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Exhibit No.:

Issue: *Continuation of Construction  
Accounting, Bad Debt Expense,  
Clean Charge Network Electric  
Vehicle Chargers*

Witness: *Keith Majors*

Sponsoring Party: *MoPSC Staff*

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**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**REBUTTAL TESTIMONY**

**OF**

**KEITH MAJORS**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2014-0370**

*Jefferson City, Missouri  
May 2015*

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

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OF  
KEITH MAJORS  
KANSAS CITY POWER & LIGHT COMPANY  
CASE NO. ER-2014-0370**

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1 REBUTTAL TESTIMONY

2 OF

3 KEITH MAJORS

4 KANSAS CITY POWER & LIGHT COMPANY

5 CASE NO. ER-2014-0370

6 Q. Please state your name and business address.

7 A. Keith Majors, Fletcher Daniels Office Building, 615 East 13<sup>th</sup> Street,  
8 Room 201, Kansas City, Missouri, 64106.

9 Q. By whom are you employed and in what capacity?

10 A. I am a Utility Regulatory Auditor with the Missouri Public Service  
11 Commission ("Commission").

12 Q. Are you the same Keith Majors who previously testified in this case?

13 A. Yes. I testified in Staff's revenue requirement cost of service report filed  
14 April 3, 2015, in this case. I testified on revenue annualization, bad debts (uncollectibles),  
15 forfeited discounts (late payment fees), income tax expense, accumulated deferred income  
16 taxes, pensions, other post-employment benefits, and rate case expense.

17 Q. What is the purpose of your rebuttal testimony?

18 A. I respond to KCPL witness Ronald A. Klote's direct testimony concerning  
19 Adjustment RB-27/CS-113 – "La Cygne Construction Accounting Regulatory Asset." I also  
20 respond to KCPL's Adjustment CS-20b, described by Witness Klote, by which KCPL adds an  
21 additional amount of bad debt expense based on KCPL's requested revenue requirement.  
22 This is referred to as a bad debt "factor up." Finally, I respond to KCPL witness Klote's

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1 direct testimony and KCPL witness Darrin R. Ives's supplemental direct testimony  
2 concerning KCPL's Clean Charge Network of electric vehicle charging stations.

3 **EXECUTIVE SUMMARY**

4 Q. Please summarize your rebuttal testimony.

5 A. I respond to KCPL including in its rate base construction accounting amounts  
6 for depreciation and carrying costs of the La Cygne environmental retrofit project that KCPL  
7 based on a an accounting authority order (AAO) the Commission issued in Case No.  
8 EU 2014-0255. The Staff agreed to this deferral only on the basis that the rate recovery  
9 treatment of the deferred costs would be determined in KCPL's 2015 rate case. When the  
10 Commission issued that AAO to allow KCPL to use construction accounting, the Commission  
11 specifically stated that how it would treat those deferred cost when setting KCPL's rates  
12 would take place in a later proceeding. This is that proceeding. Staff recommends that the  
13 Commission allow no direct rate recovery of any of these La Cygne construction accounting  
14 deferred amounts. The La Cygne environmental project is not an extraordinary, unique,  
15 unusual, or non-recurring event. The cost of this project does not rise to the level of other  
16 construction projects that have received construction accounting treatment. KCPL's request  
17 to recover any deferrals of construction accounting is an unwarranted departure from  
18 traditional historic cost of service ratemaking.

19 I respond to KCPL's request to recover *pro forma* bad debt expense in excess of the  
20 annualized level of bad debt expense calculated in this case. KCPL's request to include an  
21 adjustment for bad debt expense associated with a revenue requirement increase (or decrease)  
22 is commonly referred to as bad debt "factor up" or "gross up." Staff recommends that this  
23 *pro forma* expense not be included in KCPL's cost of service. No direct correlation exists

1 between an increase in rates and bad debt expense to justify including additional bad debt  
2 expense on the amount of the requested rate increase.

3 Finally, I respond to KCPL's request to include amounts for its investment in electric  
4 vehicle chargers in the Clean Charge Network. In its direct filing, KCPL did not include any  
5 revenues related to the Clean Charge Network, but did include operations and maintenance  
6 expense (O&M), and its investment in the chargers. This is a violation of the "matching  
7 principle", whereby costs are matched with revenues.

8 CONTINUATION OF CONSTRUCTION ACCOUNTING FOR LA CYGNE  
9 ENVIRONMENTAL RETROFIT PROJECT

10 Q. What is KCPL requesting in regard to the La Cygne environmental  
11 retrofit project?

12 A. KCPL witness Klote identifies Adjustments CS-113 and RB-27 on  
13 pages 11-12 of his direct testimony, which relate to an expense amortization and rate base  
14 amount for the deferred depreciation and carrying costs calculated on the La Cygne  
15 environmental plant additions from the date each of the plant additions is placed in service to  
16 the date the cost of the plant additions are included in KCPL's retail rates. This extraordinary  
17 treatment of plant related costs is referred to as "continuation of construction accounting" or,  
18 abbreviated, "construction accounting." When KCPL filed direct testimony, KCPL had a  
19 pending case, Case No. EU-2014-0255, where it was seeking an AAO to allow it to use  
20 "construction accounting" for the La Cygne environmental upgrades project.

21 Q. What did the Commission order in Case No. EU-2014-255?

22 A. The Commission ordered the following:

- 23 1. The *Second Non-Unanimous Stipulation and Agreement*,  
24 [(between KCPL and Staff)] filed on December 15, 2014, is

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- 1 approved and incorporated into this order as if fully set forth  
2 herein. The signatories shall comply with the terms of the  
3 agreement. A copy of the agreement is attached to this order as  
4 Attachment 1.
- 5 2. KCP&L is authorized to continue using construction accounting  
6 for the La Cygne Environmental Project for the period of time  
7 between when the project becomes operational and when rate  
8 recovery begins for the associated costs.
- 9 3. KCP&L is authorized to defer and record as a regulatory asset  
10 1) depreciation expense that would otherwise be record [sic] on the  
11 company's income statement when the La Cygne Environmental  
12 Project becomes operational, and 2) carrying costs (equivalent of  
13 AFUDC recorded during construction work in progress in the last  
14 month before La Cygne Unit 2 and common plant become  
15 operational) that would otherwise cease to be recorded when the  
16 La Cygne Environmental Project becomes operational.
- 17 4. The base La Cygne Environmental Project costs on which carrying  
18 costs are calculated for deferral purposes shall not increase after  
19 the amount determined at the true-up in File No. ER-2014-0370,  
20 and no additional deferrals shall be recorded for the La Cygne  
21 Environmental Project after the effective date of rates in File No.  
22 ER-2014-0370.
- 23 5. Nothing in this order shall be considered a Commission  
24 ratemaking determination regarding the La Cygne Environmental  
25 Project construction accounting deferrals.
- 26 6. Nothing in the *Second Non-Unanimous Stipulation and Agreement*  
27 or this order shall limit the arguments (including arguments for  
28 offsets to the deferred amounts) any party to File No. ER-2014-  
29 0370 may make to contest ratemaking treatment or all, or any part,  
30 of the amounts KCP&L defers by construction accounting for the  
31 La Cygne Environmental Project.
- 32 Q. What is Staff's recommendation regarding the amounts KCPL has deferred  
33 based on the La Cygne construction accounting authority the Commission granted it?
- 34 A. Staff recommends no direct rate recovery of the La Cygne construction  
35 accounting deferrals for the following reasons:

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- 1           1. The cost of the La Cygne environmental retrofit project does not  
2           rise to the level of other KCPL construction projects that have  
3           received construction accounting treatment;
- 4           2. The La Cygne environmental retrofit project is part of the ordinary  
5           and normal costs of providing electric service; and
- 6           3. Staff does not believe the La Cygne environmental retrofit project  
7           meets the Commission's standards for AAO deferrals to be  
8           associated with events that are extraordinary, unusual, and  
9           infrequent;

10          Q.    What is La Cygne?

11          A.    La Cygne is an electric generating station located in Kansas comprised of two  
12 coal-fired units. Unit 1 went into service in 1973 and has a net generating capacity of 736  
13 megawatts (MW), and Unit 2 went into service in 1977 and has a net generating capacity of  
14 682 MW. KCPL owns 50% of La Cygne, and Kansas Gas and Electric Company; a wholly  
15 owned subsidiary of Westar Energy, Inc. (Westar) owns 50% of La Cygne Unit 1 and leases  
16 the other 50% of La Cygne Unit 2. KCPL is the operating partner for both units.

17          Q.    What is the La Cygne environmental retrofit project?

18          A.    It is the construction at La Cygne of wet scrubbers to control sulfur dioxide  
19 ("SO<sub>2</sub>"), baghouses to control particulates, and a common dual flue chimney for both Unit 1  
20 and Unit 2. KCPL is constructing selective catalytic reduction (SCR) equipment,  
21 low-nitrogen oxide ("NO<sub>x</sub>") burners, and an over-fire air (OFA) system for Unit 2 to control  
22 NO<sub>x</sub> emissions. Unit 1's SCR was installed in 2007. The cost estimate at completion of the  
23 project is \$1.23 billion prior to the impact of Allowance for Funds Used During Construction  
24 ("AFUDC"). KCPL has estimated the Missouri jurisdictional rate base impact will be  
25 \$302.1 million<sup>1</sup> with AFUDC.

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<sup>1</sup> KCPL Workpaper CS-113. \$568.3 million total company, Missouri portion at 53.17%.

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1 Q. What is the timeline for the project?

2 A. It is required by a 2007 agreement between KCPL and the Kansas Department  
3 of Health and Environment ("KDHE") to install best available retrofit technology ("BART")  
4 equipment on or before June 1, 2015. If the La Cygne units are not in compliance with the  
5 agreement on or before June 1, 2015, KCPL is required to cease operating the units at  
6 La Cygne until the units are in compliance with the requirements of the agreement.

7 Q. Has the Commission already determined whether the La Cygne environmental  
8 retrofit project is an extraordinary event? In its *Order Approving Second Non-Unanimous*  
9 *Stipulation and Agreement* in Case No. EU-2014-0255, did the Commission specifically find  
10 the La Cygne environmental construction project and the related deferrals are extraordinary?

11 A. No. Generally, the Commission has said that the standards for granting the  
12 authority to a utility to defer costs incurred outside of a test year as a regulatory asset are:  
13 1) the costs relate to an event that is extraordinary, unusual, and infrequent, and 2) the costs  
14 associated with the event are material. However, nowhere in Commission's *Order Approving*  
15 *Second Non-Unanimous Stipulation and Agreement* in Case No. EU-2014-0255 did the  
16 Commission find KCPL's request met these standards; rather, the Commission authorized  
17 deferral of the depreciation and carrying costs.

18 Q. Are you aware of cases where the Commission has made such statements?

19 A. In Case Nos. EO-91-358 and EO-91-360 (consolidated, "the Sibley Case"), the  
20 Commission, page 7 of the Commission's *Report and Order* in that case, stated:

21 Under historical test year ratemaking, costs are rarely considered  
22 from earlier than the test year to determine what is a reasonable  
23 revenue requirement for the future. Deferral of costs from one  
24 period to a subsequent rate case causes this consideration and  
25 should be allowed only on a limited basis.



