

Exhibit No.:

Issue(s):

Witness:

Type of Exhibit:

Sponsoring Party:

Case Number:

Rate Case Expense/  
Flood AAO

Ted Robertson

Rebuttal

Public Counsel

ER-2012-0174

## **REBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

**Case No. ER-2012-0174**

\*\*

\*\*

**Denotes Highly Confidential Information that has been redacted**

September 5, 2012

***NP***

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


In the Matter of Kansas City	)	
Power & Light Company's Request	)	Case No. ER-2012-0174
for Authority to Implement a General	)	
Rate Increase for Electric Service	)	

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI    )  
                                  )    ss  
COUNTY OF COLE    )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:


1. My name is Ted Robertson. I am a Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Chief Public Utility Accountant

Subscribed and sworn to me this 5<sup>th</sup> day of September 2012.



**JERENE A. BUCKMAN**  
My Commission Expires  
August 23, 2013  
Cole County  
Commission #09754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August, 2013.

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1   **REBUTTAL TESTIMONY**

2   **OF**

3   **TED ROBERTSON**

4   **KANSAS CITY POWER & LIGHT COMPANY**

5   **CASE NO. ER-2012-0174**

6

7       **I. INTRODUCTION**

8       Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

9       A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

10

11      Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

12      A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as  
13      the Chief Public Utility Accountant.

14

15      Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

16      A. My duties include all activities associated with the supervision and operation of the  
17      regulatory accounting section of the OPC. I am also responsible for performing audits  
18      and examinations of the books and records of public utilities operating within the state of  
19      Missouri.

20

21      Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER  
22      QUALIFICATIONS.

1 A. I graduated in May 1988, from Missouri State University in Springfield, Missouri, with a  
2 Bachelor of Science Degree in Accounting. In November of 1988, I passed the Uniform  
3 Certified Public Accountant Examination, and I obtained Certified Public Accountant  
4 (CPA) certification from the state of Missouri in 1989. My CPA license number is  
5 2004012798.

6  
7 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC  
8 UTILITY ACCOUNTING?

9 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since  
10 July 1990, I have attended the NARUC Annual Regulatory Studies Program at Michigan  
11 State University, and I have also participated in numerous training seminars relating to  
12 this specific area of accounting study.

13  
14 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
15 SERVICE COMMISSION (COMMISSION OR MPSC)?

16 A. Yes, I have testified on numerous issues before this Commission. Please refer to  
17 Schedule TJR-1, attached to this testimony, for a listing of cases in which I have  
18 submitted testimony.

19  
20  
21

1 **II. PURPOSE OF TESTIMONY**

2 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

3 A. I am sponsoring the Public Counsel's position regarding Kansas City Power & Light  
4 Company's (KCPL or Company) ratemaking treatment for the issues of rate case expense  
5 and lost revenues associated with the 2011 flood.

6  
7 **III. RATE CASE EXPENSE**

8 Q. WHAT IS THE ISSUE?

9 A. The issue is determining the proper amount of rate case expense the Company should be  
10 authorized to include in its rates pursuant to changes in rates effective at the conclusion of  
11 the current case.

12  
13 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

14 A. Public Counsel believes that the amount of rate case expense included in the development of  
15 the Company's rates should only include a normalized annual level of charges that directly  
16 benefit ratepayers. Since shareholders benefit from the activities from which rate case costs  
17 are derived, as much as, if not more than ratepayers, shareholders should also bear some of  
18 the burden of rate case expense.

19  
20 Q. HOW DO SHAREHOLDERS AND RATEPAYERS BENEFIT FROM THE ACTIVITIES  
21 ASSOCIATED WITH GENERAL RATE INCREASE CASES?

1 A. Customers definitely have an interest in ensuring that their utilities' rates are just and  
2 reasonable, which is the ultimate objective of any rate case, whether it results in an  
3 increase or decrease in a given utility's rates; however, both shareholders and ratepayers  
4 benefit in many ways from a strong stable organization that has competent management  
5 at its helm. The utility that is able to respond to all stakeholders with the services and  
6 other requirements that they expect necessitates that the utility be able to access debt  
7 markets at competitive rates. That entails that the earnings capacity of the utility must be  
8 sufficient to fund its construction and operational processes while providing an adequate  
9 return to shareholders. In addition, operational processes must be able to fulfill the  
10 utility's commitments of safe and reasonably priced service to ratepayers. All of which  
11 can only be done if the utility is allowed to recover a reasonable return on its investment  
12 and recover prudent, reasonable and necessary expenses. General rate increase cases  
13 provide the avenue upon which the utility seeks to obtain the proper revenue requirement  
14 (i.e., rates) which will allow it to meet those goals. Furthermore, shareholders benefit  
15 even more from any efficiencies that management may be able to incorporate into the  
16 organization; thereby, increasing the likelihood of growth in future stock prices and  
17 dividends they may receive.

