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Vegetation Management Tracker
Cyber Security Tracker
SPP Region-Wide Transmission
Transmission Wholesale Revenue
Witness: *Karen Lyons*
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KAREN LYONS

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
May 2015

** **Denotes Highly Confidential Information** **

NP

TABLE OF CONTENTS

REBUTTAL TESTIMONY OF

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CASE NO. ER-2014-0370

REBUTTAL TESTIMONY

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KAREN LYONS

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Q. Please state your name, employment position and business address.

A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission" or "PSC"), Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same Karen Lyons who has previously provided testimony in this case?

A. Yes. I contributed to Staff's Cost of Service Report filed in the Kansas City Power & Light Company ("KCPL" or "Company") rate case designated as Case No. ER-2014-0370 on April 3, 2015.

Q. What is the purpose of your rebuttal testimony?

A. KCPL proposes several "trackers" for what the Company identifies as areas of increasing costs. KCPL claims these cost increases are largely beyond the Company's control and contribute to regulatory lag (and its ability to earn its authorized Return On Equity (ROE))[1]. Although Staff supports tracking mechanisms in special circumstances, Staff is opposed to all of the trackers proposed by KCPL for the reasons discussed in detail below.

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[1] Darrin R. Ives, Direct Testimony, pages 3-12 and Tim M. Rush Direct Testimony, page 5 in Case No. ER-2014-0370.

The purpose of my rebuttal testimony is to respond to the following KCPL witnesses that address the proposed trackers:

- Darrin R. Ives - Property Tax, Vegetation Management, and Cyber Security Tracker
- Tim M. Rush - Property Tax, Vegetation Management, and Cyber Security Tracker
- James "Jamie" S. Kiely - Vegetation Management Programs
- Ronald A. Klote - KCPL's Property Tax and Vegetation Management adjustments

KCPL also proposes two adjustments related to the Southwest Power Pool (SPP) regional transmission projects and wholesale transmission revenue. In its Direct Filing, and supported by Mr. Klote in KCPL's accounting schedules, KCPL proposed an adjustment to reduce investment, revenue, and expense related to two SPP regional transmission projects. SPP directed KCPL to upgrade the Swissvale-Stilwell Transmission line and the West Gardner Substation, two existing KCPL transmission facilities. KCPL proposal would eliminate the costs and revenues associated with the upgrades, since the upgrades were directed by SPP and were intended to benefit the entire SPP region. KCPL also proposes to reduce wholesale transmission revenues received from SPP based on the difference between KCPL's Federal Energy Regulatory Commission (FERC) authorized ROE and the authorized ROE granted by the Missouri Commission in this case. Both adjustments proposed by KCPL result in higher rates for its customers. Staff opposes KCPL's proposed accounting treatment for these two adjustments for rate making purposes. I will respond to KCPL witness Ronald A. Klote's Direct filed testimony that supports both the revenue requirement accounting schedules and KCPL's proposed adjustments related to the Southwest Power Pool (SPP) regional transmission projects and wholesale transmission revenue.

EXECUTIVE SUMMARY

Q. Please summarize Staff's position with regard to KCPL's Property Tax, Vegetation Management and Cyber Security Trackers.

A. Property Tax, Vegetation Management and Cyber Security costs are known and measurable costs, for which Staff determines a level of ongoing expense that are included in KCPL's cost of service using historical costs and ratemaking principles such as normalizations and annualizations. Trackers should be used for costs that are volatile, difficult to predict an appropriate level of ongoing costs, and for costs for which there is no historical data on which to base such a prediction. Staff recommends the Commission deny KCPL's request for property tax, vegetation management, and cyber security trackers.

Q. What is a "tracker?"

A. A tracker is a unique regulatory tool that is a deferral mechanism used when it is difficult to determine a particular level of costs to include in rates. When use of a tracker is authorized, a level of recovery for a cost is set in rates, and the Company tracks the actual amount of incurred costs in this area until the utility's next rate proceeding. Any amount under or over the set level of costs included in rates would be evaluated in the next rate case for future recovery. Trackers are a last resort to be used when other techniques fail to capture a reasonable level of costs in rates for a particular cost of service item. Typically, Staff does not endorse trackers, preferring inclusion of costs through normal ratemaking principles, such as annualizations and normalizations. Therefore, there are likely to be instances where tracker methodology is requested by utilities for cost increases only, while other costs may be declining. This would represent an unfair ratemaking approach to deal with those isolated increasing costs which could offset by savings in other cost of service areas. KCPL's requested ratemaking treatment for these cost increases identified in the Company's direct testimony does not propose to consider any offsetting, or mitigating savings in other aspects of the cost of service. Staff witness Mark L. Oligschlaeger addresses the general use of cost trackers in his rebuttal testimony.

Q. Please summarize Staff's position with regard to KCPL's adjustments related to SPP region-wide transmission projects and wholesale transmission revenue.

A. SPP region-wide transmission projects are transmission upgrades directed by SPP based on its Transmission Expansion Plan to ensure the reliability of the transmission system for SPP's members.[2] In its direct filing, KCPL proposes an adjustment to eliminate plant in service, accumulated depreciation reserve, revenues, and expenses related to regional transmission upgrades directed by SPP from its cost of service. The upgrades were made to KCPL's West Gardner Substation and the Swissvale to Stilwell 345k transmission line that are part of KCPL's *existing* transmission infrastructure. Historically in the State of Missouri, transmission projects are included in rate base after they are completed and placed in service. The utility's cost of service includes all investment costs, operating and maintenance expenses and revenues associated with the transmission projects. Since the transmission upgrades were made to KCPL's *existing* transmission facilities which were already included in KCPL's cost of service, Staff recommends the costs of and revenues from these upgrades also be included in KCPL's cost of service. To the extent KCPL is directed by SPP to construct, upgrade, etc. *existing* KCPL transmission infrastructure, all costs and revenues related to future projects should likewise be included in KCPL's cost of service. Staff recommends the Commission reject KCPL's proposed adjustments for these projects.

[2] SPP Open Access Transmission Tariff (OATT).

KCPL also proposes an adjustment to reduce transmission revenues for the difference between the FERC ordered ROE of 11.1% and the ROE granted by the Commission in this case. KCPL's authorized FERC ROE includes a 50 basis point adder for being a member of SPP. KCPL contends Missouri rate payers are not entitled to wholesale transmission revenues that are based on a FERC ROE that is higher than the Commission authorized ROE. Similar to the revenues, KCPL is charged for transmission costs from other SPP members that include the financial impact of FERC incentives and adders like the ROE adder KCPL receives as a member of SPP. Although KCPL made an adjustment to reduce wholesale transmission revenues, no corresponding adjustment was made to decrease KCPL's transmission expense on the same basis. Staff recommends the Commission deny KCPL's request to reduce revenues for the difference in the FERC and Commission authorized ROEs. However, in the event that the Commission grants KCPL's request to eliminate transmission revenues based on the difference between the FERC ROE of 11.1% and the ROE granted by the Commission in this case, Staff recommends that a corresponding adjustment should be made to reduce transmission expenses incurred by KCPL that also include FERC incentives from other SPP members. This would make the adjustments consistent in nature.

PROPERTY TAX TRACKER

Q. How do the Company and Staff positions differ with respect to KCPL's proposed property tax tracker?

A. According to Mr. Rush, KCPL is requesting a property tax tracker as a result of increasing property taxes for which KCPL allegedly has no control over the tax assessment process.[3]

[3] Tim M. Rush Direct Testimony, page 7, lines 10 - 12, in Case No. ER-2014-0370.

KCPL witness Ronald A. Klote states in his Direct Testimony on page 75 in this case:

> Based on the prior five years, KCP&L's property tax expense has continued to increase; in 2009 KCPL's total property tax expense was $67.2 million and in 2013 KCPL's total property tax expense was $83.0 million. In each of the prior years the Company's total property tax expense has increased over the prior year...Based upon this history of increase in property tax expense in each of the last five years I expect property taxes to continue to increase during the next few years.

In addition, KCPL witness Darrin R. Ives states at page 18 of his Direct Testimony, "KCP&L has experienced increased fuel and purchased power costs (more than offset by increases in off-system sales margins), SPP-billed transmission costs, property tax costs, and Renewable Energy Standard (RES) costs."

