

EXHIBIT

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SURREBUTTAL TESTIMONY

OF

AMANDA C. CONNER

Submitted on Behalf of the Office of the Public Counsel

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

**

**

**Denotes Highly Confidential Information
That Has Been Redacted**

January 27, 2017

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OPC Exhibit No. 301 NP
Rate 228-17 Reporter KF
File No. ER-2016-0285

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EXHIBIT

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service)
)
) Case No. ER-2016-0285
)

AFFIDAVIT OF AMANDA C. CONNER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Amanda C. Conner, of lawful age and being first duly sworn, deposes and states:

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

Amanda C. Conner
Amanda C. Conner
Public Utility Accountant I

Subscribed and sworn to me this 27th day of January 2017.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037

Jerene A. Buckman
Jerene A. Buckman
Notary Public

My Commission expires August, 2017.

9/12/2017
18 2017-11-28
10/12/2017

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SURREBUTTAL TESTIMONY
OF
AMANDA C. CONNER
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2016-0285

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Amanda C. Conner, PO Box 2230, Jefferson City, Missouri 65102.

4 **Q. Are you the same Amanda Conner who filed direct testimony in this case?**

5 A. Yes.

6 **Q. What is the purpose of this surrebuttal testimony?**

7 A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimonies of Kansas
8 City Power & Light Company ("KCPL") witnesses Ronald A. Klote on the management
9 expenses and severance issues as well as Tim M. Rush on the rate case expense issue.

10
11 **II. MANAGEMENT EXPENSES ADJUSTMENT**

12 **Q. As you respond to KCPL's criticisms of OPC's adjustment that was made to protect**
13 **the public from KCPL's excessive expense account spending, what is the real source**
14 **of this issue?**

15 A. The problem is not necessarily KCPL's expense account policies and procedures. While
16 they could be considered too general in nature, they also could be sufficient if KCPL
17 management actually followed these policies and procedures. They do not.

1 **Q. Mr. Klote describes at page 56 how you calculated OPC's proposed KCPL**
2 **management expense adjustment. Does he accurately describe the calculation of**
3 **OPC's adjustment?**

4 **A.** Yes. Based on OPC's review of KCPL's officer expense reports, OPC concluded a
5 reasonable dollar amount of average excessive and inappropriate charges per monthly
6 KCPL management monthly expense report is \$100 while the average excessive or
7 inappropriate charges per monthly KCPL officer expense report is \$300.

8 **Q. At page 56 line 13 Mr. Klote describes new "enhanced practices" related to KCPL's**
9 **expense report reimbursements. What caused these so-called enhanced practices?**

10 **A.** Pursuant to paragraph G of the July 1, 2015 *Partial Non-Unanimous Stipulation and*
11 *Agreement as to Certain Issues* in KCPL's 2014 rate case (ER-2014-0370), KCPL
12 provided a copy of its changes to its expense report procedures. This document is
13 attached as Schedule ACC-S-1 to this testimony. In addition to adding controls on
14 appropriate accounting for expense account reimbursements, KCPL also added the
15 following controls:

16 **Officer Expenses-**The general ledger default account for all officers has
17 been set to below-the-line non-utility accounts. In order for an officer
18 expense to be recorded to an operating utility account, the officer or
19 administrative assistant must positively enter an operating utility account
20 code to override this default coding.

21
22 **Additional Review of Transactions-** The Wells Fargo company credit card
23 program administrator is reviewing various samples of company credit card
24 business transactions each month to ensure company credit card policy
25 compliance as well as accurate accounting code block coding is followed.

26
27 **Q. Have these changes that KCPL made to its expense account policies and**
28 **procedures resulted in improvements?**

1 A. If these changes were in effect during the test year, the answer is no. If they
2 were in effect after the test year, the impact of the changes will have to be
3 reviewed in KCPL's next rate case. In any event, OPC's adjustment is based
4 on the excessive and inappropriate charges included in KCPL's test year
5 income statement. Without OPC's adjustment, these excessive or
6 inappropriate charges will be included in KCPL's electric utility rates
7 developed from this rate case.

