
3 **proposing. The Commission never specifically orders that treatment.**
4 Furthermore those rate cases were resolved through settlement and this
5 issue was not addressed in that settlement so the issue never came before
6 the Commission for consideration. **Thus, this is the first opportunity for**
7 **the amortizations to begin and Commission determines they will be**
8 **amortized over five years beginning with this rate case.** (emphasis
9 added) (footnotes omitted)

10 **Q: Based on these various conclusions drawn by the Commission, what was its final**
11 **decision regarding recovery of merger transition costs?**

12 A: On page 158 of the 2010 Order, the Commission stated,

13 The evidence in this case supports the Commission's original findings in
14 the Merger Order that the Companies should be permitted to recover the
15 merger transition costs in rates over five years beginning with rates
16 effective from this case.

17 **Q: On page 234 of the Staff Report, Mr. Majors argues that "...without the**
18 **Commission Ordered Synergy Savings Tracking Model, Staff cannot determine**
19 **whether the annual synergy savings . . . exceed the amount of the amortized**
20 **transition costs." Did the Commission order that the Tracker be prepared in rate**
21 **cases subsequent to the 2010 Rate Case?**

22 A: Again, on page 158 of the 2010 Order, the Commission stated,

23 The evidence in this case supports the Commission's original findings in
24 the Merger Order that the Companies should be permitted to recover the
25 merger transition costs in rates over five years beginning with rates
26 effective from this case.

27 The Commission could not have been any clearer in its ruling on this issue. The
28 Commission found that the Company had met all requirements to recover merger
29 transition costs, ordered that they be recovered over five years beginning with the
30 effective dates for rates in the 2010 Rate Case and did not order that the Tracker be
31 completed in subsequent years in order to justify continuing amortization. If the

1 Commission had intended that the Company complete the Tracker each year through
2 2016, the Commission would have explicitly ordered this. Note, also, that had the
3 Commission required this, the measurement period would have exceeded the five year
4 period through June 30, 2013 contemplated in the Merger Order.

5 **Q: Has the Company stopped tracking synergies?**

6 A: The Company tracked synergies through June 30, 2013, as contemplated in the Merger
7 Order through the preparation of the Database. The Company has exceeded all synergy
8 benefits promised in the merger application.

9 **Q: Is the Company still generating synergy benefits in excess of merger transition**
10 **costs?**

11 A: Yes, without a doubt. The Company is generating synergy benefits far in excess of
12 merger transition costs. In fact, in this case the Company has not presented any new
13 transition costs to be amortized that were not already ordered in the 2010 Rate Case.

14 **Q: What were the synergy savings that were proven in the 2010 Rate Case?**

15 A: As demonstrated in the previous case and accepted by Staff, in 2009 alone over \$48.5
16 million of NFOM synergies were realized, according to the Tracker and Database. In
17 other words, in one year, the companies generated enough synergies to cover 93% of the
18 \$52.0 million in total transition costs that are flowing through rates in all jurisdictions.

19 **Q: Do synergies exist that are subject to little debate, even without preparation of the**
20 **Tracker?**

21 A: Yes, there are several such synergies. For instance, even if the Company were unable to
22 prove any other synergy savings going forward, there should be little debate that
23 headcount was reduced and has remained below pre-merger levels or that several

1 buildings and service centers were consolidated and sold. For the period of 2010 through
2 June 30, 2013 those synergies alone totaled \$54.3 million. Combined with the 2009
3 synergies already accepted by Staff, the total of \$102.8 million nearly doubled the total
4 transition costs.

5 **Q: Did the Company demonstrate in the 2010 Rate Case that the Tracker and Database**
6 **were highly correlated?**

7 A: As noted earlier, the Tracker presented in the 2010 Rate Case demonstrated \$48.5 million
8 of synergies related to 2009 NFOM, while the Database was higher by only \$8,000. For
9 2010 and 2011, the Database tabulated \$57.6 million and \$59.9 million of synergies,
10 respectively for the NFOM projects that were highly correlated to the Tracker in the 2010
11 Rate Case.