Although Staff recognizes property taxes have increased, the use of a tracker is not justified simply because a specific cost has increased. Cost decreases also occur outside of a rate case that may offset a portion of cost increases that a utility may experience. Staff disagrees that KCPL has no control over its assessments and will discuss this point in detail below. In addition, KCPL does not need a tracker for property tax expenses, because it can file a rate case in the event it is not recovering its expenses or not earning its authorized ROE.

During the period of 2009-2013, referenced by Mr. Klote above, KCPL was in the middle of a heavy construction period that included capital improvements and additions that are described in detail later in this testimony. The property tax increases that occurred as a result of these capital improvements and additions were included in KCPL's rates. Any capital additions contributing to property tax increases that occurred after the completion of KCPL's last rate case in 2012 will be included in KCPL's rates that are set as a result of this case. Staff's method of calculating an annualized level of property taxes accounts for actual

State property tax rates and plant additions that have contributed to the increase in KCPL's property tax expense.

Q. Please explain why Staff believes a property tax tracker is inappropriate for ratemaking purposes?

A. There are several reasons why Staff believes a tracker is inappropriate for property taxes as well as vegetation management and cyber security costs discussed later in this testimony.

First, property taxes are known and measurable and therefore can be reasonably calculated. Property taxes are calculated using a ratio of actual property taxes paid to actual plant in service and applying the ratio to plant in service as of January 1. In this case, the ratio was developed using KCPL's plant in service as of January 1, 2014 and actual property taxes paid in 2014, and then applied to KCPL's plant in service balance as of January 1, 2015. This method ensures that all actual plant additions and actual property tax rates as of January 1, 2015 will be included in Staff's annualized level of property tax expense and thus included in KCPL's cost of service. If the ratio between plant and property tax changes, Staff's recommended level of property tax recovery also changes. Any plant additions that will occur after January 1, 2015, will not be paid by KCPL until December 31, 2016 and are therefore outside the scope of this rate case. All plant additions occurring January 2nd and after for the rest of 2015 will not result in property taxes paid before the December 31, 2016 date. On page 128 in Staff's Cost of Service report, Staff witness Matthew R. Young discusses how Staff calculates KCPL's property taxes.

Second, a tracker should be only be used in rare circumstances where it is extremely difficult to identify an appropriate level of costs to be included in rates. While trackers have been used in the past, —and I recommended the use of a tracker in Case No ER-2010-0355 and Case No ER-2012-0174 for operation and maintenance costs of Iatan 2—trackers should be used sparingly. Staff recommended a tracker for Iatan 2 operation and maintenance costs because of KCPL's limited operational experience with Iatan 2 and the lack of historical operation and maintenance costs at the time of Case No ER-2010-0355. An increase in expense is not considered a rare circumstance that would warrant the use of a tracker. As discussed above and later in this testimony, while not exclusively, property tax increases can be attributed to the significant plant additions made by KCPL. These items, along with smaller capital projects that occur on a regular basis, contribute to property tax increases, and on some occasions, decreases. In some instances, assessment values and/or tax rates may change, causing increases or decreases in property taxes.

Third, by requesting a property tax tracker in this case, KCPL is requesting to recover a specific expense that can be reasonably calculated, without taking into consideration all increases or decreases of KCPL's other expenses and revenues. A utility's rates are developed based on ratemaking principles known as annualizations and normalizations to establish an ongoing investment, revenue, and expense relationship. The amounts determined through the ratemaking principles are intended to match the relationship with a utility investment, revenue and expense and anticipated that the same relationship will continue in the foreseeable future, allowing the utility the opportunity to earn its authorized return. A property tax tracker, as well as the other trackers KCPL has proposed in this case, would cause an inconsistency with the investment, revenue, and expense relationship.

Finally, KCPL proposed several trackers in this case to mitigate the negative effects of regulatory lag associated with cost increases and the effect on its earnings between rates cases.[4] KCPL failed to mention the positive effects of regulatory lag when cost decreases occur between rates cases. Regulatory lag refers to the time between when a utility incurs revenues, expenses and investment costs and when a utility is able to reflect those changes in rates. Regulatory lag is necessary to provide the utility with a stronger motivation to control costs. Utility management incentive to control costs is greatly reduced with trackers and other single-issue ratemaking mechanisms. Staff witnesses Cary G. Featherstone and Charles R. Hyneman address regulatory lag in greater detail in their rebuttal testimonies filed in this rate case.

Q. Does Staff agree that KCPL's total property tax expense increased in recent years?

A. Yes. KCPL has had significant capital additions over the past several years which have led to an increase in property taxes. Beginning on page 4 of his Direct Testimony, KCPL witness Scott H. Heidtbrink, explains in detail the construction projects KCPL has been involved in over the last ten years. Examples include: the addition of environmental equipment to the Iatan 1 generating unit, the addition of the Iatan 2 coal fired generating unit to KCPL's fleet, and most recently, Wolf Creek nuclear plant capital additions and the environmental upgrades at the LaCygne generating station. As a result of these additions, as well as other plant additions, KCPL's property taxes have increased over the course of the past several years. Staff has reflected these property tax increases in rates in previous KCPL rate cases, as well as in this rate case.

The table below identifies KCPL's actual plant in service values and actual property taxes paid for the period of 2007-2014. It is clear that KCPL's property taxes have increased.

[4] Darrin R. Ives Direct Testimony in Case No. ER-2014-0370.

However, KCPL has also had significant plant additions each year that substantially caused those increased property taxes. The Iatan 1 Environmental Equipment was placed in service April 2009 and first assessed for property taxes on January 1, 2010, with actual payment to the taxing authorities December 31, 2010. The significant increase in the plant in service balances for 2010 confirms the addition of the Iatan 1 Environmental Equipment. Likewise, Iatan 2 was placed in service in August 2010 and assessed for property taxes on January 1, 2011, with actual payment to the taxing authorities December 31, 2011. The 2011 increase in Plant in Service supports the addition of the Iatan 2 generating plant. For the period of 2012-2014, KCPL has had no specific capital additions similar to the magnitude of the Iatan 1 environmental equipment or the Iatan 2 coal fired plant, but significant plant additions still occurred which drove, at least in part, the increased property taxes shown in these years:

Year	**KCPL's Actual Plant in Service as of January 1**	**% Increase of Plant**	**KCPL's Actual Property Taxes Paid**	**% Increase of Property Taxes**
2007	$5,024,645,063	--	$58,680,830	--
2008	$5,194,688,703	3.4%	$61,689,970	5.1%
2009	$5,388,447,742 **Iatan 1 upgrade in service**	3.7%	$58,555,722	-5.1%
2010	$5,958,853,608 **Iatan 2 in service**	10.5%	$61,124,950 **Iatan 1 upgrade property taxes**	4.4%
2011	$7,132,499,729	19.7%	$73,146,665 **Iatan 2 property taxes**	19.7%
2012	$7,411,607,200	3.9%	$75,663,105	3.4%
2013	$7,558,388,922	2.0%	$80,728,974	6.7%
2014	$7,862,710,337	4.0%	$86,045,140	6.6%

Q. Has KCPL provided any analysis to justify that property taxes will continue to rise?

A. No. As mentioned earlier in this testimony, KCPL's witness Ronald A. Klote stated an expectation that property taxes will continue to rise over the next five years based on historical property taxes incurred by KCPL. KCPL did not provide an analysis to justify its assertion that property taxes will continue to increase.

Q. Does Staff agree with Mr. Klote's assumption?

A. No. While Staff recognizes that property taxes increased for the period 2010-2014, the historical increase in property taxes does not necessarily lead to increased property taxes in the future. During the period of 2007-2014, KCPL was in a heavy construction phase that resulted in significant plant additions and consequently additional property taxes.

Q. Is Staff aware of any plans by KCPL to add significant plant in the next few years that would cause property tax to increase significantly?

A. Although KCPL will continue to make plant additions, the level of magnitude of the construction projects will not compare to its most recent projects such as the Iatan 1 environmental equipment, Iatan 2 coal fired generating unit, Wolf Creek Nuclear plant additions, and the environmental upgrades to the LaCygne generating station.

Q. How do cost increases and decreases that occur after a rate case impact a utility?

A Once costs are set in a rate case, any decrease in costs benefits the utility and its shareholders. Likewise, if costs increase after a rate case, the utility and its shareholders absorb the cost increases.