1 This limited basis is when events occur during a period which are  
2 extraordinary, unusual, and unique, and not recurring. These types  
3 of events generate costs which require special consideration. These  
4 types of costs have traditionally been associated with extraordinary  
5 losses due to storm damage or outages, conversions, or  
6 cancellations. *UE* at 618. The Commission in the past has also  
7 allowed accrual of Allowance for Funds Used During Construction  
8 (AFUDC) and nuclear fuel leases. These were allowed because of  
9 the size of the investments to be deferred. The USOA recognizes  
10 that only extraordinary items should be deferred. The definition  
11 cited earlier states the intent of the USOA that net income shall  
12 reflect all items of profit and loss during the period and exceptions  
13 are only for those items which are of significant effect, not  
14 expected to recur frequently, and which are not considered in the  
15 evaluation of ordinary business operations.

16 Later in the Sibley Case *Report and Order* on page 8, the Commission stated the following  
17 regarding materiality of costs for which deferral treatment is requested:

18 Staff's first criterion, which requires the event to be extraordinary,  
19 is, as stated above, the most significant inquiry in a deferral case.  
20 As MPS points out, the crux of the criterion is, what is an  
21 extraordinary event? This, of course, will be the primary focus of  
22 the Commission in any case involving a request for an AAO. The  
23 issues of whether the event has a material or substantial effect on a  
24 utility's earnings is also important, but not a primary concern. The  
25 company, under the USOA, is required to seek Commission  
26 approval if the costs to be deferred are less than five percent of the  
27 company's income computed before the extraordinary event. This  
28 five percent standard is thus relevant to materiality and whether the  
29 event is extraordinary but is not case-dispositive.

30 The Commission commented on the effect of regulatory lag in reference to requests for  
31 deferral on page 10 of the Sibley Case *Report and Order*:

32 Lessening the effect of regulatory lag by deferring costs is  
33 beneficial to a company but not particularly beneficial to  
34 ratepayers. Companies do not propose to defer profits to  
35 subsequent rate cases to lessen the effects of regulatory lag, but  
36 insist it is a benefit to defer costs. Regulatory lag is a part of the  
37 regulatory process and can be a benefit as well as a detriment.  
38 Lessening regulatory lag by deferring costs is not a reasonable goal  
39 unless the costs are associated with an extraordinary event.

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1 Most recently, the Commission affirmed its standard of review of AAO requests in  
2 Case No. EU-2014-0077, KCPL and GMO's request for a transmission expense tracker. The  
3 Commission denied this request in its *Report and Order* dated August 29, 2014, on the basis  
4 that the transmission costs were not extraordinary, unusual, and infrequent, which it explicitly  
5 stated in its order.

6 Q. Did not the Commission allow KCPL to use construction accounting for its  
7 recent Iatan project?

8 A. Yes.

9 Q. And did not the Commission allow KCPL the opportunity to recover through  
10 its rates the amounts deferred under construction accounting?

11 A. Yes.

12 Q. Are not the circumstances of the La Cygne environmental retrofit project  
13 similar to those of the Iatan project?

14 A. No. Iatan 2 is a baseload coal-fire unit completed by KCPL in August 2010.  
15 Iatan 2 was contemplated in KCPL's Experimental Regulatory Plan in case EO-2005-0329.  
16 The *Stipulation and Agreement* approved by the Commission in that case provided for  
17 the following:

- 18 • KCPL's voluntary agreement to forego a fuel adjustment clause  
19 for nearly 10 years;
- 20 • Authorization of construction of Iatan 2, a new coal-fired baseload  
21 unit, environmental equipment at La Cygne 1, and 100MW of  
22 wind generation;
- 23 • Parties to the agreement would not question the need for Iatan 2,  
24 referred to as decisional prudence;
- 25 • Establishment of Demand Response, Efficiency, and Affordability  
26 Programs,

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- 1                   • A reduced AFUDC rate for Iatan 2 during construction and for  
2                   calculation of construction accounting;  
3                   • A rate moratorium through December 31, 2006;  
4                   • Continuation of Construction Accounting for Iatan 2, with offsets  
5                   for test power.

6           There were several signatories to the *Stipulation and Agreement* in Case No. EO-2005-0329,  
7           and each party assumedly obtained some value from the terms of the agreement. In this case,  
8           other than the modifications to the calculations ordered by the Commission, there are no  
9           mitigating aspects of allowing cost recovery of any La Cygne deferrals.

10           Q.     Are there any other circumstances that are different?

11           A.     The circumstances underlying the construction accounting agreed to by the  
12           parties in 2005 different than they are today. At the time, the parties reached the settlement in  
13           2005 providing for construction accounting for Iatan 2, KCPL had no rate increases for nearly  
14           20 years. Iatan 2 was the first baseload generation constructed since the mid-1980's and a  
15           part of KCPL's Comprehensive Energy Plan. Since 2006, KCPL has completed five rate  
16           cases and now has filed a sixth rate case.

17           Q.     How do KCPL's current Missouri retail rates compare to its Missouri retail  
18           rates in 2006?

19           A.     According to the information filed by KCPL as part of its minimum filing  
20           requirements in the 2006 rate case, Case No. ER-2006-0314, KCPL's average rate in 2006  
21           was 5.677 cents per kWh.<sup>2</sup> Today, KCPL's average rate in 2014 is 8.907 cents per kWh.<sup>3</sup>  
22           Thus, to date, KCPL's rates have increased by 56.9% in 8 years. Moreover, KCPL has  
23           proposed in its pending case (Case No. ER-2014-0370) to increase rates by an additional

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<sup>2</sup> ER-2006-0314 Minimum Filing Requirements page 1 of 2 - 5.677 cents Average Price per kWh.

<sup>3</sup> ER-2014-0370 Minimum Filing Requirements 8.907 cents Average Price per kWh.

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1 15.75%. Therefore, the average rate would be 10.301 cents per kWh if the full amount of its  
2 rate request is granted.<sup>4</sup> As such, under KCPL's proposal in the pending rate case, its average  
3 Missouri rates will have increased 81.45% from 2006. Certainly, circumstances have changed  
4 since the 2006 timeframe after 20 years of stable rates than they are today.

5 Q. How does the increase in KCPL's Missouri retail rates since 2006 compare to  
6 the increase in electric rates regionally and nationally?

7 A. The following chart shows that KCPL's rates have increased much more than  
8 the state, regional (Iowa, Kansas, Minnesota, Missouri, South Dakota and North Dakota) and  
9 national average rates, according to the most recent Edison Electric Institute (EEI) rate  
10 comparison—Typical Bills and Average Rates Report Summer 2014<sup>5</sup>:

11

Rates as of July 1, 2014	2006	2014	Increase
KCPL	5.66 ¢ / kWh	8.79 ¢ / kWh	55.3%
Missouri	5.74 ¢ / kWh	8.53 ¢ / kWh	48.6%
Regional	6.38 ¢ / kWh	8.64 ¢ / kWh	35.4%
National	8.89 ¢ / kWh	10.53 ¢ / kWh	18.5%

12

13 Thus, KCPL's average rate has increased almost three times as fast as the national average  
14 electric rate over this period. Further, while KCPL's total average rate in 2006 was 11.3%  
15 below the regional average rate, the current 2014 average rate now exceeds the regional  
16 average rate. All of these figures are based on KCPL's current rates. KCPL has currently  
17 proposed to increase its existing rates in Missouri by 15.75%. Consequently, the difference  
18 between KCPL's rates and the current regional and national rates is likely to be even greater

<sup>4</sup> ER-2014-0370 Minimum Filing Requirements 10.301 cents Average Proposed Price per kWh.

<sup>5</sup> Edison Electric Institute -- Typical Bills and Average Rates Report Summer 2014 -- rates as of July 1, 2014.

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1 following the completion of the rate case. A summary of this data is attached as  
2 Schedule KM-R1.

3 Q. Have all of KCPL's retail customers been impacted by its rate increases?

4 A. Yes. All rate classes have experienced rate increases that range from 50.1% to  
5 57.1%. Where KCPL residential rates were 13.6% below the regional average residential rate  
6 in 2006, in 2014, the gap has narrowed to almost the same as the regional average residential  
7 rate to within 0.5%. On the other hand, while KCPL's industrial rate was 11.6% below the  
8 regional average industrial rate; it now exceeds the regional average industrial rate. Again,  
9 these figures are based upon KCPL's current rates and do not consider KCPL's proposed  
10 15.75% rate increase.

11 Q. Is Staff aware of any other instances where the Commission authorized rate  
12 recovery of amounts deferred under construction accounting?

13 A. The table below is a non-exhaustive list of cases where the Commission  
14 authorized the use of construction accounting and the deferrals were, or are continuing to be,  
15 recovered through rates:

16

Company	Case No.	Generating Unit
Union Electric	EO-85-17 & ER-85-160	Callaway
Ameren Missouri	ER-2010-0036	Sioux Environmental
KCPL	EO-85-185 & ER-85-128	Wolf Creek
KCPL	ER-2009-0089	Iatan 1 & Common Environmental
KCPL GMO (L&P)	ER-2009-0090	Iatan 1 & Common Environmental
KCPL	EO-2005-0329	Iatan 2 & Common
KCPL GMO (MPS)	EU-2011-0034	Iatan 2 & Common
KCPL GMO (L&P)	EU-2011-0034	Iatan 2 & Common
Empire	EO-2005-0263	Iatan 1 & Common Environmental
Empire	EO-2005-0263	Iatan 2 & Common
Empire	EO-2010-0262	Plum Point

17

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1 A detailed list of these plants, including the construction cost and respective portions of rate  
2 base is attached to this testimony as Schedule KM-R2. It is my understanding that all of these  
3 previous authorizations for electric utilities to use construction accounting were in the context  
4 of negotiated stipulations and agreements.

5 Q. Briefly describe Wolf Creek and Callaway generating units.

6 A. Wolf Creek and Callaway are both nuclear power facilities completed in the  
7 mid-1980's. Wolf Creek, 47% of which is owned by KCPL, was completed at \$2.98 billion  
8 (1985 dollars), \$1.95 billion over the definitive estimate and 29 months after the original  
9 estimated date of commercial operation. The completion of Wolf Creek was so substantial  
10 that the Commission noted in its *Report and Order* in Case Nos. EO-85-185 and ER-85-128  
11 [Cases Combined], "[E]lectric users are being burdened with the largest electric rate base  
12 addition in KCPL's history." At the time of inclusion in electric rates, Wolf Creek  
13 represented an 82% increase in KCPL's Missouri Jurisdictional rate base.

14 Callaway, wholly-owned by Ameren Missouri (Union Electric Company), was  
15 completed at \$2.98 billion (1985 dollars), \$1.89 billion over the definitive estimate and  
16 33 months after the original estimated commercial operation date. At the time of inclusion in  
17 electric rates, Callaway represented a 60% increase of Ameren Missouri's (Union Electric)  
18 Missouri Jurisdictional rate base.

19 Due to the substantial delays, the uncertainty of completion, and the size of the  
20 investments for both Wolf Creek and Callaway, both of these plants received continuation of  
21 construction accounting treatment, through agreement between the parties to those rate  
22 proceedings. Essentially, so the cases could be delayed past the normal 11 month time period  
23 for setting rates after tariff rate schedules are filed, it is my understanding that Staff agreed to

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1 allow construction accounting for these sizable plant additions in the rate cases in which the  
2 nuclear units received rate base treatment.

3 Q. Briefly describe the Iatan 1 environmental project and the use of continuation  
4 of construction accounting for that project.