8
9 **Q. Mr. Klote expresses concerns over OPC imputation of a dollar amount of excessive
10 and inappropriate expense report charges based on a sample of KCPL management
11 to all of KCPL management. Please comment on Mr. Klote's concern.**

12 A. Mr. Klote states the following at page 57 line 12:

13 Second, the simple insinuation based on the inputs into her calculation that
14 every management employee on a monthly basis turns in an expense report
15 that is contrary to the Company's expense reimbursement policy has no
16 basis in reality and should not be given any attention by this Commission.
17

18 This statement by Mr. Klote that I made any such suggestion is incorrect. In my direct
19 testimony, OPC made no insinuation that every KCPL management employee's expense
20 report was contrary to KCPL's the policy. OPC looked at KCPL's officer's expense
21 reports to determine how KCPL defines reasonable expenses and sets the standard of
22 reasonable expenses to all management employees of the KCPL. Based on this review,
23 OPC determined there was no standard of reasonableness set by KCPL officers. The
24 standard set by KCPL officers for all KCPL management was that no expense was
25 unreasonable or excessive. Based on this imprudent action by KCPL officers OPC
26 recommended the adjustment to protect KCPL customers.

1 **Q. What does OPC believe is the root cause of KCPL's management expense problem?**
2

3 A. The root cause is that KCPL's expense reimbursement policy as written is extremely
4 vague and unenforceable. I have attached this policy, KCP&L-E201, as Schedule ACC-
5 S-2HC to this testimony. The policy uses terms like "reasonable" without defining or
6 providing guidance as to what "reasonable" means in regards to expense report charges.
7 A better approach would be to adopt a per diem policy that gives employees and
8 management clear direction.

9 For example, on May 29, 2015, five KCPL officers and an officer from Sungevity dined
10 at a restaurant in Kansas City, MO. The total bill for this one meal was \$1,645.86. This
11 is an average per meal charge of \$274. OPC asserts \$274 for a meal in Kansas City, MO
12 is not reasonable. However, the leadership of KCPL management believes it is
13 reasonable. This one example shows that the term "reasonable" without a definition or
14 more specific guidance is insufficient for KCPL's expense account policies to be
15 effective.

16 In addition, if this was a necessary business meeting, why was it not held at KCPL
17 headquarters? Another concern related to this one charge is that it was inappropriately
18 accounted for in KCPL's books and records. KCPL charged these costs to an expense
19 account when the meeting appears to be related to the Greenwood Solar Facility and
20 should have been charged to a capital account.

21 **Q. Are the KCPL employees who incurred this \$274 per employee meal cost the same**
22 **KCPL employees who create and enforce KCPL's expense report reimbursement**
23 **policies and set the standard for reasonable costs?**

24 A. Yes.

25 **Q. Did you review each and every expense report for each and every KCPL or KCPL**
26 **management employee?**

1 A. No, I did not. Such a review would not be possible or prudent use of resources in the
2 limited rate case timeframe.

3 **Q. Why would such a review not be possible or prudent?**

4 A. There was not a sufficient amount of time in this rate case audit period for OPC to audit
5 the thousands of individual expense accounts for KCPL's approximately 1,100
6 management employees.

7 **Q. What is the only way to effectively and appropriately audit KCPL management
8 expenses?**

9 A. The only way to effectively and appropriately audit this scope of work (management
10 expense reports) is through audit sampling. OPC's conclusion, based on audit sampling,
11 is that there is a significant level of excessive and inappropriate management expenses
12 charged to KCPL's expense books and records. Based on these facts and circumstances,
13 OPC's adjustment is reasonable and necessary and should be adopted by the
14 Commission.

15 **Q. What is audit sampling?**

16 A. Audit sampling is a primary audit procedure used by professional auditors. Auditing
17 Standard ("AS") 2315 defines audit sampling as "the application of an audit procedure to
18 less than 100 percent of the items within an account balance or class of transactions for
19 the purpose of evaluating some characteristic of the balance or class."

20 **Q. Do you believe Mr. Klote is aware of audit sampling techniques?**

21 A. Yes. According to his direct testimony, Mr. Klote is a certified public accountant
22 ("CPA") and has worked for CPA firms in the past performing audits of financial
23 statements.

1 **Q. Did you use audit sampling to arrive at OPC's adjustment to KCPL's management**
2 **expense report charges?**

3 A. Yes, in conjunction with OPC's Chief Accountant Mr. Charles Hyneman. I reviewed a
4 selective sample of KCPL's expense reports by reviewing the expense reports of KCPL
5 officers. The summary of these expense reports are attached as Schedule ACC-S-3HC.

6 **Q. What was your basis and rationale for imputing the results of your sample to all**
7 **KCPL management employees?**

8 A. This imputation was based on the assumption that the sample group of KCPL officers
9 operate under the same expense report policies, procedures and guidelines as all KCPL
10 management employees. Since this is the case, it is reasonable for OPC to conclude that
11 all KCPL management employees would likely have similar expense report charges with
12 no restrictions on the dollar amounts and types of expenses incurred.