Q. As discussed above, KCPL is requesting a tracker without taking into consideration cost decreases that may occur. Has KCPL experienced any cost declines in other areas of its operations to offset potential cost increases?

A. Yes. Since the completion of Case No. ER-2012-0174, a few examples of cost reductions include the discontinuation of the Department of Energy spent nuclear fuel storage fee and a significant reduction in KCPL's workforce.[5] While Staff proposes an adjustment in this case for deferral and reflection in rates of the recent reduction of the spent nuclear fuel storage fee, the Commission has not ruled on this issue. Unless the Commission rules in favor of Staff's recommendation, KCPL will benefit from this reduction in expense. KCPL benefits from any savings that are a result of a decrease in expenses or increase in revenues that occurs outside of a rate case. The reduction of KCPL's workforce after the completion of KCPL's 2012 rate case, mentioned above, is an example. KCPL has cost decreases in addition to the cost increases that it has identified in direct testimony. The use of a tracker as KCPL proposes does not take into consideration any cost reductions that can offset increased property tax costs. For further discussion of cost decreases that have occurred the last several years, see the rebuttal testimony of Staff witness Featherstone.

Q. In his Direct Testimony, Mr. Rush suggests that KCPL does not have control over property taxes. Does Staff agree?

A. No. KCPL and other utilities have the right to appeal property tax assessments to the State Tax Commission. For example, Ameren Missouri appealed its 2010 property tax assessment from the State Tax Commission and reached a settlement in the summer of 2011,

[5] Staff Cost of Service Report, Case No. ER-2014-0370, Department of Energy Nuclear Waste Fund Fees Accounting Order, page 97 and Administrative and General (A&G) Expenses, page 234.

resulting in a refund.[6] If KCPL was granted a property tax tracker, it would have no incentive to appeal its property assessment.

Q. In its request for a property tax tracker, did KCPL also request carrying costs?

A. Yes. According to KCPL witness Rush, KCPL is requesting carrying costs based on KCPL's short term interest rate on property tax amounts.[7]

Q. Does Staff agree with KCPL's request to include carrying costs?

A. No. In addition to an overall opposition to KCPL's proposed property tax tracker, Staff is also opposed to the inclusion of carrying costs in any tracker that might be authorized. Carrying costs are comparable to a return on an investment that may be added to a deferred cost to recognize the delay in recovering the cost in rates. In other words, the accrual of carrying costs is intended to make KCPL whole for the time value of money associated with rate recovery of deferred property tax expense. If the Commission granted KCPL's proposed property tax tracker that includes carrying costs, KCPL customers would ultimately pay more in rates for an expense item that can be determined using normal ratemaking principles. The increased expenses are ultimately paid by KCPL's customers. Under KCPL's proposal all risks relating to property taxes would fall on the Company's customers.

Q. Is KCPL requesting rate base treatment in its request for a property tax tracker?

A. Apparently so. In his Direct Testimony, Mr. Rush asks the following question beginning on line 4 of page 29, "Is the Company requesting carrying costs on the amounts added to the regulatory asset or regulatory liability for the period before amounts are included

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[6] Gary S. Weiss Rebuttal Testimony, page 27, lines 16-27 in Case No ER-2012-0166.
[7] Tim M. Rush Direct Testimony, page 29, lines 6-8, in Case No. ER-2014-0370.

in **rate base**?" With the exception of the reference to rate base in the question, Mr. Rush does not provide any further detail related to rate base treatment for property taxes.

Q. Does Staff agree with rate base treatment for these costs?

A. No. If the Commission grants KCPL's request for a property tax tracker, the Commission should not allow rate base treatment for any unamortized balance related to property taxes. Rate base treatment for regulatory assets and liabilities generally applies to costs related to an asset. For example, in this case, Staff included in rate base the unamortized balances as of December 31. 2014 for the regulatory assets related to Iatan 1 and Iatan 2 Construction Accounting[8] which was authorized in prior rate cases. The Commission has also approved rate base treatment for other reasons. For example, the Commission granted rate base treatment to incentivize KCPL to continue to invest in Demand Side Management programs ("DSM"), again as part of other rate cases. In Case No. ER-2010-0355, beginning on page 93 of its Report and Order, the Commission stated the following:

> The Commission has determined that it is important to reduce the disincentives to the Companies to having robust DSM programs. The Companies have clearly indicated that delayed recovery is one of those disincentives. By adding the unamortized balances to rate base the Commission will encourage DSM programs and promote the policy of this state as stated in MEEIA. Thus the Commission determines that the unamortized balances of the regulatory asset accounts shall be included in rate base for determining rates in this case.

Property taxes are a normal operating expense and not capital in nature. KCPL's request for carrying costs and rate base treatment would result in KCPL customers paying more for an expense that can be determined using normal ratemaking principles. Consequently, KCPL should not be allowed to earn a return on these expenses.

[8] Case No. ER-2014-0370, Staff's Cost of Service Report, Iatan Construction Accounting Regulatory Assets, page 69.

Q. On page 29 of Mr. Rush's Direct Testimony "We propose that the regulatory asset or liability be amortized to cost of service. in the Company's next rate proceeding over the same length of period as costs are accumulated" Does Staff agree?

A. No. If the Commission grants KCPL's request for a property tax tracker, Staff believes it is appropriate to determine the recovery period of future costs as part of the next rate case and not make a finding as to the proper recovery period in this case.

Q. Please summarize Staff's position on KCPL's proposed property tax tracker.

A. Staff's method of calculating property taxes is an effective way to ensure an appropriate level of property taxes are included in KCPL's cost of service in a timely manner. Staff recognizes that KCPL's property taxes have increased but the use of a tracker would ignore other cost decreases and revenue increases outside of a rate case that potentially offset any potential property tax increases. In fact, property taxes themselves could decline in the future as KCPL's major construction projects come to completion. The amounts determined through the ratemaking principles are intended to match the relationship with KCPL's investment, revenue, and expense and anticipate that the same relationship will continue in the foreseeable future. This would allow KCPL a reasonable opportunity to earn its authorized return. The use of a tracker singles out one expense without taking into consideration other changes in expenses and revenues during the same period. Staff recommends the Commission deny KCPL's request for a property tax tracker.

VEGETATION MANAGEMENT TRACKER

Q. How does KCPL justify adding a vegetation management tracker?

A. KCPL is requesting a vegetation management tracker for what they have identified as escalating costs in this area and a need to expand its tree trimming activities. Mr. Rush states on page 30 of his Direct Testimony:

> Vegetation management expenses have been escalating over recent years as described more fully by Company witness Jamie Kiely. In addition, the Company is proposing to expand its tree trimming activities to address three specific areas that are not currently in the rules for vegetation management, but which will enhance customer reliability.

Q. Does Staff agree that KCPL's Vegetation Management costs have increased over recent years?

A. No. In fact, KCPL's actual vegetation management costs for the 12-months period ending December 31, 2014 were lower than the previous three years. The following table identifies KCPL's historical vegetation management costs for the period of 2009-2014:

Year	2009	2010	2011	2012	2013	2014
Total Costs	$14,055,887	$14,725,664	$15,657,981	$16,378,377	$16,060,990	$14,966,266

The 2014 vegetation management costs are similar to those in 2009 and 2010, the first two years of the Commission's new reliability rules.

Q. Earlier in your testimony you identified several reasons why a tracker is inappropriate for property taxes. Is KCPL's proposal for the vegetation management tracker inappropriate as well?

A. Yes. As discussed above, a tracker is a unique regulatory tool used when it is difficult to determine a level of costs to include in rates. The costs KCPL incurred for vegetation management costs are costs that can be identified in the normal course of setting rates as they are known and measurable. An appropriate level of expense for ongoing costs can very be determined. Similar to KCPL's request for a property tax tracker, KCPL asks the Commission to single out one expense without consideration of other costs and revenues that could potentially offset any cost increases. As mentioned, the amounts determined through the ratemaking principles are intended to match the relationship with a utility investment, revenue, and expense and anticipated that the same relationship will continue in the foreseeable future, allowing the utility the opportunity to earn its authorized return. The use of a tracker causes an inconsistency with this relationship and places all risks upon KCPL's rate payers.