5 A. The Iatan 1 environmental project included the construction of wet scrubbers  
6 to control SO<sub>2</sub>, and SCR to control NO<sub>x</sub> emissions, and a baghouse to control particulate  
7 emissions. Iatan 1 is owned 70% by KCPL, 18% by GMO – L&P, and 12% by The Empire  
8 District Electric Company ("Empire"). This project was quite similar in nature to the current  
9 La Cygne 2 project as the Iatan 1 and La Cygne 2 are similar base-load coal units. At the time  
10 of the completion of construction, the Iatan 1 environmental upgrades, with Iatan 1 Common  
11 totaled \$496.8 million, \$267.6 million of which was KCPL's Missouri jurisdictional share,  
12 and these upgrades were an increase of 21% of its existing rate base. GMO-L&P's 18% share  
13 of the Iatan 1 upgrades was an increase of 49% of its existing rate base.

14 The continuation of construction accounting for the Iatan 1 environmental upgrades  
15 was authorized through the Commission's approval of the *Non-Unanimous Stipulation and*  
16 *Agreement* in Case No. ER-2009-0089 for KCPL and Case No. ER-2009-0090 for  
17 GMO-L&P. For these upgrades the continuation of construction accounting was calculated  
18 on the amount not already included in the cost of service in the respective cases, which is  
19 slightly different than what KCPL is requesting in this case, but the principle is generally the  
20 same. In that instance of construction accounting, depreciation and carrying costs accrued on  
21 the amount greater than the amount included in rates until the effective date of rates in the  
22 next succeeding rate case.

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1 Empire's 12% share of the expenditures related to the Iatan 1 environmental upgrades  
2 received continuation of construction treatment authorized by Commission approval of the  
3 *Stipulation and Agreement* in Case No. EO-2005-0263, more commonly referred to as  
4 Empire's "Experimental Regulatory Plan" docket. Empire's share of the Iatan 1 upgrades  
5 was an increase of 7% of its existing rate base. However, in the same time frame that these  
6 upgrades were being constructed, Empire was participating in the construction of Iatan 2 and  
7 Plum Point, as discussed later in this testimony. These three investments in combination  
8 represented \$363.5 million Missouri jurisdictional investment, increasing Empire's rate base  
9 from Case No. ER-2010-0130 by 50%.

10 Q. Briefly describe Iatan 2 and the use of continuation of construction accounting  
11 for that project.

12 A. Iatan 2 is an 850 MW supercritical coal-fired baseload unit completed in  
13 August 2010. Iatan 2 is owned 54.71% by KCPL, 18% by GMO, 12% by Empire, with the  
14 remainder owned a power cooperative and a municipal entity. This was the first baseload unit  
15 constructed by KCPL since Wolf Creek and was completed at a cost of approximately  
16 \$2 billion, \$525.6 million of which was KCPL's Missouri jurisdictional share, and this new  
17 unit represented an increase of 34% of existing rate base for that Company.

18 The continuation of construction accounting for Iatan 2 was authorized through the  
19 Commission's approval of the *Stipulation and Agreement* in Case No. EO-2005-0329, more  
20 commonly referred to as KCPL's "Experimental Regulatory Plan" docket, for KCPL's  
21 ownership share. The use of construction accounting for KCPL's share of Iatan 2 was based  
22 on a negotiated settlement reached between the signatory parties to Case No. EO-2005-0329,  
23 including KCPL and Staff. Essentially, each party received some type of value from the



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1 settlement, which included allowing KCPL to use construction accounting for this project.  
2 Other parties received benefits from other aspects of the settlement.

3 For GMO's share of Iatan 2, the Parties to Case No. ER-2010-0356 agreed in the  
4 *Stipulation and Agreement / Proposed Procedural Schedules* that GMO would file an  
5 application for an AAO requesting continuation of construction accounting, and that the  
6 non-utility Signatory Parties would not oppose the AAO. The Commission authorized  
7 GMO's AAO, Case No. EU-2011-0034, was effective October 8, 2010. GMO's share of  
8 Iatan 2 represented an increase of 18% and 36% of GMO-MPS and GMO-L&P rate base,  
9 respectively.

10 Empire's 12% share of the expenditures related to Iatan 2 received continuation of  
11 construction accounting treatment authorized by Commission approval of the *Stipulation and*  
12 *Agreement* in Case No. EO-2005-0263, more commonly referred to as Empire's  
13 "Experimental Regulatory Plan" docket. Empire's share of Iatan 2 represented an increase of  
14 34% of its Missouri jurisdictional rate base.

15 Q. Briefly describe Plum Point and the use of continuation of construction  
16 accounting for that project.

17 A. Plum Point is a 665 MW coal-fired baseload generating unit located in  
18 Osceola, Arkansas, completed in August 2010. Empire owns 50 MW of the unit and leases an  
19 additional 50 MW portion. Empire's share of Plum Point was completed at a cost of  
20 \$105 million, \$87.5 million of which was Empire's Missouri Jurisdictional share, and this  
21 new unit represented an increase of 13% of existing rate base. For Empire's share of Plum  
22 Point, the Parties to Case No. ER-2010-0130 agreed in the *Stipulation and Agreement* that  
23 Empire would file an application for an AAO requesting continuation of construction

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1 accounting, and that the non-utility Signatory Parties would not oppose the AAO. The  
2 Commission authorized Empire's AAO, Case No. EO-2010-0262, effective May 15, 2010.

3 Q. Briefly describe the Sioux environmental upgrade project and the use of  
4 continuation of construction accounting for that project.

5 A. Sioux is a two-unit coal-fired generating station wholly owned by  
6 Ameren Missouri. Ameren Missouri constructed scrubbers on both units for reduction of SO<sub>2</sub>  
7 completed at a cost of \$574 million, Ameren's Missouri Jurisdictional share, and this  
8 construction project represented an increase of 9% of Ameren Missouri's existing rate base.

9 The continuation of construction accounting for the Sioux environmental upgrades  
10 was authorized through the Commission's approval of the *First Non-Unanimous Stipulation*  
11 *and Agreement* in Case No. ER-2010-0036.

12 Q. What is the cost of the La Cygne environmental project in total, compared to  
13 KCPL's existing rate base?

14 A. The La Cygne environmental project's budget is \$1.23 billion. Using KCPL's  
15 \$302.1 million Missouri Jurisdictional figure, the La Cygne investment is 14.7%<sup>6</sup> of KCPL's  
16 rate base in Case No. ER-2012-0174. Using the current rate base as of December 31, 2014,  
17 the La Cygne investment is 13.8% of existing rate base. The La Cygne project represents a  
18 lesser portion of existing rate base compared to KCPL's share of the Iatan 1 environmental  
19 upgrades and Iatan 2 at the time period of their construction.

20 Q. What does Staff surmise concerning the historical use of construction  
21 accounting in Missouri?

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<sup>6</sup> ER-2012-0174 Missouri Jurisdictional Rate Base - \$2,051,747,213.

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1           A.     Compared to most other instances of construction accounting, the La Cygne  
2 project represents a smaller increase to rate base. Every general rate case reflects additional  
3 investment in plant-in-service by the utility, as well as additional accumulated depreciation  
4 calculated on existing plant-in-service from the prior rate case. Plant construction projects are  
5 routinely included in rate base to establish the cost of service; the magnitude of KCPL's  
6 investment aside, the La Cygne project is no different than any other construction project.

7           Q.     Early in your rebuttal testimony (page 6) you testify, "Generally, the  
8 Commission has said that the standards for granting the authority to a utility to defer costs  
9 incurred outside of a test year as a regulatory asset are: 1) the costs relate to an event that is  
10 extraordinary, unusual, and infrequent, and 2) the costs associated with the event are  
11 material." Do you know of any relevant definitions of "extraordinary"?

12           A.     As defined by FERC USOA General Instruction 7, which the Commission has  
13 adopted by rule, extraordinary means:

14                   7.     Extraordinary Items

15                   It is the intent that net income shall reflect all items of profit and  
16                   loss during the period with the exception of prior period  
17                   adjustments as described in paragraph 7.1 and long-term debt as  
18                   described in paragraph 17 below. Those items related to the  
19                   effects of events and transactions which have occurred during  
20                   the current period and which are of unusual nature and  
21                   infrequent occurrence shall be considered extraordinary items.  
22                   Accordingly, they will be events and transactions of significant  
23                   effect which are abnormal and significantly different from the  
24                   ordinary and typical activities of the company, and which would  
25                   not reasonably be expected to recur in the foreseeable future.  
26                   (In determining significance, items should be considered  
27                   individually and not in the aggregate. However, the effects of a  
28                   series of related transactions arising from a single specific and  
29                   identifiable event or plan of action should be considered in the  
30                   aggregate.) To be considered as extraordinary under the above  
31                   guidelines, an item should be more than approximately  
32                   5 percent of income, computed before extraordinary items.

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1 Commission approval must be obtained to treat an item of less  
2 than 5 percent, as extraordinary. (See accounts 434 and 435.)

3 Q. USOA General Instruction 7 identifies a materiality standard for extraordinary  
4 items as being more than 5% of net income. Are the La Cygne construction accounting  
5 deferrals extraordinary by this standard?

6 A. No. The USOA standard for extraordinary treatment is an *historical cost*  
7 standard. That is, if a utility believes an extraordinary event has occurred it would compute  
8 net income before the impact of the item. Although KCPL has received deferral authority  
9 from the Commission *before* any of the actual expenses have been incurred, no one can judge  
10 what KCPL's net income will be in the future, and whether or not the construction accounting  
11 deferrals would be 5% of that amount.

12 Q. Are the La Cygne deferral amounts KCPL seeks to recover through Missouri  
13 retail rates unusual or unique?

14 A. No. As a vertically integrated electric utility, KCPL is continually building  
15 new plant, retiring and replacing old plant, and making capital improvements in all aspects of  
16 its generation, transmission, and distribution systems. KCPL has a long history of making  
17 significant capital additions as a regulated utility. Staff has identified several major  
18 investments KCPL made without the use of construction accounting and in some cases  
19 without immediate rate relief:

20

21

22

23

24 *continued on next page*

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1

Generating Unit	Year Completed	Missouri Jurisdictional Plant Amount, ER-2006-0314
West Gardner Units 1-4	2003	\$ 63,567,824
Osawatomie	2003	\$ 16,833,624
Hawthorn 6	1997	\$ 23,396,286
Hawthorn 9	2000	\$ 39,174,555
Hawthorn 7 & 8	2000	\$ 27,997,459
Total		\$ 170,969,748
True-up Rate Base, ER-2006-0314		\$ 1,250,250,731
Percentage of Construction to Rate Base		13.7%
Spearville Wind	2006	\$ 84,759,931
Percentage of Construction to Rate Base with Spearville Wind		20.5%

2

3 The table above is a list of the investments Staff included in KCPL's rate base in the true up  
4 of Case No. ER-2006-0314 ("2006 Rate Case"). The 2006 Rate Case was KCPL's first rate  
5 case since 1985. In the interim, KCPL completed construction of several combustion turbines  
6 and a combined cycle unit, Hawthorn 9. KCPL did not receive direct rate relief for those  
7 generating assets until January 1, 2007, the date of rates in its 2006 Rate Case; several years  
8 after the assets were constructed and dedicated to utility service. The investments represented  
9 13.7% of KCPL's Missouri jurisdictional rate base in the 2006 Rate Case. In addition to these  
10 assets, KCPL completed the Spearville 1 wind farm, which was also included its rate base in  
11 the 2006 Rate Case. Combined, these assets represented 20.5% of KCPL's Missouri  
12 jurisdictional rate base in KCPL's 2006 Rate Case. Yet, KCPL never requested, nor did it  
13 receive, construction accounting for any of these assets. KCPL's 2006 Rate Case was  
14 completed when KCPL was in a significant construction cycle, with large retrofit projects at  
15 La Cygne 1 and Iatan 1, and the construction of Iatan 2.