18  
19 Q. HAVE YOU REVIEWED COMPANY'S ESTIMATED COSTS TO DEVELOP AND  
20 PROCESS THE INSTANT CASE?

1 A. Yes. The Rate Case Expense Workpaper (CS-80) provided by Company identified the  
2 projected cost of the instant case as \*\* \*\*.

3  
4 Q. IS PUBLIC COUNSEL CONCERNED ABOUT THE LARGE EXPENDITURES  
5 COMPANY EXPECTS TO INCUR FOR PROCESSING THE CURRENT GENERAL  
6 RATE INCREASE CASE?

7 A. Yes. Public Counsel has become increasingly concerned with the level of rate case  
8 expense among utilities in general. For example, costs associated with outside legal  
9 representation and consultants is extremely costly and represents the majority of the costs  
10 of Company's estimate; however, all of these costs are properly within management's  
11 control. As a result, rate case expense, like any other expenditure, is an area where  
12 companies should seek to contain costs.

13  
14 Q. DOES PUBLIC COUNSEL BELIEVE THAT THE COMPANY HAS THE PROPER  
15 INCENTIVE TO CONTROL THE LEVEL OF EXPENDITURES IT IS INCURRING  
16 FOR THE CURRENT GENERAL RATE INCREASE CASE?

17 A. No. Company's management apparently believes that because it decides to incur outside  
18 legal and outside consultant costs to assist it in processing its request for a rate increase,  
19 those expenditures should be considered and authorized as an automatic recovery from  
20 ratepayers. Public Counsel believes that rationale is neither appropriate or reasonable. It



1 is not appropriate because the idea itself results in monopolistic inefficiencies which lead  
2 to higher rates than should have actually occurred. The utility should always be actively  
3 seeking to reduce its cost structure so that ratepayers do not end up paying higher rates  
4 than absolutely necessary, but the indiscriminate incurrence of excessive expenditures  
5 runs counter to that goal. Also, it is not reasonable due to the fact that if the expenditures  
6 are to be incurred they must be done so with the understanding that they are the most  
7 cost-effective alternative and that their incurrence will be scrutinized thoroughly so as to  
8 avoid the payment of improper or unreasonable charges. Company's view that it can  
9 spend whatever it desires to process its rate increase request, because the expenditures  
10 are an entitlement subject to automatic recovery, provides no incentive for the controlling  
11 of the costs at issue.

12  
13 Q. DOES PUBLIC COUNSEL BELIEVE THAT SHAREHOLDERS SHOULD CARRY AN  
14 EQUAL PROPORTION OF THE COST OF THIS RATE CASE FOR WHICH THEY  
15 TOO RECEIVE A BENEFIT?

16 A. Yes. Benefits that inure to ratepayers from a utility rate case are at least matched (if not  
17 exceeded) by benefits enjoyed by the shareholders of the same utility. Therefore, utilities  
18 should be vigilant in controlling their rate case expenses so that owners and customers are  
19 not unduly burdened by the incurrence of unnecessary or inefficient costs.  
20

1 Q. WHAT SHARING OF PRUDENT, REASONABLE AND NECESSARY COSTS DOES  
2 PUBLIC COUNSEL PROPOSE FOR THIS RATE CASE?

3 A. Public Counsel recommends that once the level of prudent, reasonable and necessary costs is  
4 determined they should be shared 50%/50% between shareholders and ratepayers.  
5

6 Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT A 50%/50% SHARING OF THE  
7 COSTS IS APPROPRIATE?

8 A. A general rate increase case arises for the benefit of a company's shareholders due to the  
9 fact that a primary motivation in filing a rate case is to add shareholder value by  
10 increasing rates. Thus, prudent, reasonable and necessary expenses resulting from the rate  
11 case should be shared 50%/50% between shareholders and ratepayers so that the  
12 shareholders bear some of the burden for the benefits they receive.  
13

14 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE COSTS ASSOCIATED WITH  
15 THE CURRENT GENERAL RATE INCREASE CASE SHOULD BE UTILIZED TO  
16 DEVELOP THE NORMALIZED AMOUNT OF RATE CASE EXPENSE TO INCLUDE  
17 IN THE DETERMINATION OF FUTURE RATES?

18 A. Yes. On a going forward basis, Public Counsel believes that the prudent costs incurred in  
19 the instant case should be utilized to determine the annual level of rate case expense to  
20 include in the determination of rates since they represent the most recent actual costs one can  
21 expect the utility to incur.

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Q. WHAT IS THE ANNUALIZED AMOUNT OF RATE CASE EXPENSE YOU ARE PROPOSING THAT THE COMPANY RECEIVE?