Q. If KCPL's vegetation management costs have declined as shown in the table above, what is KCPL's justification for a vegetation management tracker?

A. According to Mr. Ives in his Direct Testimony:

> The rate increase in this case includes the cost to implement three new VM initiatives during the fourth quarter of 2015. They are 1) Emerald Ash Borer mitigation efforts, 2) Triplex circuit tree trimming, and 3) urban and rural trim cycle alignment.[9]

Based on Mr. Ives and Mr. Klote's Direct Testimony, projected costs based on the three programs identified above are the rationale for KCPL's proposed vegetation management tracker.

Q. Did Staff include KCPL's proposed adjustments for projected vegetation management expenses in its Accounting Schedules filed on April, 3, 2015?

A. No. Staff normalized vegetation management costs, as part of its analysis of KCPL's maintenance expense, based on historical actual incurred costs for the 12-month period ending December 31, 2014 and therefore did not include costs that KCPL anticipates

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[9] Ives Direct, page 29.

will occur in the future. Staff witness V. William Harris addresses KCPL's maintenance expense in its Cost of Service Report filed on April 3, 2015.

The costs proposed by KCPL are anticipated to occur based on the expansion of three vegetation management programs that include the Emerald Ash Borer Mitigation, Triplex Trimming, and utilization of a 4 year trim cycle for both urban and rural areas. On a total Company basis, KCPL requests an additional $185,618 for costs related to the Emerald Ash Borer Mitigation, $543,684 for Triplex Trimming and $1,103,061 for utilizing a 4 year trim cycle for both urban and rural areas.

KCPL used an outside contractor, ** ______________________________ **, to perform a cost study with respect to the Emerald Ash Borer Mitigation and preformed its own study for the Triplex Trimming program and the urban and rural 4-year trim cycle[10]. All three studies are attached to this rebuttal testimony as Schedule KL-R1. All three studies are based on potential future costs to the proposed programs. In the study for triplex trimming ** ___ ** noted the following:

> ** ____
> ____
> ____
> ____
> ____________________ **

KCPL is asking the Commission to have its rate payers pay approximately $2 million in projected costs on an annual total Company basis for programs that will result in ** ____ ** improvement to system reliability.

Q. Has KCPL experienced system reliability issues recently?

[10] Response to Staff Data Request 0187 in Case No. ER-2014-0370.

A. Staff is unaware of any system reliability issues. According to KCPL witness Scott H. Heidtbrink, KCPL has been commended for its reliability performance. He states the following in his Direct Testimony:

> I am pleased to report that KCPL&L's SAIDI was in the top 25th percentile when compares to 71 other Midwestern utilities through the Edison Electric Institute's Reliability Survey Report for the years 2011-2013. KCP&L was also awarded the Reliability One award from PA Consulting for having the best reliability performance in the Plains region for the year 2013. This is the seventh consecutive year KCP&L has received this recognition.[11]

Q. Is KCPL's proposal to implement the vegetation management programs described above required by the Commission Vegetation Management rules?

A. No. KCPL is operating its vegetation management program within the current rules established by the Commission, Rule 4 CSR 240-23.030. The programs identified by Mr. Ives and repeated by several KCPL witnesses are not required by the current Commission Vegetation Management rules and are entirely up to the discretion of KCPL.

Q. What are the Commission's rules that relate to the vegetation management costs?

The Commission's rules for vegetation management are 4 CSR 240.23.030 and infrastructure inspections 4 CSR 240.23.020. These rules became effective on June 30, 2008 and were designed to increase reliability and properly maintain utility transmission and distribution facilities. Staff Daniel I. Beck also is providing rebuttal testimony on the subject of vegetation management requirements.

Q. Did the Commission approve a vegetation management tracker for KCPL in past rate cases?

[11] Heidtbrink Direct, page 9.

A. No. While KCPL requested a tracker for both KCPL and GMO service territories in their 2009 rate cases, all operation and maintenance costs including the vegetation management costs for the new Commission rules were dealt with as an agreement between KCPL and Staff. In Case No. ER-2009-0089, the parties entered into a Non-Unanimous Stipulation and Agreement to resolve all issues in the case ("Global Agreement") that was approved by the Commission on June 10, 2009. In the Non-Unanimous Stipulation and Agreement, the parties agreed that there shall be no tracker for vegetation management or infrastructure inspection activities:

> The Signatory Parties agree that there shall be no tracker for vegetation management or infrastructure inspection activities as a result of this instant proceeding, but that KCP&L shall create sub-accounts for each where the costs for these activities shall be booked for KCP&L. KCP&L shall submit quarterly reports detailing the vegetation management activities and expenses in the KCP&L Missouri jurisdictional service territory to the Commission's Energy Department. KCP&L agrees to maintain records to separately identify the costs to implement the Commission's new Vegetation Management regulations between Missouri and Kansas using Federal Energy Regulatory Commission accounts 593000 (distribution) and 571005-571006 (transmission), department 252. KCP&L states that it is in the process of setting up appropriate accounts to track infrastructure and reliability reporting costs.

Q. Has KCPL requested a vegetation management tracker since the 2009 rate case?

A. No.

Q. Are there any other Missouri utilities that have used a vegetation management tracker?

A. Yes. In Case No. ER-2008-0318, Union Electric Company d/b/a Ameren Missouri ("Ameren") proposed a vegetation management tracker and the Commission approved the tracker on January 27, 2009.[12] In Case No. ER-2014-0258 Staff recommended the discontinuance of Ameren's Vegetation Management tracker. Staff witness Lisa K. Hanneken's stated in her Rebuttal Testimony:

> These trackers were put in place to capture the at-the-time unknown cost impact of new Commission rules 4 CSR 240-23.030 (vegetation management) and 4 CSR 240-23.020 (infrastructure inspections) designed to compel Ameren Missouri (and other utilities) to increase reliability after their failure to properly maintain their systems.[13] Since that time Ameren Missouri has completed the first cycles for both Vegetation Management and Infrastructure Inspections under the rules and while the costs have fluctuated somewhat from year to year, **as is common with many costs, overall they have remained stable during the period the trackers have been in place. (emphasis added)**

Since the implementation of the Commission Vegetation Management rule, KCPL's actual vegetation management costs for the period of 2009-2014 have also remained stable.

Q. Has the Commission ruled on the continuation of the vegetation management tracker in Ameren's rate case, Case No. ER-2014-0258?

A. Yes. The Commission discontinued the tracker and stated in its Report and Order on April 29, 2015:

> From the time this tracker was created, the Commission has said that it would only be a temporary expedient, needed only until a sufficient cost history could develop to allow for the accurate determination of normalized costs. A sufficient cost history now exists and the need for the tracker is at an end. The Commission finds that the vegetation management and the infrastructure inspection tracker are discontinued.

Q. Are there any other Missouri utilities that have had a vegetation management tracker?

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[12] Commission Report and Order in Case No. ER-2008-0318, page 48.
[13] Commission Report and Order in Case No ER-2008-0318, page 32.

A. Yes. In Case No. ER-2008-0093, the Commission approved a tracker for The Empire District Electric Company ("Empire"), because the effect of the Commission rule for vegetation management on Empire's costs was uncertain. The Commission stated in its Report and Order on July 30, 2008:

> In a typical rate case, the amount of costs the Commission will allow in rates is determined by examining the costs the company has incurred in the past and projecting those costs into the future. However, in this case, it is certain that Empire's costs in this area will increase due to the additional requirements imposed by the Commission's new infrastructure and vegetation management rules.

In Case No. ER-2014-0351 the parties to the case entered into a Stipulation and Agreement discontinuing Empire's vegetation management tracker. The Commission has not approved the Stipulation and Agreement prior to the filing of this rebuttal testimony.

Q. If the Commission has granted vegetation management trackers in the past, why is it now inappropriate for KCPL to have a vegetation management tracker?

A. Insufficient history of cost information existed to determine an appropriate level of ongoing expense for Ameren and Empire, when the Commission Vegetation Management rules were implemented. In this current KCPL rate case, Staff analyzed six (6) years of actual historical vegetation management costs. As identified in the table above, KCPL's costs remained relatively consistent during the six (6) year period and actually decreased for the 12-month period ending December 31, 2014. Therefore, Staff was able to determine an ongoing level of expense.