16 In this case, the La Cygne environmental retrofit project is projected to equal 13.8% of  
17 KCPL's rate base in this current rate case. KCPL has in the past completed construction

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1 projects of approximately the same magnitude of its current investment in La Cygne, without  
2 direct rate recovery of amounts deferred under construction accounting.

3 Q. What are KCPL's actual construction investment for past years and budgeted  
4 future construction investment?

5 A. The responses to Staff Data Requests Nos. 0006, 0006.1, and 0006.2 in  
6 Case No. EU-2014-0255 detailed the actual and budgeted amounts of KCPL construction  
7 expenditures from 2007-2018:

Year	KCPL Construction Budget in Millions	Actual/Budget
2007	** _____ **	Actual
2008	** _____ **	Actual
2009	** _____ **	Actual
2010	** _____ **	Actual
2011	** _____ **	Actual
2012	** _____ **	Actual
2013	** _____ **	Actual
2014	** _____ **	Budget
2015	** _____ **	Budget
2016	** _____ **	Budget
2017	** _____ **	Budget
2018	** _____ **	Budget

9  
10 This data, which includes the timeframe for construction of the La Cygne project, shows no  
11 overall discernable trend in KCPL's construction expenditures, and no overall upward trend.  
12 From 2014 on, the data does show a downward trend through 2018. The La Cygne  
13 environmental retrofit project should not be viewed as extraordinary, unusual, or unique.

**NP**

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1 Q. Are the costs KCPL seeks to defer non-recurring?

2 A. No. Again, as a vertically integrated utility, KCPL is constantly constructing  
3 new assets and replacing old assets. While it can be argued that the specific environmental  
4 project being constructed at La Cygne is non-recurring in its own right, this assertion does not  
5 make the in-service of this equipment a unique, non-recurring, or extraordinary event.

6 The costs for which KCPL is requesting recovery of result from basic operating  
7 decisions made by KCPL in response to the need to build and maintain sufficient generating  
8 capacity to service its customers with an adequate reserve. All electric utilities in this  
9 state are faced with the same fundamental issue of capacity planning that is basic to providing  
10 electric service to the public. KCPL is not at all unique in Missouri in considering and  
11 completing environmental retrofits. In fact, Empire is currently completing a large  
12 environmental construction project at its Asbury generating station, but has not requested, and  
13 is not receiving, construction accounting treatment for that asset. Empire completed several  
14 major plant additions for its State Line Combustion Turbine and State Line Combined Cycle  
15 units completed in the late 1990s and 2001 yet received no construction accounting.  
16 Empire has also added plant at its Energy Center and Riverton stations, again with no  
17 construction accounting.

18 In regards to environmental compliance, KCPL is no stranger to capital investment to  
19 meet the requirements of governmental mandates. Iatan 1 has been retrofitted and KCPL  
20 completed an SCR upgrade at La Cygne 1 in 2007. Hawthorn 5 was retrofitted during its  
21 reconstruction from the February 1999 explosion, but did not receive construction accounting.  
22 KCPL's affiliate, GMO has made several investments to comply with environmental rules at  
23 Sibley 3 and Jeffrey Energy Center without the need for construction accounting. These types

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1 of investments and the resulting expenses of committing them to service are clearly not non-  
2 recurring.

3 Another way to evaluate whether expenses are non-recurring is if they can be planned  
4 ahead of time by a utility and considered in the appropriate time a utility would file for rate  
5 relief. The La Cygne environmental retrofit project was contemplated by KCPL since late  
6 2007 and has been under construction since mid-2011. This contrasts with typical "act of  
7 God" extraordinary events such as major ice storms, floods, and other weather events which  
8 can be prepared for, but cannot be predicted or controlled. KCPL has planned the La Cygne  
9 environmental retrofit project, knows with a high degree of accuracy when it will be dedicated  
10 to the provision of utility service, and has filed a rate case before the Commission to include  
11 the expenses related to the project in its cost of service. There is nothing unpredictable about  
12 these events, and KCPL has complete control of when it will file rate cases, and complete  
13 control of the management of the La Cygne environmental project.

14 Q. Are the costs KCPL seeks to defer material?

15 A. In the Sibley Case, the Commission referenced USOA General Instruction 7  
16 which established a materiality standard that events that have an impact on net income of  
17 more than 5% are presumed to be subject to special accounting treatment as extraordinary  
18 events, with specific Commission authorization needed if a utility seeks to treat as  
19 extraordinary a cost amounting to less than 5% of net income. However, any specific  
20 materiality test relating to a La Cygne project deferral would not be strictly applicable at this  
21 time, as the costs in question have yet to occur, and the 5% measure is a back looking  
22 evaluation, not a forward looking measure. Generally speaking, adding large generating  
23 assets to a company's rate base, and their resulting expenses such as depreciation, are material



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1 to a utility's cost structure. But major plant additions do not by themselves create the need to  
2 change rates, as can be seen by the period before KCPL's 2006 rate case when KCPL  
3 completed \$170 million of plant (Missouri jurisdictional) not only without construction  
4 accounting but also without immediate rate relief—in fact, it did not have rate relief for some  
5 of these units for several years after the units were completed.

6 At the time KCPL filed its request for the La Cygne construction accounting AAO in  
7 June 2014, current rates had been in effect for a year and a half, with no pending rate case.  
8 A premise of utility regulation is that, until the point when a utility files for a rate increase, it  
9 must be presumed that it is covering all of its current costs through its ongoing rate levels and  
10 therefore, rates are adequate. If a utility determined it was consistently earning below its  
11 authorized rate of return, logic dictates that the utility should file for a rate increase. KCPL  
12 has determined that its current revenue levels do not support its cost of service and has filed a  
13 rate case to recover the very expenses for which it is requesting for recovery in this case,  
14 among many other items. In fact, a central element of KCPL's filed rate case is the inclusion  
15 of the La Cygne environmental retrofit project in its cost of service when the project is  
16 dedicated to utility service.

17 Q. What is Staff's recommendation regarding KCPL's request for recovery of  
18 amounts it has deferred by construction accounting?

19 A. Staff recommends the Commission reject KCPL's request for recovery for the  
20 following reasons:

21 1) The expenses KCPL seeks to recover do not meet the  
22 Commission's standards for deferral. The expenses are not  
23 extraordinary, unique and unusual, and are not non-recurring;

24 2) KCPL has had levels of investment similar to the amount of the  
25 La Cygne environmental project in the recent past without the use  
26 of construction accounting; and

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1                   3) The La Cygne environmental project does not rise to the level of  
2                   most other investments that have been granted construction  
3                   accounting by the Commission.

4                   Q.    If the Commission allows KPCL to recover through rates amounts it has  
5                   deferred under construction accounting, does Staff recommend any modifications to KCPL's  
6                   proposed construction accounting calculations, or offsets to the deferred amounts?

7                   A.    Staff recommends the following modifications be ordered to KCPL's  
8                   construction accounting calculations:

9                   1) Offset the base on which carrying costs are calculated by the  
10                  additional non-environmental LaCygne depreciation reserve from  
11                  the true-up date through the effective date of rates.

12                  2) Offset the base on which carrying costs are calculated by the  
13                  monthly depreciation expense deferral recorded to the regulatory  
14                  asset.

15                  3) Offset the base on which carrying costs are calculated by the  
16                  accumulated deferred income taxes created by the La Cygne  
17                  environmental plant.

18                  4) Offset the base on which carrying costs are calculated by the  
19                  accumulated deferred income taxes created by the monthly  
20                  regulatory asset deferral.

21                  5) Use actual depreciation and carrying costs based on the actual  
22                  unadjusted AFUDC rate, less Staff's adjustment to the equity rate.

23                  6) For the calculation of AFUDC rate, a 250 basis point (2.50%)  
24                  reduction should be assumed in the cost rate of common equity  
25                  component of the AFUDC rate.

26                  7) No additions to the base on which carrying costs or depreciation  
27                  are calculated after the true-up in Case No. ER-2014-0370. (agreed  
28                  to in the La Cygne 2<sup>nd</sup> Stipulation and ordered by the Commission  
29                  in Case No. EU-2014-0255); and

30                  8) No additional deferrals after the effective date of rates in Case  
31                  No. ER-2014-0370 (agreed to in the La Cygne 2<sup>nd</sup> Stipulation and  
32                  ordered by the Commission in Case No. EU-2014-0255).

1 ADDITIONAL DEPRECIATION RESERVE – ADJUSTMENTS 1 AND 2

2 Q. How should additional depreciation reserve offset the base on which carrying  
3 costs are calculated, per Adjustment 1 recommended by Staff?

4 A. The current KCPL rate case will include a true-up of costs which will include  
5 an amount of accumulated depreciation reserve on all KCPL plant investment at May 31,  
6 2015. The continuation of construction accounting provides earnings protection for a utility  
7 through the effective date of rates. Generally speaking, the amount of accumulated reserve  
8 would increase between the true-up cutoff and the effective date of rates, reducing rate base  
9 and consequently the revenue requirement.

10 To most accurately reflect the actual investment and financial impact of construction  
11 accounting, the additional depreciation reserve on all plant investment at La Cygne should be  
12 included as an offset to the base on which carrying costs should be accrued. As the actual  
13 depreciation amounts will not be known until the update and true-up periods in Case No.  
14 ER-2014-0370, Staff does not know the actual amount of the offset. An approximation of the  
15 offset is the current monthly amount of depreciation at December 31, 2014. The offset using  
16 this method would be \$551,293<sup>7</sup> per month. This amount would offset the carrying cost base  
17 for the months between the true-up and effective date of rates.

18 Q. In reference to Staff Adjustment 2, why should the amount of depreciation  
19 included in the construction accounting deferral be removed from the amount on which  
20 carrying costs are calculated?

21 A. Depreciation is the recovery of the investment in an asset or group of assets.  
22 Carrying costs are determined by applying a carrying cost rate to the unrecovered investment.

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<sup>7</sup> Staff Direct Filed Missouri Jurisdictional Annual La Cygne Depreciation - \$6,615,511, One month - \$551,293.

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1 The unrecovered investment is determined by reducing the investment by accumulated  
2 depreciation. Depreciation does not begin to be calculated until an asset is completed and  
3 included in plant in service; no depreciation is calculated for Construction Work In Progress  
4 (CWIP). Therefore, CWIP carrying costs (AFUDC) are calculated on the dollars invested in  
5 CWIP without regard to depreciation.

6 KCPL has calculated carrying costs based on the gross investment in the La Cygne  
7 environmental project without consideration of depreciation. However, KCPL has also added  
8 depreciation expense to the total cost of the AAO deferral. It would be appropriate to  
9 calculate carrying costs without consideration of depreciation if KCPL did not add  
10 depreciation expense to the deferral. If depreciation expense is to be added to the deferral  
11 then KCPL should not also receive carrying costs on the depreciation expense. In other  
12 words, carrying costs should be calculated only on the unrecovered investment: gross  
13 investment less depreciation expense.