12 **Q: Does the high correlation between the Tracker and Database provide the Company**
13 **and this Commission with comfort that it is still generating synergies in excess of**
14 **merger transition costs?**

15 A: Based on the high correlation, any Tracker that would be produced would show synergies
16 that were well in excess of the annual transition cost amortization and, in fact, would be
17 higher in each year than the total transition costs of \$52.0 million.

18 **Q: Has the Company performed any other analysis that demonstrates that synergy**
19 **savings still exceed transition costs?**

20 A: As noted above, in the 2010 Rate Case, the Commission and Staff noted that \$344
21 million of regulated synergy savings was projected over five years, with \$150 million
22 going to customers. I noted in my Surrebuttal Testimony in the 2010 Rate Case on page
23 6, line 17 that this Staff analysis was made using an ultra-conservative assumption that no

1 synergy savings were realized by customers until rates were effective in the 2010 Rate
2 Case. Using the same methodology through the June 30, 2013 Database provided to Staff
3 in DR 230 of the current case, the Company achieved \$367.5 million of regulated
4 synergy savings over 5 years, with \$167 million going to customers.

5 **Q: What conclusions can be drawn from the correlation between the Tracker and**
6 **Database, the current Database results and the updated analysis performed using**
7 **Staff's methodology?**

8 A: As all methods noted have shown increased synergies from those presented in the 2010
9 Rate Case, the Company believes that the only conclusion that can be drawn is that
10 synergy savings still significantly exceed merger transition costs.

11 **Q: Mr. Majors states in his testimony (on pages 239-240), "KCPL and GMO, while**
12 **enjoying significant corporate retained benefits, have not flowed comparable**
13 **regulated synergy savings to its regulated electric utility operations." Is Mr.**
14 **Majors' assertion relevant?**

15 A: No. As noted above, based on his own methodology, the Company is giving more
16 synergies to ratepayers than was even contemplated in the 2010 Rate Case, when the
17 Commission clearly stated on page 157 of the 2010 Order,

18 The Commission expected that recovery would only occur if the
19 Companies incurred the costs prudently and reasonably and demonstrated
20 that the synergy savings were more than the transition costs. The
21 Companies have done this.

22 Additionally, on page 157 of the 2010 Order, the Commission states,

23 While true that the Companies' shareholders have enjoyed the benefit of
24 regulatory lag in retaining synergy savings since the merger was
25 consummated, the Commission finds that this outcome was specifically
26 contemplated in its consideration of the appropriate treatment for synergy
27 savings in the merger case and as set out in the Merger Order.

1 **Q: Did Mr. Majors make a similar argument regarding corporate retained synergy**
2 **benefits in the 2010 Rate Case?**

3 A: Yes, in the 2010 Rate Case, he also argued that the Company had retained a significant
4 amount of corporate benefits while not flowing a comparable amount to ratepayers.

5 **Q: Did the Commission address this argument in the 2010 Order?**

6 A: The Commission focused exclusively on the reasonableness and prudence of the
7 transition costs incurred and whether or not regulated synergy savings exceeded these
8 costs. It did not in any way address this argument.

9 **Q: Should the Commission give any weight to this argument in the current case?**

10 A: No, I do not. As stated on pages 9 and 10 of my Rebuttal Testimony in the 2010 Rate
11 Case,

12 The amount of corporate retained synergies referenced by Staff witness
13 Majors is accurate and consistent with projected amounts identified by the
14 Applicants in the Merger case. However, an understanding of the
15 transaction is necessary to understand corporate retained synergies.
16 Synergies are determined by first looking at 2006 base year costs for
17 Aquila and KCP&L. GPE acquired the legal entity Aquila, Inc. not just
18 the regulated Missouri operations. In 2006, there were significant costs
19 incurred by Aquila, Inc. that were either corporate retained costs (not
20 allocable to any regulated jurisdictions) or costs that were allocated to
21 regulated jurisdictions other than Missouri. These costs were not subject
22 to recovery from Missouri ratepayers prior to the acquisition and would
23 not be eligible to be recovered from Missouri ratepayers post-acquisition.
24 Therefore, the risks of not realizing these synergy savings were fully borne
25 by the Company and its shareholders and the resultant synergy savings
26 achieved should similarly fully benefit the Company and its shareholders.
27 It is inappropriate to view those savings as an offset to costs the
28 Commission said the Company could recover.