Q. Did KCPL request rate base treatment and carrying costs, as they did with the proposed property tax tracker?

A. Yes. According to KCPL witness Rush, KCPL requests carrying costs on the amounts added to the regulatory asset or regulatory liability for the period before amounts are included in rate base.

Q. Does Staff agree with KCPL's request to for carrying costs and rate base treatment for vegetation management costs?

A. No. For reasons described above, if the Commission granted KCPL's proposed vegetation management tracker that includes carrying costs and rate base treatment, KCPL customers would ultimately pay more in rates for a cost that is currently known and measurable and can be determined using historical cost information through the normal ratemaking process.

Q. Please summarize Staff's position on KCPL's proposed vegetation management tracker.

A. Contrary to KCPL's claim that vegetation management costs increased, KCPL's actual historical vegetation management costs remained relatively flat and, in fact, decreased for the 12-month period ending December 31, 2014. KCPL's request for a tracker includes projected costs for vegetation management programs not required by the Commission rule, costs that would be incurred entirely at KCPL's discretion. Sufficient information exists to normalize the costs relating to the Commission's rules regarding vegetation management. In addition, the proposed cost increases related to the programs are merely projected costs that may or may not materialize. Similar to the property tax tracker, KCPL requests the Commission single out one expense without taking into consideration changes in expenses and revenues during the same period. Staff recommends the Commission deny KCPL's request for a vegetation management tracker. Staff further recommends any vegetation management cost tracker authorized by the Commission should not include rate base treatment or carrying charge costs.

CYBER SECURITY TRACKER-CRITICAL INFRASTRUTURE PROTECTION ("CIP") OR ("CYBER SECURITY")

Q. How do KCPL's and Staff's positions differ with respect to a cyber-security tracker?

A. Staff witness Randy S. Gross explains the background and new requirements that precipitated KCPL's request for a tracker for these costs. Staff included incurred CIP capital costs through December 31, 2014 and will update those costs through the true-up period, May 31, 2015. Staff analyzed KCPL's actual historical CIP expenses related to CIP and other information technology costs and included a normalized level of expense in its Accounting Schedules through December 31, 2014 as well. Those costs will be examined in the true-up as well. Since Staff was able to determine a level of CIP costs representative of the foreseeable future, Staff recommends the Commission deny KCPL's request for a cyber-security tracker.

Q. What costs does KCPL propose to include in the cyber security cost tracker?

A. Mr. Rush states in his Direct Testimony, "The Company is asking the Commission to authorize it to establish a tracker for these costs. These costs will include the addition of personnel, substantial computer software enhancements and support and the development of new programs to address hardening of the Company's infrastructure." In addition, KCPL identified the following costs in its response to Data Request 0331.1, attached as Schedule KL-R2 to this rebuttal testimony, ** ______________________

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Q. Is KCPL currently incurring costs for the CIP program?

A. Yes. In Direct Testimony, Mr. Ives states and repeated by Mr. Rush, the following with respect to the CIP program costs, "The Company has already committed significant resources toward compliance. Going forward, those efforts and resources will be increasing."[14]

Q. Did Staff include CIP program costs in its direct case filed on April 3, 2015?

A. Yes. Staff included actual costs incurred through December 31, 2014 and will update them through the True-Up period, May 31, 2015.

Q. How did Staff treat the capital costs related to the CIP program?

A. Staff included all CIP Program capital additions and corresponding accumulated depreciation reserve through December 31, 2014. During True-Up, Staff will update KCPL's plant and accumulated depreciation reserve through May 31, 2015 to ensure all CIP program capital additions are included in KCPL's cost of service.

Q. How did Staff treat the CIP program actual non-labor expenses incurred by KCPL?

A. Staff analyzed actual non-labor CIP costs for the period of 2009-2014. Staff found the costs showed a discernable upward trend through December 31, 2014. Consequently, Staff reflected the non-labor CIP costs incurred by KCPL through December 31, 2014 in its Accounting Schedules filed on April 3, 2014. Staff will also review this adjustment during the True-Up audit in this case.

Q. Did Staff include labor costs related to the CIP program?

[14] Ives Direct, page 29.

A. Yes. Staff annualized KCPL's payroll costs using actual employee levels and current hourly wage or salary, as of December 31, 2014 and will update payroll costs and related benefit costs at the True-Up period, May 31, 2015. Any KCPL employees with CIP program job responsibilities are included in Staff's payroll annualization. The following table illustrates KCPL's actual incurred capital, labor and non-labor costs for the CIP Program through the period of 2009-2014.

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Based on the historical CIP costs identified above, Staff agrees with Mr. Rush and Mr. Ives that costs related to the CIP program have increased and have reflected this cost increase in its revenue requirement recommendation.

Q. The CIP Version 5 standards have an effective date of April 2016. Is KCPL requesting a tracker based on projected costs?

A. Yes. Both Mr. Ives and Mr. Rush expect the cost to increase when CIP Version 5 is implemented. KCPL projected CIP program costs, which are compared to actual 2014 costs as follows:[15]

[15] KCPL response to Staff Data Request 0331.1 in Case No ER-2014-0370.

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Q. Does Staff agree that CIP program costs will continue to increase?

A. As can be seen from the table above comparing 2014 actual costs to KCPL's budget, a majority of the cost increases that KCPL is projecting will occur in 2015 and are largely a result of the addition of new employees and capital additions. Staff will reflect cost increases incurred through May 2015 in its True-Up. After 2015 KCPL's projections indicate the costs will decrease and in fact, the projection for 2017 is very similar to KCPL's actual incurred costs for the 12-month period ended December 31, 2014.

Q. KCPL proposes to include labor in the Cyber Security tracker. If a tracker is approved by the Commission, does Staff agree with KCPL's proposal to include labor?

A. No. Staff annualized KCPL's payroll costs through December 31, 2014 and will update these costs through the True-Up period of May 31, 2015. Staff recommends that, if the Commission approves a Cyber Security Tracker, the Commission should not include labor costs. If labor costs are included in the tracker, Staff recommends that KCPL be required to offset increased payroll costs related to cyber security with any employee reductions and other cost savings that may occur in other operations of the Company.

Q. Did KCPL request rate base treatment and carrying costs consistent with KCPL's proposed property tax and vegetation management trackers?

A. Yes. According to KCPL witness Rush, KCPL is requesting carrying costs on the amounts added to the regulatory asset or regulatory liability for the period before amounts are included in rate base.

Q. Does Staff agree with KCPL's request to for carrying costs and rate base treatment for cyber security costs?

A. No. Granting KCPL's proposed cyber security tracker will cause customers to ultimately pay more in rates than if historical ratemaking principles are used.

Q. Please summarize Staff's position on KCPL's proposed cyber security.

A. A tracker should only be used in situations when costs are difficult or impossible to predict or when there is no historical data on which to base an appropriate level of ongoing costs. KCPL is requesting to recover specific expenses, that can be reasonably be calculated, without taking into consideration all increases or decreases of KCPL's expenses and revenues. Based on Staff's analysis, the projected costs identified by KCPL will increase in 2015 largely due to the addition of new employees and capital additions. To the extent these costs will be incurred before May 31, 2015, they will be included in rates. Similar to the property tax and vegetation management tracker, KCPL requests the Commission to single out an expense without considering changes in other expenses and revenues during the same period. Therefore, Staff recommends the Commission deny KCPL's request for a cyber-security tracker.

SPP REGION-WIDE PROJECTS

Q. How do the Company and Staff positions differ with respect to KCPL's adjustment to eliminate the investment, revenues and expenses related to SPP region-wide projects?

A. Beginning on page 23 of his Direct Testimony, Ronald A. Klote of KCPL proposed an adjustment to reduce investment, revenue, and expense related to two SPP region-wide transmission projects. SPP directed KCPL to upgrade the Swissvale-Stilwell Transmission line and the West Gardner Substation that are existing KCPL transmission facilities. KCPL eliminated the costs and revenues associated with the upgrades since the upgrades were directed by SPP and benefited the entire SPP region. In Staff's Cost of Service report, and as supported in Staff's Accounting Schedules filed on April 3, 2015, Staff treated 100% of the investment, revenues, and expenses according to historical retail ratemaking treatment, since the upgrades to the transmission line and substation were made to an existing KCPL regulated utility asset.