14 **ACCUMULATED DEFERRED INCOME TAXES – ADJUSTMENTS 3 AND 4**

15 Q. What are accumulated deferred income taxes (ADIT)?

16 A. ADIT are assets or liabilities that represent the cumulative amount of  
17 additional income taxes owed to or previously paid to the Internal Revenue Service (IRS), in a  
18 different period in which the financial impact of the income taxes is reported in the utility's  
19 financial statements according to Generally Accepted Accounting Principles (GAAP). The  
20 deferred income tax is a cumulative liability and represents a net prepayment of income taxes  
21 by KCPL's customers in rates before the actual payment of the income taxes to the IRS. This  
22 prepayment is a cost-free source of capital to KCPL and is therefore not included in the net  
23 investment upon which KCPL earns a return when establishing rates, also referred to as a

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1 "rate base offset." Deferred taxes are included as a reduction to rate base in every case Staff  
2 calculates a revenue requirement and represent a cost-free source of capital.

3 Q. How and why should deferred income taxes offset the amount of the base on  
4 which carrying costs are calculated, Adjustments 3 and 4 recommended by Staff?

5 A. There are two categories of deferred taxes that should be considered.

6 The first category of deferred taxes is the deferred taxes accrued on the La Cygne  
7 environmental equipment from the date of in-service through the effective date of rates. Once  
8 an asset is declared in-service and used in the production of electricity, depreciation is  
9 charged to income. As explained above, accelerated tax depreciation in excess of book  
10 depreciation creates ADIT which is a source of cost-free capital to the utility. Although the  
11 actual income taxes may not be paid until some point in the future, the financial impact of the  
12 deferred tax accumulation should be considered as an offset to the accrual of carrying costs, in  
13 this case the reduction of the proposed construction accounting.

14 The second category of deferred taxes is the deferred taxes accrued on the deferral of  
15 the regulatory asset, comprised of depreciation and carrying costs. For each month these  
16 expenses are deferred, ADIT is accrued on the amount. For income tax purposes, the  
17 expenses charged to the deferral are deductible in the year incurred; there is no special  
18 treatment for tax purposes. For financial reporting purposes, the deferral would be charged to  
19 income (expensed) over the amortization period; in this case, for the remaining service life of  
20 La Cygne. Since there is a higher tax deduction in the first year, KCPL reduces its income tax  
21 expense for tax purposes but does not do this for ratemaking purposes. This difference  
22 between tax treatment and book treatment creates the ADIT balance, similar to accelerated  
23 depreciation, and should be considered in the calculation of the carrying costs.

1 **CARRYING COST RATE – ADJUSTMENT 5**

2 Q. If the Commission allows KCPL to recover the La Cygne construction  
3 accounting deferred amounts in rates, what carrying cost rate does Staff recommend be used  
4 to calculate carrying costs?

5 A. In its direct filing, KCPL estimated the AFUDC rate in effect at the time of the  
6 deferrals. The Commission authorized the rate used in the calculation of carrying costs to be  
7 the AFUDC rate in the last month before La Cygne Unit 2 and common plant become  
8 operational. This rate will be known before the filing of the May 31, 2015 true-up.

9 **EQUITY RATE ADJUSTMENT – ADJUSTMENT 6**

10 Q. Are there any adjustments to the AFUDC rate that should be made?

11 A. Yes. The AFUDC rate is calculated using several component rates contained  
12 within the overall cost of capital calculation: short-term debt, customer deposits, long-term  
13 debt, and equity rates. Staff recommends a 250 basis point (2.50%) reduction be assumed in  
14 the cost rate of common equity component of the AFUDC rate. The USOA defines the cost  
15 of equity rate used in the overall AFUDC calculation as follows:

16 The cost rate for common equity shall be the rate granted common  
17 equity in the last rate proceeding before the ratemaking body  
18 having primary rate jurisdictions. If such cost rate is not available,  
19 the average rate actually earned during the preceding three years  
20 shall be used. (FERC USOA Paragraph 18, Subpart (b))

21 The return on equity rate currently being used in KCPL's AFUDC calculation is 9.7%, the  
22 return on equity authorized for KCPL in Case No. ER-2012-0174. Generally, the return on  
23 equity compensates shareholders for the risks inherent in owning equity in a utility. Part of  
24 that risk is regulatory lag, both positive and negative. If the Commission authorizes recovery  
25 of construction accounting deferrals for the La Cygne environmental project, a substantial  
26 amount of risk to shareholders will be removed. To reflect this reduction in risk a

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1 complementary reduction in the equity rate used to calculate for construction accounting  
2 carrying costs should be used.

3 Q. Has the equity rate been reduced in prior instances of construction accounting?

4 A. Yes. The construction accounting for Iatan 2 included a reduction in the equity  
5 rate for carrying costs for both the AFUDC accrued during construction and the carrying costs  
6 for the deferral. This was included as part of the Regulatory Plan authorized by the  
7 Commission in Case No. EO-2005-0329. This reduction was 250 basis points (2.50%), the  
8 same reduction Staff recommends for this deferral, if the Commission approves recovery.

9 **LIMITS TO THE DEFERRALS – ADJUSTMENTS 7 AND 8**

10 Q. Please explain adjustments 7 and 8.

11 A. These can be described more as conditions than adjustments.

12 The Commission ordered in Case No. EU-2014-0255, in ordered paragraph 4, that the  
13 base on which carrying costs are calculated shall not increase after the amount determined at  
14 the true-up in Case No. ER-2014-0370, and that no additional deferrals shall be recorded after  
15 the effective date of rates in this case.

16 Q. What are the amounts of the deferrals KCPL and Staff have calculated?

17 A. In its direct filing, KCPL calculated a deferral of \$8,251,886. This amount did  
18 not include any deferrals for September 2015, and assumes a 4.67% carrying cost. Staff has  
19 calculated a deferral of \$10,494,839 through the effective date of rates and assuming a  
20 carrying cost rate of 5.03%. This amount is based on a six month average of January through  
21 June 2014 actual AFUDC, less Staff's recommended 2.50% reduction to the equity rate, along  
22 with Staff adjustments to the deferrals. As ordered by the Commission, the carrying cost rate  
23 to be used is the AFUDC rate effective the last month before La Cygne Unit 2 and common  
24 plant become operational. The amounts are estimates, but are believed by Staff to be reliable

1 for purposes of determining if recovery of the deferrals should be approved or denied. A  
2 summary of Staff's estimated La Cygne deferrals are attached as Schedule KM-R3.

3 **OTHER MITIGATING COST DECREASES**

4 Q. On page 6 of KCPL witness Klote's Direct testimony, he discusses the concept  
5 of "regulatory lag." Are there specific examples related to show that regulatory lag can  
6 benefit shareholders?

7 A. Yes. KCPL has reduced its employee headcount after its last rate case,  
8 Case No. ER-2012-0174, by a net of 169 employees. This has resulted in substantial savings  
9 retained by KCPL.

10 KCPL has been able to refinance significant amounts of its long term debt, which has  
11 produced interest savings. These interest savings accrue to shareholders before they are  
12 reflected in the cost of service. Staff witness Cary G. Featherstone discusses both the interest  
13 savings and payroll savings in detail in his rebuttal testimony

14 There are several amortizations of regulatory assets that have been fully recovered  
15 since the 2012 KCPL rate case. The amount in rates for these items accrue to shareholders  
16 before the reduction is reflected in the cost of service. Staff recommends this over-collection  
17 be recognized and returned to customers over three years. *See pages 145-148 of Staff's Cost*  
18 *of Service Report.*

19 Until May 16, 2014, the Department of Energy (DOE) was charging a fee of 1 (one)  
20 "mil" (1/10 of one cent, or 1/1000 of one dollar) per kWh of electricity produced at  
21 Wolf Creek to the owners of Wolf Creek for the storage of spent nuclear fuel and materials  
22 used in the production of electricity at Wolf Creek. Until the reduction of this fee is reflected  
23 in rates, KCPL will retain the related savings. Staff recommends the amount of savings be



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1 recognized and returned to customers over five years. *See pages 97-100 of Staff's Cost of*  
2 *Service Report.*

3 These cost reductions are examples of regulatory lag providing benefits to a utility that  
4 offset against increases in other expenses and decreases in revenues.

5 Q. If the Commission grants recovery of the deferred amounts, does Staff have  
6 any other recommendations?

7 A. Construction accounting is unique because it recognizes expenses past the  
8 May 31, 2015 true-up cutoff date. This extraordinary rate treatment should be applied  
9 infrequently. Staff has identified several amortizations that have been over-collected by  
10 KCPL, as well as a benefit of reduced DOE nuclear waste fund fees. Staff recommends  
11 return of these amounts to customers. If the Commission allows rate recovery of the  
12 La Cygne deferrals, Staff recommends the amounts of the amortizations and DOE fees, which  
13 KCPL will collect through the effective date of rates should be recognized through that date  
14 and returned to customers.

15 Q. If the Commission does not grant rate recovery of the La Cygne construction  
16 accounting deferrals, is there still a benefit from the deferral and amortization?

17 A. There is a benefit because the financial impact of the event is spread across  
18 multiple accounting reporting periods (years) rather than reflecting the entire impact in the  
19 year the event occurred. Absent the deferral treatment authorized by the Commission, the  
20 utility would have to charge the costs as current expenses in the year costs were incurred.

21 An example of this scenario is the AAO authorized in Case No. EU-2002-1048 for  
22 KCPL's expenditures related to the 2002 ice storm impacting the majority of its distribution  
23 system. The Commission ordered amortization of KCPL's deferral to begin September 2002

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1 and end January 2007. KCPL did not file a general rate case from the mid-1980s until  
2 February 1, 2006. In the interim between authorization of this AAO and early 2006, KCPL  
3 amortized the regulatory asset to expense and determined that earnings were adequate and that  
4 no rate relief was necessary during the amortization period. In that case, the Commission's  
5 grant of an AAO functioned in practice more as a tool to "smooth" earnings over several  
6 accounting periods rather than to provide rate recovery of extraordinary costs.

7 In response to Data Request No. 0222, KCPL did not "write off" any of the amounts  
8 deferred in Case No. EU-2002-1048; therefore, KCPL recovered the amounts in rates  
9 indirectly.

10 Q. Please summarize your rebuttal testimony concerning the La Cygne  
11 construction accounting deferred amounts.

12 A. Staff recommends the Commission reject recovery of La Cygne construction  
13 accounting deferrals. The expenses in question do not meet the Commission's standard of  
14 extraordinary. The expenses are not extraordinary, unique, and unusual, or non-recurring.  
15 The La Cygne environmental project does not rise to the level of other more substantial  
16 construction projects that have been authorized for construction accounting. Therefore,  
17 KCPL's request to recover deferred costs relating to the La Cygne environmental retrofit  
18 project should be denied.

19 **BAD DEBT EXPENSE**

20 Q. Please summarize Staff's position with regard to bad debt expense.

21 A. In this testimony, I respond to KCPL's request to recover bad debt expense in  
22 excess of the annualized level of bad debt expense calculated in this case. KCPL's request to  
23 include an adjustment for bad debt expense associated with the revenue requirement increase

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1 (or decrease) is commonly referred to as bad debt “factor up” or “gross up.” KCPL has  
2 included an additional \$946,144 of Missouri jurisdictional bad debt on its direct filed revenue  
3 requirement, and \$486,148 as of the December 31, 2014 update.

4 KCPL’s rationale for making this request is based on the assumption that any increase  
5 in revenue requirement granted by the Commission will cause bad debt expense to also  
6 directly increase proportionally. However, KCPL has not demonstrated a direct correlation  
7 between the level of rates and the percentage of bad debts that would justify the reflection of  
8 increased bad debt expense in rates. KCPL’s request is based upon an assumption that is  
9 speculative and is not based upon known and measurable changes. Staff has based  
10 its recommendation on actual historical levels of bad debt. Staff’s analysis concludes  
11 that there is no direct correlation between bad debts and the level of rate increases, or even  
12 the level of revenue growth of KCPL. Staff’s analysis of the actual net write-offs to  
13 related revenues depicted in the attached charts and graphs indicates that bad debt expense  
14 sometimes moves in the opposite direction or not in direct proportion when levels of rates and  
15 revenues increase.