29 **Q: Has there been any change in the nature of corporate retained synergies since the**
30 **2010 Rate Case?**

31 A: No, there has not. My testimony is still accurate and applicable.

1 **Q: Is Mr. Majors omitting any other relevant information?**

2 A: Yes. Mr. Majors is also neglecting the fact that once synergy benefits were reflected in
3 rates in previous rate cases (both Case No. ER-2009-0089 and the 2010 Rate Case), they
4 are perpetual benefits to the ratepayers with no further retention by the Company and
5 shareholders.

6 Therefore, the Company and shareholders have already retained the maximum
7 amount of synergy savings and all benefits are now flowing to ratepayers.

8 **Q: If the Commission had ordered continuation of the Tracker in the 2010 Rate Case,**
9 **would you have had any concerns with its continued use?**

10 A: Yes, the Tracker does have one major inherent limitation. The business environment that
11 the Company operates in is not static, as the Commission acknowledged in the Merger
12 Order on page 97, paragraph 244:

13 Tracking synergy savings with any degree of accuracy is problematic at
14 best. Business operations are not conducted in a static environment, but
15 rather under constant change, including customer growth, technological
16 improvements, etc. Tracking will become more difficult each successive
17 year after the merger. (footnote omitted)

18 As the Commission noted, the more time that passes from 2006, the more the model
19 relies on management assumptions. As an example, the 2009 model that was accepted by
20 Staff and the Commission contained over 30 separate adjustments to 2006 costs to make
21 them comparable to 2009, including an adjustment to account for inflation. Additional
22 adjustments that would be required in the 2010 or 2011 models would include operating
23 costs for Iatan 2, Spearville 2, ORVS program costs and energy efficiency program costs,
24 among others. Each year that passes means more adjustments must be made to the
25 Tracker in order to make the current period comparable to the business as it existed in

1 2006. In other words, each year out from 2006 entails more and more assumptions on the
2 part of management.

3 **Q: In summary, what is the Company's position with regard to the Tracker?**

4 A: The Company believes that there was no requirement in the 2010 Order to continue
5 preparing the Tracker. In any event, the Company believes that it has a responsibility to
6 ensure that it is meeting its promised synergy targets and has prepared reasonable
7 documentation of synergies through its Synergy Tracker Database which has been
8 provided to Staff and demonstrates a consistent amount of synergy savings as was
9 contemplated in Case No. ER-2010-0355. Finally, the Company believes that the
10 Tracker has an inherent limitation that limits its usefulness as each year after 2006 passes.
11 Based on all of these beliefs, maintaining a Tracker model in addition to the Synergy
12 Tracker Database was not required.

13 **Q: Did Staff make an argument in the 2010 Rate Case that the Company's A&G
14 expenses were high compared to other comparable utilities?**

15 A: Yes, Staff did.

16 **Q: Did the Commission find the Staff's position on A&G expenses persuasive?**

17 A: On page 158 of its 2010 Order, the Commission stated,

18 Staff also argues that the A&G expenses of the Companies were higher
19 than average and attempted to make a connection to the transition costs
20 being unreasonable. The Commission gives little weight to that argument
21 since Staff's witness testified that these transition costs were not incurred
22 unreasonably or imprudently.

23 **Q: Should an argument that KCP&L's A&G costs are high have any impact on the
24 recovery of merger transition costs?**

25 A: Consistent with the Commission's decision in the 2010 Rate Case, it should not have any
26 impact. As the Commission stated on page 157 of the 2010 Order the Company was

1 required to demonstrate two things with regard to recovery of merger transition costs.
2 The Commission expected that recovery would only occur if (1) the companies incurred
3 the costs prudently and reasonably and (2) the companies demonstrated that the synergy
4 savings were more than the transition costs. The companies have done this.