Q. What KCPL transmission facilities were upgraded?

A. In February 2008, KCPL received a Notice to Construct (NTC) from SPP directing KCPL to upgrade the Swissvale-Stilwell 345kV Transmission line and the West Gardner substation. A notice to construct is a written notice from SPP notifying KCPL that it has been selected to construct one or more regional transmission project(s).[16] The SPP NTCs are attached as Appendix 3 of Staff's Cost of Service Report as Schedule KL-1.

[16] SPP Open Access Transmission Tariff, p, 66.

Q. If upgrades were made to existing regulated KCPL projects, why is KCPL proposing to eliminate the investment, revenues, and expenses for these projects?

A. According to Mr. Klote's Direct Testimony, beginning on line 22 of page 23:

> The fundamental purpose of these projects is regional, not local. Such projects would not exist if not for regional purpose, action and cost allocation. If the constructing Transmission Owner also has retail load, and thus is served as a Transmission Customer under the SPP Open Access Transmission Tariff ("OATT"), the charges assessed to the Transmission Customer will be based on its load in the same manner as charges to every other SPP Transmission Customer taking network service.

Q. What is the difference between a SPP Transmission Owner and a SPP Transmission Customer?

A. Based on SPP's Open Access Transmission Tariff, a Transmission Owner, as a member of SPP, is obligated to construct, own, operate, and maintain transmission facilities as directed by SPP. SPP defines a Transmission Customer as any eligible customer that executes a service agreement to receive transmission service from SPP.[17]

Q. Please explain the concept of KCPL's load share that is addressed by Mr. Klote.

A. All transmission customers that receive transmission service from SPP are allocated a share of the costs for transmission upgrades made under the direction of SPP.

In June 2010, FERC approved a new method of sharing costs for new electric transmission in the SPP region. The cost sharing method is based on the voltage of the transmission line and is reflected in the table below.

[17] SPP Open Access Transmission Tariff, p, 66.

Voltage	Paid for by SPP Region	Paid for by Local Zone
"Electricity Highways" 300 kV and above	100%	0%
"Electricity Byways" above 100 kV and below 300 kV	33%	67%
"Electricity Byways" 100 kV and below	0%	100%

Prior to 2010, SPP allocated costs one-third (33%) of transmission upgrades across the SPP region and the other two thirds (67%) to SPP zones. Since KCPL received the notice to construct in February 2008, 33% of the region-wide projects discussed in this testimony is allocated to the SPP region and the remaining 67% is allocated to the zone. SPP Section III (A)(2)(i)(a) of SPP tariff states the following:

> For all Base Plan Upgrades issued a Notification to Construct prior to June 19, 2010 or whose nominal operating voltage level is less than 300 kV but greater than 100 kV, X shall be 33%.

Each transmission customer's share of regional transmission upgrades is based on the ratio of the transmission customer's network load to the total SPP load. KCPL's load share, on a total Company basis, is 7.76% for the Fiscal Year 2014.[18] Accordingly, KCPL will be charged 7.76% of the total cost associated with regional transmission upgrades. These costs are then allocated between Missouri and Kansas with Missouri receiving approximately 4% of the costs. KCPL receives transmission charges from SPP for all region-wide transmission upgrades directed by SPP, including the Swissvale-Stilwell project, and these charges are booked to FERC account 565-Transmission Expense. The significant increase in KCPL's

[18] KCPL response to Staff Data Request 0292 in Case No. ER-2014-0370.

transmission expense is largely due to transmission upgrades in the SPP.[19] Since KCPL is the Transmission Owner for the upgrades to the Swissvale-Stilwell project, KCPL is reimbursed by SPP on behalf of all other SPP customers and these revenues are booked to FERC account 456-Transmission Revenues.

Q. Does Staff agree with KCPL's proposed ratemaking treatment for the costs and revenues related to these transmission upgrades?

A. No. Staff agrees that SPP requires Transmission Owners to upgrade transmission facilities within the SPP region to ensure regional reliability. However, Staff does not agree with KCPL's proposed treatment for ratemaking purposes of the region-wide projects. The upgrades to the Swissvale-Stilwell Transmission line and West Gardner Substation were made to existing KCPL transmission infrastructure and, as such, are Missouri-regulated utility assets. Under the Missouri Commission's current and historical treatment of transmission construction projects for ratemaking purposes, the total construction costs of the projects would be included in the electric utility's rate base when the projects are completed and placed in service. Since the transmission upgrades were made to Missouri-regulated utility assets, the upgrade in plant investments should also be treated as in KCPL's rate base. Likewise, any revenues received and expenses incurred by KCPL for the transmission upgrades should be recovered through historical ratemaking treatment. Transmission upgrades in the past were and still are included in rate base and KCPL's cost of service costs. These two projects should be treated no differently.

Q. What is the impact of KCPL's adjustment on the revenue requirement?

[19] Scott H. Heidtbrink Direct Testimony, page 14, lines 16-23 and page 15, line 1, in Case No. ER-2014-0370.

A. The impact of eliminating the costs and revenues associated with the Swissvale-Stilwell Transmission line and West Gardner Substation upgrade would result in an increase to the revenue requirement, based on Staff's recommended ROE of 9.5%, of approximately $30,000. Although this value is minimal, the issue is with how KCPL will treat future SPP-directed transmission projects of a similar nature. For each region-wide project constructed by KCPL, and the subsequent elimination of the costs and revenues of those projects from cost of service for ratemaking purposes, the seemingly immaterial amount discussed above will accumulate as the projects increase, causing KCPL ratepayers to pay more in rates. Also, the revenue requirement impact of projects in subsequent years may be greater than the projects discussed in this testimony.

Q. Was Transource Missouri created to build wholesale regional transmission projects within SPP?

A. Yes. Transource Missouri is a wholly-owned subsidiary of Transource Energy, LLC. Transource was established by Great Plains Energy Incorporated ("GPE") and American Electric Power Company, Inc. to build wholesale regional transmission projects within SPP, as well as other regional transmission organizations.

Q. If Transource Missouri was created to build wholesale regional transmission projects directed by SPP and other RTO's, why did KCPL make the upgrades to the Swissvale-Stilwell Transmission line and West Gardner Substation?

A. Staff requested an explanation of why the responsibility for the Swissvale-Stilwell Transmission line and the West Gardner Substation upgrades were not considered for transfer to Transource Missouri, LLC, similar to the Iatan-Nashua and Nebraska City-Sibley lines. KCPL responded to Data Request 0292.1 attached as Schedule KL - R3 to this rebuttal testimony as follows:

> These two projects are relatively small, without significant constructability issues, and engineering and construction on these two projects was sufficiently underway when Transource Missouri was formed in April 2012. In addition, these two projects primarily consist of upgrades at existing KCP&L substations, which from an operational perspective provides additional rationale for continued KCP&L ownership of these two projects.

Q. Is it possible that KCPL will build SPP region-wide projects in the future?

A. Yes. Based on the rationale given above related to the Swissvale-Stilwell Transmission line and the West Gardner Substation, it is quite possible that KCPL may construct future region-wide projects.

Q. What is Staff's concern if the Commission agrees with KCPL to eliminate investments, revenues, and expenses related to the Swissvale-Stilwell Transmission line and the West Gardner Substation upgrades and any future SPP region-wide projects from KCPL's regulated assets?

A. If the Commission agrees with KCPL to eliminate investment, revenues, and expenses related to the Swissvale-Stilwell Transmission line and the West Gardner Substation upgrades or any future projects which KCPL constructs and retains ownership of, KCPL rate payers will pay more in rates. SPP and other RTOs are committed to improving the national transmission system.[20] As a result of these upgrades, KCPL's transmission expense has increased. Mr. Heidtbrink confirms this when he states the following in his Direct Testimony, beginning on line 16 of page 14:

[20] Scott H. Heidtbrink Direct Testimony, page 14, lines 17-20, in Case No. ER-2014-0370.