16 Staff recommends that the Commission deny KCPL’s request to adopt KCPL’s  
17 proposed bad debt “factor up” for bad debts. However, in the event that the Commission does  
18 grant KCPL’s request to “factor up” bad debt expense proportionate with an increase in  
19 revenue requirement, Staff recommends it also reflect in the bad debt “factor-up” for  
20 additional forfeited discounts (late payment fees) that will increase as result of the rate  
21 increase. If the Commission concludes that it is reasonable and appropriate to “factor up” bad  
22 debt expense for purposes of setting rates, on the theory that KCPL will experience a higher

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1 level of bad debts as a result of a rate increase, then it is reasonable to conclude that KCPL  
2 will also experience a higher level of late payment revenue resulting from those higher rates.

3 Q. Does Staff believe that it is reasonable to assume that there will be bad debts  
4 associated with the revenue requirement increase granted in this rate case?

5 A. In theory, it might be assumed that bad debts should increase as rates increase  
6 or as revenues increase. However, upon examining actual historical bad debts in relationship  
7 to revenues, there usually is not a direct relationship of bad debts for increases in revenues.  
8 Thus, any increase in a Company's revenues will not automatically cause bad debt expense to  
9 directly increase proportionally, on a dollar-for-dollar basis. Staff's analysis demonstrates no  
10 evidence of this direct correlation for KCPL, and KCPL has not produced any evidence of a  
11 direct correlation in its testimony or workpapers. In fact, at various times as revenues  
12 increased, bad debts have actually declined. In other instances, when revenues decreased, bad  
13 debts increased. The conclusion is there is no direct relationship between bad debts and  
14 revenue increases.

15 The justification for use of the bad debt "factor up" is the belief that it is necessary to  
16 match dollar-for-dollar the level of bad debt expense established in a rate case with the  
17 amount of additional revenue requirement increase approved by the Commission. This  
18 additional amount of bad debt expense, if the "factor up" is granted, will be calculated and  
19 added to the annualized and normalized level of bad debt expense found reasonable for  
20 inclusion in the utility's revenue requirement. The amount of any ordered bad debt  
21 "factor up" will be derived by applying the bad debt expense ratio to the expected revenue  
22 requirement increase to be granted by the Commission.

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1 Q. How does Staff respond to KCPL's assumption regarding a proportional  
2 increase in bad debt expense?

3 A. While Staff believes that this generalized view may seem reasonable on a  
4 theoretical basis, Staff has found from looking at actual results, this assumption does not hold  
5 true. In other words, the use of bad debt "factor up" means it is a virtual certainty that, with  
6 each rate increase, bad debts will be increased using the same bad debt percentage. This is  
7 simply not the reality of what actually occurs. As Staff's evidence demonstrates, there is no  
8 direct correlation between how bad debt responds to increases in revenues.

9 KCPL has provided no evidence there is a direct correlation between revenue  
10 increases and bad debts. Staff's analysis concludes KCPL's proposed bad debt "factor up"  
11 request should not be adopted in this case. Therefore, Staff recommends that the Commission  
12 does not adopt KCPL's request.

13 Q. Does KCPL's requested bad debt "factor up" work in the same way as an  
14 income tax "factor up"?

15 A. Yes. KCPL's proposed bad debt "factor up" methodology is in essence the  
16 same as the income tax "factor up." However, it is improper to use this "factor up" method  
17 for bad debt because it assumes the same relationship exists as that of income taxes and  
18 increased revenues. This assumption is not supported by evidence for bad debt and revenues.  
19 The income tax factor assumes that for every increase in earnings to a utility resulting from a  
20 rate case there will be a direct and absolute proportional increase in income taxes. This is a  
21 well-established relationship in ratemaking, and in this case both KCPL and Staff have  
22 applied an income tax "factor up" to the additional revenue requirement calculation to  
23 determine the proper level of rate increase recommended in this case. If the Commission

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Keith Majors

1 | authorizes a rate increase in this proceeding, then a corresponding income tax amount will  
2 | have to be added to the additional revenue requirement amount or KCPL may not be able to  
3 | recover the authorized amount of increase in revenue requirement. However, it is clear from  
4 | the analysis conducted by Staff that no such direct relationship exists between increased rates  
5 | and increased bad debt expenses.

6 | Q. Has Staff performed any analysis that would support the position that no direct  
7 | relationship exists for bad debts relating to additional revenue requirement for KCPL?

8 | A. Yes. Attached to this rebuttal testimony, as Schedule KM-R4, is a historical  
9 | monthly analysis of KCPL's bad debts and retail revenue levels for KCPL. KCPL's own  
10 | historical data does not support the position that there is always a corresponding direct  
11 | relationship between revenues and bad debt expense; whereby any rate increase will always  
12 | result in an automatic increase in bad debt expense in the same magnitude and proportion.

13 | Q. How did Staff review KCPL's historical relationship of bad debt expense to  
14 | sales revenue?

15 | A. Staff reviewed historical revenues and bad debts over several years, yet none  
16 | of those analyses produced any substantive support that a direct relationship exists between  
17 | revenues and bad debts to justify inclusion of the bad debt "factor up" in this case. Staff  
18 | utilized both numerical and graphical presentations in its review. These are attached as  
19 | Schedules KM-R5, KM-R6, KM-R7, and KM-R8.

20 | Q. What does Schedule KM-R4 show?

21 | A. The information shown in Schedule KM-R4 clearly demonstrates there is no  
22 | direct relationship between bad debts and increased revenues that would have to exist to  
23 | justify a bad debt "factor up" calculation.

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1 Q. What are some historical examples specific to KCPL when bad debts did not  
2 increase proportionately to increased revenues?

3 A. Staff reviewed the changes or variations that occurred between electric retail  
4 revenues and actual bad debt write-offs for a 10-year period from January 2005 through  
5 June 2014<sup>8</sup> (see attached schedules). In other words, using KCPL's data, Staff reviewed how  
6 bad debts varied in relation to revenues for a nearly 10-year period (114-month period).

7 About half of the data reviewed showed that there was no direct correlation or  
8 proportionate relationship. That is, while electric revenues increased (or decreased), actual  
9 bad debt write-offs tend to decrease (or increase) by different amounts and in different  
10 directions. In fact, during KCPL's summer peaking months<sup>9</sup>, there was at least one month  
11 each year where revenues and bad debts had an inverse relationship beginning January 2007  
12 through December 2011. Even in situations where revenues and bad debts tend to move in  
13 the same direction, Staff observed that they were either increased or decreased by different  
14 and disproportionate amounts. This situation does not, in any way, support the theory that  
15 bad debt write-offs have a proportional relationship to revenues. The following table  
16 identifies several examples during the peak summer months when the increase or decrease in  
17 revenues is not consistent with the increase or decrease in bad debts:

18  
19  
20 *continued on next page*

---

<sup>8</sup> The approximate time to "write-off" bad debts is six months. Therefore, bad debts in a given month relate to revenues six months prior. Staff's December 31, 2014 cutoff analysis through December 31, 2014 updates through December bad debts that relate to June 2014 revenues.

<sup>9</sup> KCPL Witness Burton L. Crawford identifies KCPL peak load periods as June through September in his Direct Testimony in Case No. ER-2014-0370, on page 8, lines 17-18.

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Keith Majors

1

Month/Year	Revenue Percentage Change	Bad Debt Percentage Change
July 2005	12.55%	-15.19%
August 2006	-3.15%	2.65%
June 2007	21.84%	-6.64%
July 2007	16.73%	-5.94%
August 2007	12.46%	-32.38%
September 2007	-29.50%	54.24%
July 2008	16.06%	-27.77%
September 2008	-28.02%	19.72%
July 2009	9.03%	-43.44%
September 2009	-14.75%	100.78%
June 2010	38.88%	-11.71%
August 2010	0.13%	-63.04%
September 2010	-31.56%	97.45%
July 2011	21.98%	-4.43%
July 2013	15.06%	-17.68%

2

3 Q. What is the significance of the January 2007 date and the summer peaking  
4 months discussed above?

5 A. January 2007 represents the effective date of rates of the first of four KCPL  
6 rate cases. Beginning January 1, 2007, KCPL customers have experienced four rate increases  
7 as a result of the 2005 Regulatory Plan. The summer peaking months of June through  
8 September represent the months KCPL revenues are its highest during a given year.  
9 For KCPL's argument to hold true, bad debts would increase when revenues increased  
10 beginning with the first rate increase effective January 1, 2007, and during its summer  
11 peaking months. Based on the table above, KCPL's argument simply does not hold true.

12 Q. On an annual basis, what is the comparison of Missouri bad debts to revenues?

13 A. The ratio of bad debts to revenues has recently decreased to a level around the  
14 2006 levels, before KCPL's first rate increase since the mid 1980's. Schedules KM-R9 and  
15 KM-R10 show that bad debts, as a percentage of revenues, actually decreased after the 2006,



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1 2007, and 2010 rate increases. The percentage of bad debts to revenues in December 2006  
2 was \*\* \_\_\_\_ \*\*. As can be seen from the data, this ratio has fluctuated both up and  
3 down, and as of June 2014, the ratio is \*\* \_\_\_\_ \*\*.

4 Q. What are "forfeited discounts"?

5 A. Forfeited discounts also known as "late payment fees" and are fees that KCPL  
6 charges its customers for making late payments of customer bills whenever they become due.  
7 The charges are assessed on the remainder of the unpaid bill.

8 Q. How are "forfeited discounts" or late payment fees booked by KCPL?

9 A. Late fees payments are considered additional revenue and, as such, are booked  
10 as revenue by KCPL.

11 Q. Did KCPL propose to "factor up" late payment fees consistent with its  
12 requested bad debt "factor up" for revenue requirements increase?

13 A. No.

14 Q. Has Staff performed any analysis that would support there is a relationship  
15 between increased revenues and late payment fees?

16 A. Yes. Attached to this rebuttal testimony, as Schedules KM-R11, KM-R12, and  
17 KM-R13, is a historical monthly analysis of KCPL's late payment fees and retail revenue  
18 levels for KCPL. Contrary to Staff's bad debt analysis, the relationship between late payment  
19 fees and increased revenues does exist. Although the relationship between late payment fees  
20 and increased revenues is not a perfect correlation, Staff's analysis indicates the relationship  
21 is much closer to a direct correlation than the relationship of bad debt expense to increased  
22 revenues rates as KCPL would have the Commission believe.

**NP**

1 Q. Is it consistent to treat forfeited discounts or late payment fees in the same  
2 manner as bad debt expense levels with respect to the “factor up” issue?

3 A. Yes. Staff’s recommends that if the Commission decides to grant KCPL’s  
4 request to increase bad debt expense proportionate to any increase in revenue requirement,  
5 then it should also “factor up” late payment fees for the same reason. If the Commission  
6 concludes that KCPL will experience a proportionately higher level of bad debt as a result of  
7 a rate increase then it would follow that KCPL will experience a higher level of late payment  
8 revenue as well.

9 **CLEAN CHARGE NETWORK ELECTRIC VEHICLE CHARGERS**

10 Q. What is KCPL’s Clean Charge Network?

11 A. It is KCPL and GMO’s planned installation of more than 1,000 electric vehicle  
12 charging stations throughout the greater Kansas City region. Staff describes this proposal at  
13 pages 204 to 205 of its revenue requirement cost of service report filed April 3, 2015, and  
14 explains in the following eight pages of the cost of service report why Staff did not include  
15 costs of it in Staff’s revenue requirement for KCPL.