A. Public Counsel recommends that the Commission focus its attention on the costs Company is incurring to process the current case. Within that context, Public Counsel recommends that the question of who benefits from the costs is an important consideration to take into account since rate case expense is a complex problem in that consumers should not be forced to pay elaborate defenses of private interests. Therefore, the Commission should disallow costs Company expects to incur that are associated with the outside legal and outside consultants hired by the utility to process the current case. Company bears the burden of proof in these proceedings and it must establish that any expenditure it incurs is prudent, reasonable and necessary. That, in Public Counsel's opinion, has not occurred.

Furthermore, the Commission should not approve in-house general rate increase expenditures as an allowable component of rate case expense if the in-house charges for preparation and implementation of a COSS will be recovered in other in-house cost categories. For example, rate case expense should not include recovery for expenses that are otherwise included in test year expenses, including salaries for utility employees that prepare the filing, act as witnesses or provide the legal requirements to develop, process

1 and implement the rate increase request. Disallowing these costs from rate case expense  
2 will avoid duplicate accounting of amounts already incorporated in operating expense.

3  
4 Therefore, Public Counsel recommends that Company be allowed to recover only 50% of  
5 its incremental in-house rate case activities determined by the Commission to be prudent,  
6 reasonable and necessary. However, since the costs are a moving target in that they  
7 continue to be incurred through the end of the update period and true-up, the total rate  
8 case expense will not be known until sometime after the end of September 2012. Public  
9 Counsel will update the Commission on its recommendation in later testimony.

10  
11 Q. DOES PUBLIC COUNSEL BELIEVE AN ALTERNATIVE POSITION EXISTS OTHER  
12 THAN SIMPLY DISALLOWING OUTSIDE LEGAL COUNSEL AND OUTSIDE  
13 CONSULTANT COSTS WITH 50% OF THE REMAINDER OF PRUDENT,  
14 REASONABLE AND NECESSARY COSTS BEING RECOVERED FROM  
15 RATEPAYERS?

16 A. Yes. One alternative would be to allocate the actual costs incurred to shareholders and  
17 ratepayers based on a ratio of the revenue increase authorized by the Commission to the  
18 revenue increase requested by the Company. If 100% of the revenue increase requested  
19 is authorized, then 100% of the incurred rate case expense is allocated to ratepayers (on a  
20 normalized basis). If the revenue increase authorized is less than the requested amount,  
21 then the percentage of rate case expense to be recovered from ratepayers is reduced by an

1 equal percentage reduction. In that way, each bears some of the burden for the benefits  
2 they receive.

3  
4 Q. DOES COMPANY INCUR ANY OTHER EXPENSE WHICH BENEFITS  
5 SHAREHOLDERS AND IS NOT RECOVERED FROM RATEPAYERS?

6 A. Yes. One example that comes to mind is advertising expense. Advertising that benefits  
7 ratepayers, e.g., general and safety, is recovered from ratepayers while goodwill  
8 advertising is not. The assignment of the costs associated with goodwill advertising to  
9 shareholders is recognition by the Commission that they benefit from the incurrence of  
10 the costs and should be held responsible for their payment. In my opinion, the same  
11 analogy applies to rate case expense.

12  
13 Q. IS THERE A NEED TO NORMALIZE THE RATE CASE EXPENSE AUTHORIZED  
14 BY THE COMMISSION?

15 A. Yes. Since utilities do not normally file a rate increase request on a yearly basis, the  
16 costs that they incur to process the activity should be recovered over a period of years  
17 representative of how often the utility's rates are actually changed from one case to  
18 another. The costs should be normalized (averaged) over the period of time necessary to  
19 complete the cycle for the activity.  
20

1 Q. DOES PUBLIC COUNSEL RECOMMEND A SPECIFIC NORMALIZATION  
2 PERIOD?

3 A. Yes. Company's proposal for a three-year normalization appears to be reasonable.  
4

5 **IV. 2011 FLOOD COSTS - CASE NO. EU-2012-0130**

6 Q. WHAT IS THE ISSUE?

7 A. The issue pertains to the Company's proposed accounting and regulatory treatment of  
8 costs and "alleged" losses incurred as a result of the 2011 Missouri River flood.

9 Company filed an Accounting Authority Order (AAO) application with the Missouri  
10 Public Service Commission on December 19, 2011 in Case No. EU-2012-0130. On April  
11 3, 2012, the Commission consolidated the AAO application into Case No. ER-2012-  
12 0174.

13

14 Q. WHAT IS THE COMPANY REQUESTING?

15 A. Company is requesting deferral and amortization of the costs/losses attributable to the  
16 flood. Specifically, in the Supplemental Direct Testimony of Company witness, Mr. Tim  
17 M. Rush, beginning on page 2, line 23, he states,

18

19 KCP&L seeks Commission authorization to defer and record to a  
20 regulatory asset, FERC Account 182.3, the non-fuel incremental operating  
21 and maintenance cost and fuel and purchased power costs and to defer and  
22 record to a separate regulatory asset account the lost OSS margins.  
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Company requests that it be allowed to book the non-fuel incremental operating and maintenance cost and the incremental fuel and purchased power cost to one Account 182.3 (subaccount) and use a another separate Account 182.3 (subaccount) for the off-system sales margins. He also requests that the amounts be amortized over five years.