> KCP&L is a member of the Southwest Power Pool ("SPP") Regional Transmission Organization ("RTO"). SPP and the other RTO's have followed the Federal Energy Regulatory Commission's ("FERC") lead and have undertaken extensive transmission system infrastructure improvement projects in an effort to build out and refurbish the national transmission system. These improvements will not only improve the electrical grid, resulting in improved regional reliability, but will allow the delivery of renewable energy to this region. Another consequence of these improvements, however, has been a significant increase in transmission costs allocated to KCP&L by SPP...Part of this rate increase reflects the Company's allocated share of SPP's transmission upgrade costs and increases to SPP administrative fees.

KCPL's proposed rate making treatment for these projects simply adds to the costs KCPL rate payers will pay in rates. The revenue requirement impact of eliminating the costs and revenues for the Swissvale-Stilwell Transmission line and the West Gardner Substation upgrades is relatively small and does not have a significant impact on KCPL rate payers. However, it is likely there will be future transmission projects which KCPL will construct, the costs and revenues of which KCPL will propose to eliminate for ratemaking purposes. If the Commission allows KCPL to eliminate the costs and revenues for these projects, each additional project completed by KCPL, with the attendant elimination of costs and revenues for ratemaking purposes, will result in KCPL's rate payers paying increasingly higher rates.

Q. Please summarize Staff's position on KCPL's proposed adjustment to eliminate the investment, revenues, and expenses related to the Swissvale-Stilwell Transmission line and the West Gardner Substation.

A. The region-wide upgrades to the Swissvale-Stilwell Transmission line and the West Gardner Substation were made to KCPL's Missouri regulated utility assets. KCPL's proposed treatment of these costs will cause rate payers to pay more in rates. As mentioned above, regulated utility investment, revenues, and expenses should be recovered using historical ratemaking treatment. As a member of SPP, KCPL has incurred increases in its transmission expense. Staff's treatment of the region-wide upgrade costs addressed in this testimony will offset KCPL's transmission expense, albeit a small offset. Staff recommends the Commission deny KCPL's request to eliminate the costs and revenues for the Swissvale-Stilwell Transmission line and the West Gardner Substation.

WHOLESALE TRANSMISSION REVENUE

Q. How do the Company and Staff positions differ with respect to KCPL's adjustment to eliminate wholesale transmission revenue?

A. KCPL proposed an adjustment to reduce wholesale transmission revenue based on the difference between the FERC authorized ROE and the ROE the Commission approves in this rate case. In its direct filing on April 3, 2015, Staff did not reduce transmission revenues as proposed by KCPL. If the Commission agrees with KCPL that transmission revenues should be reduced to reflect the difference between the FERC authorized ROE and the ROE approved by the Commission, then Staff recommends that a corresponding adjustment be made to reduce KCPL's transmission expense.

Q. What type of revenues is KCPL proposing to reduce?

A. KCPL receives revenues from SPP for both Zonal and Base Plan transmission upgrades. Base Plan projects are directed by SPP, while Zonal projects are initiated by KCPL.[21]

According to Mr. Klote in his Direct Testimony, beginning on line 14 of page 33:

> This adjustment provides for the Company's retail customers to bear responsibility for the return on transmission rate base at the Commission-allowed level. Essentially, the adjustment reduces

[21] Ronald A. Klote Direct Testimony, page 34, lines 21-23, in Case No. ER-2014-0370.

> the amount of transmission revenue that is credited against the gross transmission revenue requirement so that the adjusted revenue credit is consistent with the return allowed in Missouri rather than the return allowed by the FERC.

The transmission revenue received by SPP is calculated using KCPL's authorized FERC ROE of 11.1% which consists of a base ROE of 10.6% and 50 basis point adder. The 50 basis point adder, approved by FERC, is available to Transmission Owners participating in Regional Transmission Organizations.[22] SPP utilizes KCPL's Annual Transmission Revenue Requirement (ATTR) to allocate revenues to Transmission Owners and expenses to Transmission Customers.

Q. What is a "Transmission Owner?"

A. Based on SPP's Open Access Transmission Tariff, a Transmission Owner, as a member of SPP, is obligated to construct, own, operate, and maintain transmission facilities as directed by SPP. SPP utilizes KCPL's ATTR to allocate revenues to Transmission Owners and expenses to Transmission Customers. Transmission revenues are collected from SPP Transmission Customers for the amount necessary to recover the revenue requirement for the Transmission Owner.

Q. Is KCPL charged by SPP on behalf of other Transmission Owners that are members of SPP?

A. Yes. Other Transmission Owners of SPP receive an authorized FERC ROE that may include FERC ratemaking incentives and ROE adders. As a Transmission Customer of SPP, KCPL is charged its allocated share of transmission expense by SPP for other transmission owners of SPP that have constructed, upgraded, and maintained the SPP

[22] Response to Staff Data Request 0292.1 in Case No. ER-2014-0370.

transmission infrastructure. The allocated transmission expense charged to KCPL includes approved FERC ratemaking incentives and adders for other SPP members.

Q. Did KCPL make a corresponding adjustment to reduce transmission expense to account for a higher FERC ROE included in the transmission charges billed by SPP?

A. No. Based on discussions with KCPL personnel, any FERC ratemaking incentives included in transmission expense billed by SPP is considered as a "cost of doing business," and should be recovered in retail rates.

Q. Please summarize Staff's position on KCPL's proposed adjustment to reduce transmission revenues.

A. KCPL is asking the Commission to reduce transmission revenues so its customers do not receive the benefit of a higher FERC authorized ROE. On the other hand, KCPL is expecting its customers to pay transmission expense that includes a higher FERC authorized ROE for Zonal and Base Plan upgrades constructed by other SPP transmission owners—inconsistent treatment proposed by the Company. Staff has accepted that KCPL's transmission expense has increased and recognizes that a significant factor in the increase is the SPP directed transmission upgrades that include FERC ROE incentives. Staff did not make an adjustment to reduce KCPL's transmission expense that includes FERC incentives. To be consistent, Staff also did not make an adjustment to reduce transmission revenues as KCPL has proposed. Staff recommends that KCPL's transmission revenues should not be reduced for the difference between the higher FERC ROE and the Commission authorized ROE in this case. However, if the Commission agrees with KCPL's proposed reduction to transmission revenues, then Staff recommends the Commission order a corresponding adjustment to reduce transmission expense that includes a higher FERC ROE. If rate payers are not entitled to transmission revenues received from SPP that includes an ROE higher than the authorized rate of return, then rate payers should not have to pay for transmission costs from SPP that includes an ROE higher than what is authorized by Commission.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2014-0370

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 39 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Karen Lyons

Karen Lyons

Subscribed and sworn to before me this 7th day of May, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public

SCHEDULE KL - R1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE KL – R2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Missouri Public Service Commission

Respond Data Request

Data Request No.	0292.1
Company Name	Kansas City Power & Light Company-Investor(Electric)
Case/Tracking No.	ER-2014-0370
Date Requested	2/5/2015
Issue	General Information & Miscellaneous - Other General Info & Misc.
Requested From	Lois J Liechti
Requested By	Nathan Williams
Brief Description	Swissvale-Stilwell Tap Transmission project-General Information
Description	1)With respect to the meeting with KCPL on January 26, 2014 regarding Transmission, please provide a detailed explanation why the responsibility for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project were not considered for transfer to Transource Missouri, LLC, similar to the Iatan-Nashua and Nebraska City-Sibley lines. Include any presentations, emails, reports, etc. addressing this subject matter. 2) Absent KCPL receiving a notice to construct from SPP, would KCPL have built the Swissvale- Stilwell tap project and the Stilwell-West Gardner Substation project on its own? Please explain why or why not. 3) Please provide a description of all FERC ratemaking incentives, including those applicable to ROE, that have been authorized for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project. Identify which entity requested the incentives and the date of the request, type of incentives requested, and the date approved. Provide all supporting documentation. 4) Please provide the authorized depreciation rates for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project, broken out by FERC account, if different than the current rates applicable to KCPL in Missouri. Include an explanation of how the rate was developed, what regulatory agency authorized the rate, and the effective date. 5) Is the amount of cost recovery sought by KCPL in its current Missouri rate case for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project from KCPL Missouri customers based upon FERC ratemaking treatment applicable to these lines or Missouri ratemaking treatment (i.e., no FERC incentives)? DR requested by Karen Lyons (Karen.lyons@psc.mo.gov)
Response	Please see attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2014-0370** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Kansas City Power & Light Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Kansas City Power & Light Company-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Schedule KL - R3 (Page 2 of 7)