16 Q. Did KCPL include in its direct filed case expenses and investment associated  
17 with the Clean Charge Network?

18 A. Yes. KCPL included Adjustment CS-49 – Miscellaneous Expense, which is its  
19 estimate of the operations and maintenance expense related to the Clean Charge Network.  
20 KCPL’s estimate is \$385,947; approximately 55% is allocated to Missouri. KCPL also  
21 included a budgeted amount of plant-in-service expected to be installed at the end of the true-  
22 up period—\$7 to \$9 million, total company (Kansas and Missouri).

Rebuttal Testimony of  
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1 Q. Did KCPL include any revenues associated with its Clean Charge Network in  
2 its direct case?

3 A. KCPL did not include any revenues related to the Clean Charge Network in its  
4 direct filing, neither actual nor projected.

5 Q. Is it significant that KCPL included expenses for the Clean Charge Network,  
6 but not revenues?

7 A. Yes. The traditional cost of service ratemaking in Missouri relies on the  
8 "matching principle." The utility's current cost to serve is matched with the revenues it gets  
9 from its customers at a particular time. KCPL has violated that matching principle by  
10 including only expenses associated with its Clean Charge Network proposal in this case.

11 KCPL was readily able to estimate the expense and investment related to the vehicle  
12 chargers, but was somehow unable to estimate the revenues. The O&M expenses that KCPL  
13 estimated will likely not be incurred before the May 31, 2015, but in this case, KCPL has  
14 requested them. This inconsistency should not go unnoticed by the Commission.

15 Q. Does Staff have any additional recommendations concerning the Clean Charge  
16 Network?

17 A. Following Staff's recommendation detailed by Staff witness Michael L.  
18 Stahlman in the direct filed cost of service report, KCPL should keep proper accounting of all  
19 revenues and expenses related to the vehicle chargers by:

- 20 • Fully allocating costs related to the Clean Charge Network pursuant to the  
21 Commission approved cost allocation manual (CAM);  
22 • Record the costs related to the Clean Charge Network to "below the line"  
23 accounts; and  
24 • Segregate the revenues and expenses for ease of identification.

25 Q. Does that conclude your rebuttal testimony?

26 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF KEITH MAJORS

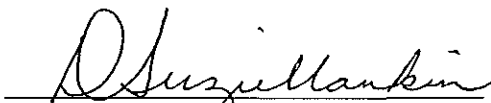
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Keith Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 41 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Keith Majors

Subscribed and sworn to before me this 6<sup>th</sup> 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

  
\_\_\_\_\_  
Notary Public

**Kansas City Power & Light Company**

**Case No. ER-2014-0370**

Rate Analysis

Source: EEI Typical Bills and Average Rates Report  
Winter 2007 and Summer 2014

Electric Rates Comparison

All figures are cents per kilowatt hour (kWh)

<u>Total Retail Rates</u>	<u>Year 2006 as of 1/1/06</u>	<u>EEI Reference</u>	<u>Year 2014 as of 7/1/14</u>	<u>EEI Reference</u>	<u>percentage change</u>
KCPL	5.66	page 180	8.79	page 178	55.3%
Missouri Average	5.74	page 180	8.53	page 178	48.6%
West North Central Region	6.38		8.64	page 180	35.4%
National Average	8.89		10.53	page 195	18.4%
 <u>Residential Rates</u>					
KCPL	6.90	page 214	10.84	page 212	57.1%
Missouri Average	6.96	page 214	10.43	page 212	49.9%
West North Central Region	7.99		10.90	page 213	36.4%
National Average	10.62		12.56	page 228	18.3%
 <u>Commercial Rates</u>					
KCPL	5.49	page 247	8.41	page 244	53.2%
Missouri Average	5.56	page 247	8.16	page 244	46.8%
West North Central Region	6.38		8.70	page 245	36.4%
National Average	9.33		10.71	page 260	14.8%
 <u>Industrial Rates</u>					
KCPL	4.21	page 280	6.32	page 276	50.1%
Missouri Average	4.14	page 280	5.81	page 276	40.3%
West North Central Region	4.76		6.16	page 277	29.4%
National Average	6.00		7.10	page 292	18.3%

**Kansas City Power & Light Company**  
**Case No. ER-2014-0370**

Rate Analysis

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**Kansas City Power and Light Company  
Case No. ER-2014-0370**

<b>Comparative Construction Analysis</b>									
<b>Prepared by Keith Majors, Case No. ER-2014-0370</b>									
<b>Company</b>	<b>Construction Accounting Case No.</b>	<b>Construction Project</b>	<b>Total Company Share Constructed Plant in Service</b>	<b>Source</b>	<b>Missouri Jurisdictional Constructed Plant in Service</b>	<b>Source</b>	<b>Missouri Jurisdictional Net Rate Base Excluding Construction Project</b>	<b>Source</b>	<b>Construction Project % of Net Rate Base</b>
Union Electric	EO-85-17 & ER-85-160	Callaway	2,978,248,000	Commission Reports, Volume 27, p.189	2,442,300,000	Commission Reports, Volume 27, p.189	4,055,088,934	Commission Reports, Volume 27, p. 270	60.23%
Ameren Missouri	ER-2010-0036	Sioux Environmental	574,098,132	Gary Weiss True-Up Direct, ER-2011-0028	574,098,132	Gary Weiss True-Up Direct, ER-2011-0028	6,135,560,194	Gary Weiss True-Up Direct, ER-2011-0028	9.36%
KCPL	EO-85-185 & ER-85-128	Wolf Creek	1,366,496,000	Commission Reports, Volume 28, p. 279	924,812,000	Commission Reports, Volume 28, p. 279	1,126,914,700	Commission Reports, Volume 28, p. 415	82.07%
KCPL	ER-2009-0089	Iatan 1 & Common Environmental	496,841,343	DR 193, Case No. ER-2012-0174	267,648,432	DR 193, Case No. ER-2012-0174	1,269,458,884	Staff Direct Accounting Schedules, ER-2009-0089	21.08%
KCPL GMO - L&P	ER-2009-0090	Iatan 1 & Common Environmental	94,684,505	DR 141, Case No. ER-2012-0175	94,684,505	DR 141, Case No. ER-2012-0175	190,475,404	Staff Direct Accounting Schedules, ER-2009-0090	49.71%
KCPL	EO-2005-0329	Iatan 2 & Common	982,476,091	DR 193, Case No. ER-2012-0174	525,673,764	DR 193, Case No. ER-2012-0174	1,524,610,061	Staff Revised True-Up Accounting Schedules, ER-2010-0355	34.48%
KCPL GMO - MPS	EU-2011-0034	Iatan 2 & Common	206,289,001	DR 141, Case No. ER-2012-0175	205,257,556	DR 141, Case No. ER-2012-0175	1,108,183,457	Staff Revised True-Up Accounting Schedules, ER-2010-0356	18.52%
KCPL GMO - L&P	EU-2011-0034	Iatan 2 & Common	109,333,171	DR 141, Case No. ER-2012-0175	109,333,171	DR 141, Case No. ER-2012-0175	300,554,763	Staff Revised True-Up Accounting Schedules, ER-2010-0356	36.38%
Empire	EO-2005-0263	Iatan 1 & Common Environmental	62,209,942	Mertens Direct, ER-2011-0004	51,835,750	Mertens Direct, ER-2011-0004	717,938,940	Staff Direct Accounting Schedules, ER-2010-0130	7.22%
Empire	EO-2005-0263	Iatan 2 & Common	269,059,140	Mertens Direct, ER-2011-0004	224,190,569	Mertens Direct, ER-2011-0004	641,697,501	Staff Direct Accounting Schedules, ER-2011-0004	34.94%
Empire	EO-2010-0262	Plum Point	105,097,322	Mertens Direct, ER-2011-0004	87,571,187	Mertens Direct, ER-2011-0004	641,697,501	Staff Direct Accounting Schedules, ER-2011-0004	13.65%
KCPL	EO-2014-0255	LaCygne Environmental	568,343,874	KCPL Direct Workpapers	302,188,438	KCPL Direct Workpapers	2,184,820,259	Staff Direct Accounting Schedules, ER-2014-0370	13.83%

**Kansas City Power and Light Company**  
**Case No. ER-2014-0370**

Case No. ER-2014-0370  
 Summary of Estimated Staff Deferral

<b>Year</b>	<b>Period</b>	<b>Missouri Jurisdiction Depreciation Deferral</b>	<b>Missouri Jurisdiction Carrying Costs</b>	<b>Less: Impact of Deferral ADIT</b>	<b>Total Estimated Regulatory Asset</b>
2015	April	297,118	518,877	(1,313)	814,682
2015	May	659,968	1,152,005	(4,229)	1,807,744
2015	June	725,699	1,262,410	(7,428)	1,980,681
2015	July	725,699	1,257,210	(10,619)	1,972,290
2015	August	725,699	1,252,010	(13,801)	1,963,908
2015	September	725,699	1,246,810	(16,975)	1,955,534
<b>Total</b>		<b>3,859,882</b>	<b>6,689,321</b>	<b>(54,364)</b>	<b>10,494,839</b>