5 **Q: Did Mr. Majors present any new evidence with regard to the beginning date of**
6 **amortization in his testimony as compared to the 2010 Rate Case?**

7 A: No, he did not.

8 **Q: What did the Commission find in the 2010 Rate Case when presented with the same**
9 **arguments that Staff is presenting in this case with regards to the beginning of**
10 **amortization?**

11 A: Again, the Commission on page 158 of the 2010 Order stated,

12 Staff also argues that the companies should have begun amortizing these
13 costs in the previous rate cases per the Merger Order. At first glance, the
14 Merger Order does imply that the five-year amortization will begin from
15 the first rate case after the transaction is consummated. However, that
16 statement is just a restatement of what the Companies were proposing.
17 The Commission never specifically orders that treatment. Furthermore
18 those rate cases were resolved through settlement and this issue was not
19 addressed in that settlement so the issue never came before the
20 Commission for consideration. Thus, this is the first opportunity for the
21 amortizations to begin and Commission determines they will be amortized
22 over five years beginning with this rate case. (footnotes omitted)

23 **Q: Please summarize the Company's position with regard to the beginning of**
24 **amortization for transition costs.**

25 A: The Commission could not have spoken any more clearly on this issue. Again, why this
26 issue is being raised by Staff without any new evidence or arguments to support a
27 position that was clearly addressed by the Commission in the 2010 Rate Case is not clear.

28 **Q: What did the Company promise in synergy benefits in the Merger application?**

1 A: The Company promised \$305 million of synergies over five years while estimating it
2 would incur \$58.9 million of transition costs to achieve those synergies.

3 **Q: What has the Company delivered through June 30, 2013 in synergy benefits?**

4 A: Through the five years ended June 30, 2013, as contemplated in the Merger Order, the
5 Company realized \$367.5 million of synergies, while incurring \$52.0 million of transition
6 costs to achieve the synergies. In other words, the Company delivered over 20% more
7 synergies than promised at a cost almost 12% lower than originally estimated.

8 **Q: Is there anything else that the Commission should consider about synergies and
9 recovery of merger transition costs?**

10 A: As stated above, while transition costs are amortized over five years, once synergy
11 benefits were taken into account in previous rate cases (both the 2009 and 2010 cases),
12 many are perpetual benefits to the customers with no further retention by the Company
13 and shareholders.

14 **Q: Please summarize the Company's request on the transition cost issue.**

15 A: The Commission has found that the Company has previously met all requirements to
16 receive recovery of transition costs through amortization over five years beginning with
17 rates effective in the 2010 Rate Case. The Commission made that finding in its decision
18 in that case's Report and Order. Given that there has been no change in the facts, we
19 simply request that the Commission reject Staff's request for the stoppage of transition
20 costs amortization recovery and reaffirm its previous decision that the Company has
21 already demonstrated compliance with all transition cost requirements and should be
22 allowed to continue to amortize and recover the costs over five years.

1 Q: Does that conclude your Rebuttal Testimony?

2 A: Yes, it does.

Hack Rob

From: Hack Rob
Sent: Monday, April 13, 2015 2:09 PM
To: nathan.williams@psc.mo.gov
Subject: ER-2014-0370

Nathan,

This is a follow-up to our conversations on this topic last week and again today. KCP&L is concerned by the statement on pp. 62-63 of Staff's April 3, 2015 revenue requirement report where Staff has indicated that its construction audit of the La Cygne Environmental project is ongoing and that Staff will present the results of that audit in the true-up phase of this case.

This timing presents a significant procedural problem because 1) there's only 7 days between true-up direct (7/7) and true-up rebuttal (7/14), 2) the true-up hearing is scheduled on 7/20, only 6 days after true-up rebuttal testimony is filed, and 3) the true-up hearing is scheduled for only 1 day. There would be insufficient time for discovery and development of rebuttal testimony in this compressed time frame, insufficient time to prepare for hearing and the hearing time would almost certainly be insufficient as well.

The true-up process is intended to update numbers and, therefore, should be largely a mechanical exercise. In-service issues could of course arise at true-up, but substantive ratemaking issues like disallowances proposed on the basis of prudence or a construction audit need to be handled during the main rate case hearings.

If Staff intends to raise substantive ratemaking issues or disallowances regarding the La Cygne Environmental project, KCP&L believes that Staff needs to raise those issues no later than rebuttal testimony (due to be filed on 5/7/15) otherwise KCP&L may move to strike such testimony due to Staff's failure to present those issues in direct or rebuttal testimony.

Thx -Rob

Rob Hack
816/556-2791 (O)
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Kansas City Power & Light Company Rate Case Expense Controls