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Williams Nathan Interrogatories - MPSC_20150205
Date of Response: 02/23/2015

Question:0292.1

1)With respect to the meeting with KCPL on January 26, 2014 regarding Transmission, please provide a detailed explanation why the responsibility for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project were not considered for transfer to Transource Missouri, LLC, similar to the Iatan-Nashua and Nebraska City-Sibley lines. Include any presentations, emails, reports, etc. addressing this subject matter. 2) Absent KCPL receiving a notice to construct from SPP, would KCPL have built the Swissvale- Stilwell tap project and the Stilwell-West Gardner Substation project on its own? Please explain why or why not. 3) Please provide a description of all FERC ratemaking incentives, including those applicable to ROE, that have been authorized for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project. Identify which entity requested the incentives and the date of the request, type of incentives requested, and the date approved. Provide all supporting documentation. 4) Please provide the authorized depreciation rates for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project, broken out by FERC account, if different than the current rates applicable to KCPL in Missouri. Include an explanation of how the rate was developed, what regulatory agency authorized the rate, and the effective date. 5) Is the amount of cost recovery sought by KCPL in its current Missouri rate case for the Swissvale-Stilwell tap project and the Stilwell-West Gardner Substation project from KCPL Missouri customers based upon FERC ratemaking treatment applicable to these lines or Missouri ratemaking treatment (i.e., no FERC incentives)? DR requested by Karen Lyons (Karen.lyons@psc.mo.gov)

Response:

1) KCP&L responded to a similar request in MPSC DR 0291, which, however, only referred to the Swissvale-Stillwell Tap project and why it was not included in the Transource Missouri transaction. The rationale regarding the Stilwell-West Gardner Substation project, however, is the same as that for the Swissvale-Stillwell Tap project. These two projects are relatively small, without significant constructability issues, and engineering and construction on these two projects was sufficiently underway when Transource Missouri was formed in April 2012. In addition, these two projects primarily consist of upgrades at existing KCP&L substations, which from an operational perspective provides additional rationale for continued KCP&L ownership of these two projects.

2) These two projects, which provide region-wide benefits, were identified through the SPP transmission planning process as described in Attachment of O (Transmission Planning Process) of the SPP Open Access Transmission Tariff ("OATT"), are being built in response to SPP's planning process outcome, and are subject to the applicable region-wide cost allocation provisions of Attachment J (Recovery of Costs Associated with New Facilities) of the SPP OATT. SPP as the Transmission Provider, under the authority of FERC's Order No. 890 and more recently Order No.

1000, is responsible for regional transmission planning, and, thus, neither KCP&L nor any other SPP member entity can unilaterally build a transmission project "on its own", but rather is subject to the SPP planning process. An entity may sponsor an upgrade that is not identified in the regional transmission planning process, but that upgrade must be evaluated by SPP to determine the regional impacts. According to Attachment O Section IV.1 of the SPP OATT, "Any entity may request that a Sponsored Upgrade be built. SPP will evaluate the impact of any Sponsored Upgrade on Transmission System reliability and identify any necessary mitigation of these impacts. Such entity must be willing to assume the cost of such Sponsored Upgrade, study costs, and any cost associated with such necessary mitigation. The proposed Sponsored Upgrade will be submitted to the proper stakeholder working group for their review as a part of the transmission planning process."

3) The KCP&L Transmission Formula Rate ("TFR"), which was approved by FERC in Docket No.ER10-230 on December 3, 2010, contains no project-specific incentives for the Swissvale-Stilwell Tap project and the Stilwell-West Gardner Substation project.

   While not technically a project-specific incentive, the KCP&L TFR does include a FERC-approved 50-basis point return-on-equity ("ROE") adder, which is available to Transmission Owners participating in Regional Transmission Organizations ("RTOs") such as SPP. Most Transmission Owners participating in RTOs have requested and received approval from FERC to include this 50-basis point ROE adder in their TFRs. KCP&L's FERC-approved 11.1% total ROE (Base ROE (10.6%) + RTO adder (0.50%)) is applicable to all ratebase in KCP&L's TFR, including the Swissvale-Stilwell Tap project and the Stilwell-West Gardner Substation project.

4) The depreciation rate applied to Swissvale-Stilwell Tap project and the Stilwell-West Gardner Substation project, as well as the other projects, in the KCP&L TFR is calculated by dividing the total transmission depreciation and amortization charge in the most recent KCP&L FERC Form 1 (FERC Form 1, Page 336, Line 7, Column f) by the 13-month average of the total transmission plant balance as calculated in the KCP&L TFR (KCP&L TFR, Worksheet A-11, Page 1, Line 3). This calculation methodology for applying a depreciation rate to the Swissvale-Stilwell Tap project, the Stilwell-West Gardner Substation project, and other projects in the TFR was developed as part of KCP&L's FERC-approved TFR. For 2013 actuals, which were utilized in the 2015 TFR Annual Update, the total transmission depreciation and amortization charge was $7,511,054 and the 13-month average total transmission plant balance was $421,374,365. The resulting depreciation and amortization rate applied to the projects was 1.78%. For comparison, the 2013 total transmission depreciation and amortization charge using rates authorized by the MPSC for KCP&L was $8,347,662 (total company) (see 2013 KCP&L Missouri Surveillance Report, Schedule 5, Line 337 on Page 13 of 43), which would result in a rate of 1.98% if divided by the $421,374,365 13-month average total transmission plant balance in the TFR.

The depreciation and amortization charges in the KCP&L FERC Form 1 and, thus, in the KCP&L TFR are calculated based on depreciation rates that are composite rates of the currently authorized depreciation rates for KCP&L's Missouri, Kansas, and FERC (wholesale full requirements customers) jurisdictions. The jurisdictional depreciation rates are weighted based on the allocation methodology of the predominant regulatory jurisdiction (currently Missouri) to arrive at the composite rates. The currently authorized Missouri and 2013 composite transmission depreciation and amortization rates by account are shown below:

35000	Land	0.00%	0.00%
35002	Land & Rights-Wolf Creek *(amortization rate)*	1.19%	0.63%
35200	Structures & Improvements	1.93%	1.69%
35201	Structures & Improvements - Wolf Creek	1.93%	1.69%
35202	Structures & Improvements - MO Gross AFDC	1.93%	1.93%
35300	Station Equipment	1.51%	1.36%
35301	Station Equipment - Wolf Creek	1.51%	1.36%
35302	Station Equipment - MO Gross AFDC	1.51%	1.51%
35303	Station Equipment – Communication Equip	12.50%	17.86%
35400	Towers & Fixtures	0.87%	0.68%
35500	Poles & Fixtures	2.40%	2.22%
35501	Poles & Fixtures - Wolf Creek	2.40%	2.22%
35502	Poles & Fixtures - MO Gross AFDC	2.40%	2.40%
35600	Overhead Conductors & Devices	1.72%	1.06%
35601	Overhead Conductors & Devices - Wolf Creek	1.72%	1.06%
35602	Overhead Conductors & Devices - MO Gross AFDC	1.72%	1.72%
35700	Underground Conduit	1.56%	1.23%
35800	Underground Conductors & Devices	0.92%	1.43%
Total Transmission Depreciation & Amortization Rate[1]		**1.98%**	**1.78%**

Note
1. The "Total Transmission Depreciation & Amortization Rates" are calculated by dividing total 2013 Missouri basis and Composite (Financial Basis) transmission depreciation and amortization charges by the 2013 13-month avg total transmission plant in the 2015 TFR Annual Update.

5) The amount of cost recovery being sought is based on the amount charged by SPP under Schedule 11 to KCP&L as a Transmission Customer. The charges to KCP&L as a Transmission Customer under Schedule 11 include an allocated portion of the Annual Transmission Revenue Requirements ("ATRRs") for these two projects as well as the ATRRs for the Base Plan projects of other Transmission Owners in SPP. The ATRRs for the Swissvale-Stilwell Tap project and the Stilwell-West Gardner Substation project that are included in the SPP Schedule 11 charges to KCP&L and other Transmission Customers are based on KCP&L's FERC-approved TFR.

Information Provided By: Don Frerking

Attachment: Q0292.1_Verification.pdf

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request #___0292.1___ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: February 23, 2015