13 KCPL has one general expense report policy. KCPL has no regulation, policy, or internal
14 control that would treat different levels of management any different from how KCPL
15 officer expense are treated. Therefore, it is reasonable to conclude that similar expense
16 account charges will be incurred and reimbursed for all KCPL management employees.

17 **Q. At page 57 of his rebuttal testimony does Mr. Klote criticize you for not providing**
18 **more documentation to support your adjustment?**

19 A. Yes, he does. OPC based its adjustment in this rate case off the expense report
20 documents provided by of the hundreds of expense report documents that KCPL provided
21 in response to OPC's data requests. In an effort to ensure its direct testimony would not
22 need to be marked "highly confidential", OPC chose not to associate names with specific
23 activities, as well as limit the number of documents and type of information filed in its
24 direct testimony.

1 **Q. Can you provide additional examples of imprudent expenses charged by KCPL to**
2 **above-the-line cost of service expense accounts in the test year?**

3 **A. Yes. The following are just some examples of excessive and inappropriate management**
4 **expenses booked to KCPL's test year income statement:**

5 1. \$1,799.82 charged to account 921 by ** ** on October 31, 2015
6 report for Business Networking at World Series Game 1 at Aramark/Kauffman
7 Stadium in Kansas City, MO.

8 2. \$1,645.86 charged to account 921 by ** ** on May 29, 2015
9 report for dinner at 801 Chophouse in Kansas City, MO for six people.

10 3. \$1,628.65 charged to account 107 by ** ** on June 30, 2015
11 report for Food/Refreshments including alcohol for Iatan-Nashua In-Service
12 Celebration.

13 4. \$1,624.73 charged to account 921 by ** ** on January 21, 2015
14 report for Holiday Luncheon for Accounting Department at McGonigles Food in
15 Kansas City, MO.

16 5. \$1,350.00 charged to account 921 by ** ** on January 15, 2015
17 report for Food/Beverage for Customer Solutions at Arrowhead Stadium in
18 Kansas City, MO.

19 6. \$1,202.76 charged to account 921 by ** ** on November 30,
20 2015 report for dinner at GG's Waterfront in Hollywood, FL for five people.

21 7. \$1,081.21 charged to account 921 by ** ** on January 29,
22 2015 report for Holiday Luncheon for HR/Payroll Department at Q39 in Kansas
23 City, MO.

1 8. \$122.23 charged to account 588 by ** ** on December 31, 2015
2 report for dinner with alcohol included at Jose Pepper's in Kansas City, MO for
3 nine people.

4 9. \$609.76 charged to account 921 by ** ** on May 29, 2015 report
5 for dinner at The Marine Room in San Diego, CA for five people, two of them
6 from J.D. Power & Associates.

7 10. \$558.70 charged to account 921 by ** ** on August 11, 2015 report
8 for dinner at Del Frisco's in New York City, NY for three people.

9 11. \$563.60 charged to account 921 by ** ** on June 26, 2015 report
10 for airfare for his spouse from Kansas City, MO to Dallas, TX on American
11 Airlines.

12 12. \$508.31 charged to account 921 by ** ** on December 31, 2015
13 report for dinner at Benjamin's Steakhouse in New York City, NY for three
14 people.

15 **Q. Are there examples of imprudent expenses charged below-the-line?**

16 **A. Yes, I have found the top twelve expenses that show below-the-line imprudent charges.**
17 They are:

18 1. \$10,000 to account 426 by ** ** on January 8, 2015 report for
19 Extra tickets to various World Series Games for Officers to be repaid – Kauffman
20 Stadium in Kansas City. There is no such repayment later on to show this
21 \$10,000 was refunded.

22 2. \$3,695.29 to account 426 by ** ** on July 7, 2015 report for
23 dinner at The Capital Grille in Kansas City, MO for 25 people.