Q. HAS MR. RUSH IDENTIFIED THE AMOUNTS COMPANY REQUESTS TO DEFER?

A. Yes. In the testimony he identifies the non-fuel incremental operating and maintenance cost as \$1,412,290, incremental fuel and purchased power cost as \*\* \*\* and the off-system sales margins as \*\* \*\*.

Q. WAS A FIVE-YEAR AMORTIZATION OF THE COSTS IDENTIFIED BY MR. RUSH INCLUDED IN THE COMPANY'S FILING?

A. Yes and no. An amortization of the costs for the non-fuel incremental operating and maintenance cost and the incremental fuel and purchased power cost was included, but not the off-system sales margins. Mr. Rush states that the final numbers for all the costs will be included in the true-up.

Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

1 A. It is the Public Counsel's recommendation that the off-system sales margins allegedly lost  
2 by the Company not be included in the determination of the cost of service for the instant  
3 case.

4  
5 The Company's request for authorization of revenues allegedly lost is an issue that has  
6 been heard recently in Southern Union Company (i.e., Missouri Gas Energy Company),  
7 Case No. GU-2011-0392 and Empire District Electric Company, Case No. EU-2011-  
8 0387. The situation surrounding this case is very similar to the lost fixed cost recovery  
9 issue presented in those two cases and for the same reasons expressed by the OPC, and  
10 others, in those cases the alleged off-system sales margins should not be recovered from  
11 ratepayers.

12  
13 Q. HOW DID THE COMMISSION RULE IN CASE NOS. GU-2011-0392 AND EU-2011-  
14 0387?

15 A. In Southern Union Company, Case No. GU-2011-0392, on page 25 of the Commission's  
16 Report and Order, it stated,

17  
18 Ungenerated revenue never has existed, never does exist, and never will  
19 exist. Revenue not generated, from service not provided,  
20 represents no exchange of value. There is neither revenue nor cost to  
21 record, in the current period nor in any other.

22  
23 The Company showed no instance when service not provided resulted in  
24 recording any revenue or cost, lost or generated, on a deferred or current



1 basis. That is because the Company cannot have an item of profit or loss  
2 when it provides no service, whether the cause of no service is ordinary or  
3 extraordinary. Services not provided and revenues not generated are mere  
4 expectancies, are things that simply did not happen, and are not items at  
5 all.

6  
7 C. Summary as to Ungenerated Revenue  
8

9 An AAO only determines the period for recording an item but the  
10 Company seeks an AAO to create the item itself by layering fiction upon  
11 fiction. To issue an AAO for ungenerated revenue would create a  
12 phantom loss, and an unearned windfall, for the Company. Therefore, the  
13 Commission will deny the AAO as to ungenerated revenue.  
14  
15

16 In the Empire District Electric Company case a Stipulation and Agreement was  
17 authorized by the Commission wherein the Company contemporaneously with the filing  
18 of the Stipulation and Agreement filed a pleading withdrawing, without prejudice, that  
19 portion of its Application that sought authority to defer the requested lost fixed cost  
20 components of Empire's rates.  
21

22 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A. Yes, it does.  
24

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291
Missouri Gas Utility, Inc.	GR-2008-0060
Empire District Electric Company	ER-2008-0093
Missouri Gas Energy	GU-2007-0480
Stoddard County Sewer Company	SO-2008-0289
Missouri-American Water Company	WR-2008-0311
Union Electric Company	ER-2008-0318
Aquila, Inc., d/b/a KCPL GMOC	ER-2009-0090
Missouri Gas Energy	GR-2009-0355
Empire District Gas Company	GR-2009-0434
Lake Region Water & Sewer Company	SR-2010-0110
Lake Region Water & Sewer Company	WR-2010-0111
Missouri-American Water Company	WR-2010-0131
Kansas City Power & Light Company	ER-2010-0355
Kansas City Power & Light Company	ER-2010-0356
Timber Creek Sewer Company	SR-2010-0320
Empire District Electric Company	ER-2011-0004
Union Electric Company, d/b/a AmerenUE	ER-2011-0028
Missouri-American Water Company	WR-2011-0337
Union Electric Company, d/b/a AmerenMO	EU-2012-0027
Missouri-American Water Company	WA-2012-0066
Union Electric Company, d/b/a AmerenMO	ER-2012-0166
Laclede Gas Company	GO-2012-0363
Kansas City Power & Light Company	ER-2012-0174