**SCHEDULES  
KM-R4 through KM R10**

**HAVE BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN THEIR ENTIRETY**

**Kansas City Power & Light Company**

**Case No. ER-2014-0370**

**Missouri Forfeited Discounts - January 2005 through September 2010**

	MO Total Retail Revenue	MO Forfeited Discounts	Change in Revenues%	Change in Forfeited Discounts %	No. of Occurrence **
Jan-05	\$ 38,837,702	\$ 99,464			
Feb-05	34,205,072	99,068	-11.93%	-0.40%	
Mar-05	36,452,702	91,310	6.57%	-7.83%	1
Apr-05	33,467,075	91,610	-8.19%	0.33%	2
May-05	41,124,531	99,293	22.88%	8.39%	
Jun-05	56,078,592	90,424	36.36%	-8.93%	3
Jul-05	63,423,544	120,039	13.10%	32.75%	
Aug-05	62,123,258	154,009	-2.05%	28.30%	4
Sep-05	49,914,183	141,496	-19.65%	-8.12%	
Oct-05	36,995,007	127,606	-25.68%	-9.82%	
Nov-05	33,911,260	90,274	-8.34%	-29.26%	
Dec-05	39,541,375	95,977	16.60%	6.32%	
Jan-06	36,303,519	110,064	-8.19%	14.68%	5
Feb-06	36,046,531	107,946	-0.71%	-1.92%	
Mar-06	36,885,006	91,305	2.33%	-15.42%	6
Apr-06	35,031,829	104,904	-5.02%	14.89%	7
May-06	43,795,018	101,807	25.01%	-2.95%	8
Jun-06	56,669,012	101,042	29.40%	-0.75%	9
Jul-06	66,884,748	137,870	18.03%	36.45%	
Aug-06	65,318,637	166,145	-2.34%	20.51%	10
Sep-06	44,499,436	147,033	-31.87%	-11.50%	
Oct-06	37,763,280	130,900	-15.14%	-10.97%	
Nov-06	34,841,131	106,639	-7.74%	-18.53%	
Dec-06	37,743,640	100,214	8.33%	-6.03%	11
Jan-07	44,261,292	137,840	17.27%	37.55%	
Feb-07	40,958,135	123,878	-7.46%	-10.13%	
Mar-07	40,012,229	129,576	-2.31%	4.60%	12
Apr-07	38,409,071	122,114	-4.01%	-5.76%	
May-07	48,099,820	124,347	25.23%	1.83%	
Jun-07	58,882,700	118,484	22.42%	-4.72%	13
Jul-07	68,723,789	149,411	16.71%	26.10%	
Aug-07	77,114,245	178,036	12.21%	19.16%	
Sep-07	55,747,736	144,756	-27.71%	-18.69%	
Oct-07	41,202,044	162,957	-26.09%	12.57%	14
Nov-07	38,859,081	127,986	-5.69%	-21.46%	
Dec-07	43,701,227	115,639	12.46%	-9.65%	15
Jan-08	45,710,932	144,412	4.60%	24.88%	
Feb-08	46,959,039	129,995	2.73%	-9.98%	16
Mar-08	43,052,464	117,191	-8.32%	-9.85%	
Apr-08	42,131,310	108,632	-2.14%	-7.30%	
May-08	48,483,145	113,720	15.08%	4.68%	
Jun-08	62,732,154	126,975	29.39%	11.66%	
Jul-08	72,765,270	158,805	15.99%	25.07%	
Aug-08	71,909,598	178,529	-1.18%	12.42%	17
Sep-08	52,639,422	208,799	-26.80%	16.96%	18
Oct-08	43,725,874	175,683	-16.93%	-15.86%	
Nov-08	39,046,805	96,750	-10.70%	-44.93%	
Dec-08	46,213,179	184,379	18.35%	90.57%	
Jan-09	47,737,364	158,946	3.30%	-13.79%	19
Feb-09	41,383,277	127,116	-13.31%	-20.03%	
Mar-09	45,155,064	100,034	9.11%	-21.30%	20
Apr-09	41,657,762	112,652	-7.75%	12.61%	21
May-09	46,511,598	121,955	11.65%	8.26%	
Jun-09	62,916,870	113,737	35.27%	-6.74%	22
Jul-09	69,202,559	146,391	9.99%	28.71%	
Aug-09	66,643,608	173,689	-3.70%	18.65%	23
Sep-09	57,399,681	140,392	-13.87%	-19.17%	
Oct-09	52,378,254	152,904	-8.75%	8.91%	24
Nov-09	45,218,105	116,222	-13.67%	-23.99%	
Dec-09	56,481,043	133,384	24.91%	14.77%	
Jan-10	50,506,211	156,355	-10.58%	17.22%	25
Feb-10	57,857,901	143,772	14.56%	-8.05%	26
Mar-10	52,164,805	145,993	-9.84%	1.54%	27
Apr-10	48,628,159	126,156	-6.78%	-13.59%	
May-10	55,998,631	111,026	15.16%	-11.99%	28
Jun-10	77,999,013	126,582	39.29%	14.01%	
Jul-10	88,699,315	173,783	13.72%	37.29%	
Aug-10	89,281,470	204,270	0.66%	17.54%	
Sep-10	62,370,429	204,688	-30.14%	0.20%	29

Note: Prior to Case No ER-2012-0174, % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by the KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year)

\*\* This shows the number of times Revenue and Forfeited Discounts moved in different directions based on change in Revenues and change in Forfeited Discounts.

## Kansas City Power & Light Company

### Case No. ER-2014-0370

Missouri Forfeited Discounts - October 2010 through December 2014

	MO Total Retail Revenue Net of GRT	MO Forfeited Discounts Net of GRT	Change in Revenues%	Change in Forfeited Discounts %	No. of Occurrence **
Oct-10	44,843,482	149,219	-28.10%	-27.10%	
Nov-10	45,555,835	131,231	1.59%	-12.05%	30
Dec-10	50,546,732	112,638	10.96%	-14.17%	31
Jan-11	50,880,253	117,665	0.66%	4.46%	
Feb-11	47,449,546	107,420	-6.74%	-8.71%	
Mar-11	47,577,291	116,480	0.27%	8.43%	
Apr-11	44,630,894	154,325	-6.19%	32.49%	32
May-11	52,997,498	219,685	18.75%	42.35%	
Jun-11	77,349,117	210,091	45.95%	-4.37%	33
Jul-11	94,351,066	145,651	21.98%	-30.67%	34
Aug-11	83,481,154	96,647	-11.52%	-33.64%	
Sep-11	54,086,580	107,275	-35.21%	11.00%	35
Oct-11	52,241,107	163,163	-3.41%	52.10%	36
Nov-11	47,324,234	111,927	-9.41%	-31.40%	
Dec-11	50,769,775	110,917	7.28%	-0.90%	37
Jan-12	50,289,339	136,233	-0.95%	22.82%	38
Feb-12	48,596,289	124,800	-3.37%	-8.39%	
Mar-12	49,063,322	114,981	0.96%	-7.87%	39
Apr-12	47,154,390	123,092	-3.89%	7.05%	40
May-12	59,400,860	110,902	25.97%	-9.90%	41
Jun-12	76,279,227	109,615	28.41%	-1.16%	42
Jul-12	93,935,116	162,238	23.15%	48.01%	
Aug-12	79,288,166	237,557	-15.59%	46.43%	43
Sep-12	56,548,845	154,369	-28.68%	-35.02%	
Oct-12	50,904,708	156,165	-9.98%	1.16%	44
Nov-12	46,015,799	125,698	-9.60%	-19.51%	
Dec-12	50,171,648	113,049	9.03%	-10.06%	45
Jan-13	51,107,856	135,472	1.87%	19.83%	
Feb-13	53,587,208	128,443	4.85%	-5.19%	46
Mar-13	57,183,177	131,512	6.71%	2.39%	
Apr-13	51,699,175	124,935	-9.59%	-5.00%	
May-13	61,392,338	134,965	18.75%	8.03%	
Jun-13	75,513,189	120,191	23.00%	-10.95%	47
Jul-13	86,882,229	172,642	15.06%	43.64%	
Aug-13	86,046,087	201,225	-0.96%	16.56%	48
Sep-13	66,408,595	172,197	-22.82%	-14.43%	
Oct-13	53,282,413	128,615	-19.77%	-25.31%	
Nov-13	52,490,727	92,443	-1.49%	-28.12%	
Dec-13	58,043,678	141,534	10.58%	53.10%	
Jan-14	59,369,270	174,244	2.28%	23.11%	
Feb-14	55,961,495	154,209	-5.74%	-11.50%	
Mar-14	55,493,865	123,308	-0.84%	-20.04%	
Apr-14	50,797,624	131,379	-8.46%	6.55%	49
May-14	62,974,293	123,274	23.97%	-6.17%	50
Jun-14	76,631,505	132,743	21.69%	7.68%	
Jul-14	83,254,847	163,553	8.64%	23.21%	
Aug-14	90,362,430	181,526	8.54%	10.99%	
Sep-14	62,178,123	187,771	-31.19%	3.44%	51
Oct-14	53,719,652	172,711	-13.60%	-8.02%	
Nov-14	55,983,006	103,407	4.21%	-40.13%	52
Dec-14	57,723,673	163,572	3.11%	58.18%	

**Note:** Prior to Case No ER-2012-0174, % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by the KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year)

\*\* This shows the number of times Revenue and Forfeited Discounts moved in different directions based on change in Revenues and change in Forfeited Discounts.

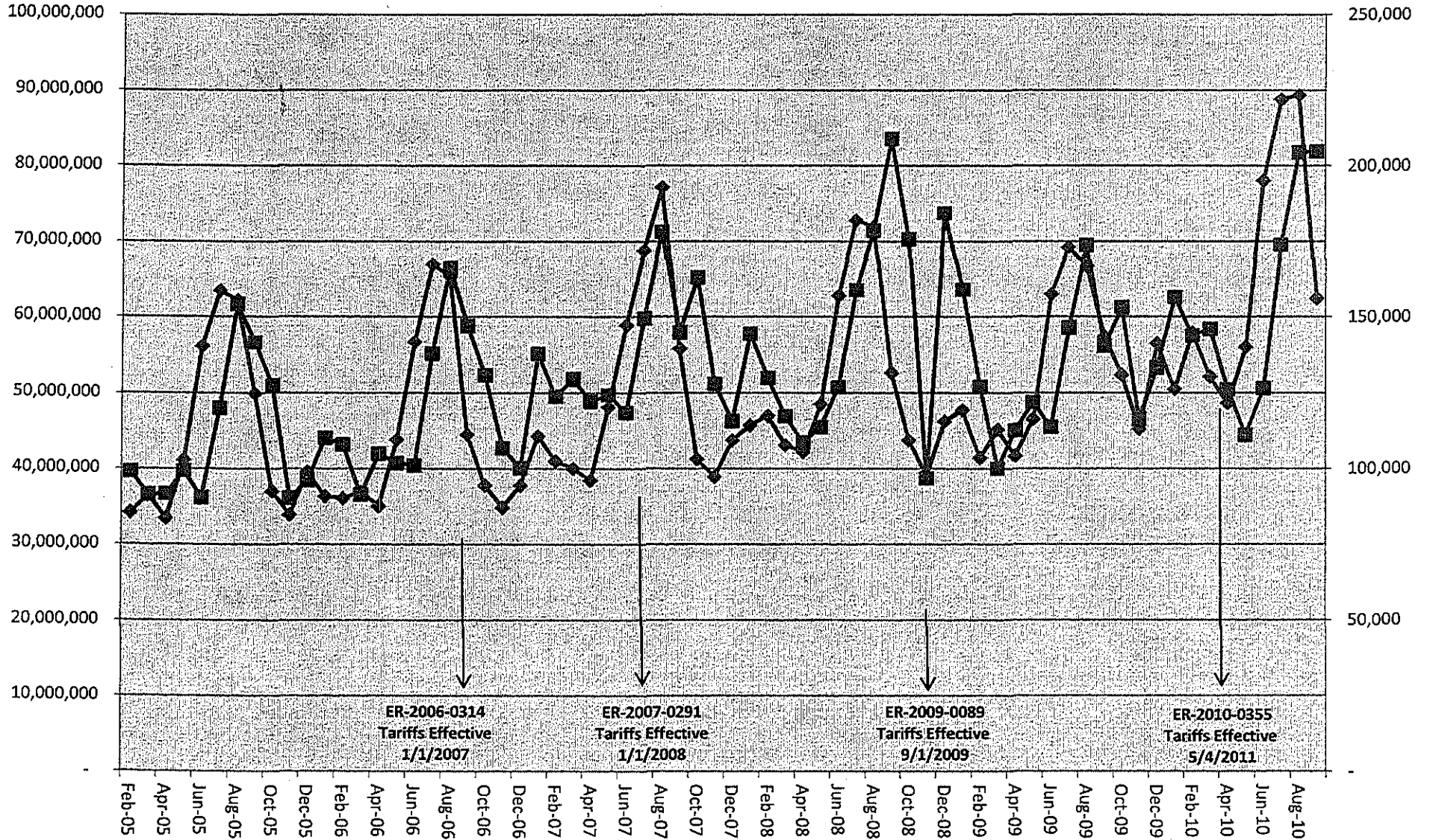
Kansas City Power and Light Company

Case No. ER-2014-0370

KCP&L - Forfeited Discount Analysis

Case No. ER-2014-0370 - 2005 Through September 2010

MO Retail Revenues \$



◆ Revenues \$    ■ Forfeited Discounts \$

Kansas City Power and Light Company

Case No. ER-2014-0370

KCP&L - Forfeited Discount Analysis

Case No. ER-2014-0370 - October 2010 Through December 2014

MO Retail Revenues \$