- 1 3. \$3,338.73 to account 426 by ** ** on January 8, 2015 report for
2 Neil Diamond Concert at Lexmark Founders Club – Sprint Center in Kansas City,
3 MO.
- 4 4. \$3,000.00 to account 426 by ** ** on January 8, 2015 report for
5 extra tickets to various World Series Games for Officers to be repaid at Kauffman
6 Stadium in Kansas City, MO, however, there is no such repayment later on to
7 show this \$3,000.00 was paid back.
- 8 5. \$2,443.65 to account 426 by ** ** on October 31, 2015 for
9 dinner at Inspired Occasions in Kansas City, MO for 75 people.
- 10 6. \$2,347.59 to account 426 by ** ** on January 28, 2015 report for
11 dinner at Café Napoli in Kansas City, MO for 12 people.
- 12 7. \$2,654.48 to account 426 by ** ** on October 31, 2015 report for
13 ALCS Game 4 Souvenirs at Kauffman Stadium in Kansas City, MO.
- 14 8. \$2,167.00 to account 426 by ** ** on October 31, 2015 report for
15 ALDS Game 5 at Kauffman Stadium in Kansas City, MO.
- 16 9. \$2,131.03 to account 417 by ** ** on July 29, 2015 report for
17 travel bags for officers at Partners N Promotion in Olathe, KS.
- 18 10. \$1,861.88 to account 426 by ** ** on September 29, 2015 report
19 for dinner at The Capital Grille in Kansas City, MO for nine people.
- 20 11. \$1,929.36 to account 426 by ** ** on September 29, 2015 report
21 for Delivery Business Plans at Aramark – Kauffman Stadium in Kansas City,
22 MO.

1 12. \$1,441.48 to account 426 by ** ** on January 15, 2015 report for
2 dinner at Farallon in San Francisco, CA for three people.

3 **Q. Please provide examples of what OPC considers as inappropriate management**
4 **expenses.**

5 A. On his August 14, 2015 report, ** ** spent \$43.39 on luggage at Target and
6 charged it to the 928 account. On May 12, 2015 report, ** ** spent
7 \$148.14 to purchase boots at Kleinschmidt's Western Store in Kansas City, MO charged
8 to the 921 account.

9 **III. SEVERANCE PAYMENTS**

10 **Q. In his rebuttal testimony KCPL witness Klote takes issue with OPC and Staff's**
11 **severance expense adjustment. What is the basis of this testimony?**

12 A. Mr. Klote recognizes that severance expenses incurred by KCPL are recovered through
13 regulatory lag. For example the small amount of severance payments are dwarfed in
14 comparison with the size of labor and benefit savings a utility enjoys through regulatory
15 lag. For example, assume a KCPL employee who is paid \$100,000 annually is severed on
16 January 1, 2016 and is paid \$100,000 in severance. During 2016 alone KCPL will
17 recover 100 percent of the severance payment through reduced payroll costs and also
18 enjoy approximately \$60,000 in benefit costs, such as medical insurance and pension and
19 other retirement benefits. So, KCPL has more than recovered this severance payment in
20 less than 12 months. This is one reason the Commission has not allowed rate recovery of
21 severance expense in the past.

22 What Mr. Klote does not address in his rebuttal testimony is the second reason why the
23 Commission has not allowed rate recovery of severance in past utility rate cases. The
24 Commission has specifically noted on page 62 in its Report and Order in the 2006 KCPL
25 rate case, Case No. ER-2006-0314, that any benefit that is enjoyed as a result of the

1 payment of severance is enjoyed only by utility shareholders. Typical severance
2 agreements include specific restrictions on the former utility employee's future behavior
3 that are designed with the primary, if not sole intent to protect utility management and
4 directors from being held accountable for improper actions, such as various types of
5 employee discrimination.

6 **Q. Are you aware of how Ameren Missouri is treating the issue of severance expenses**
7 **in its current rate case before the Commission?**

8 A. Yes. It is my understanding that Ameren Missouri is not seeking rate recovery of
9 severance expenses.

10 **IV. RATE CASE EXPENSE**

11 **Q. At page 57 line 21 Mr. Rush discusses the Commission's Case No. AW-2011-0330,**
12 **did you review the Commission's findings in this docket?**

13 A. Yes

14 **Q. Why did the Commission create this docket?**

15 A. In the Commission's Order Directing Staff to Investigate and Opening a Repository File,
16 the Commission said that:

17 Testimony presented in recent rate cases and escalating rate
18 case expense requests have led the Commission to consider
19 whether changes should be made to its current rules and
20 practices whereby regulated utilities generally recover all
21 costs they incur in presenting a rate case before the
22 Commission. The Commission wants to consider whether
23 it is appropriate for shareholders to bear responsibility for a
24 portion of rate case expense, or whether it is appropriate to
25 establish a dollar or revenue percentage cap on rate case
26 expense that can be passed on to ratepayers. [See Schedule
27 ACC-S-5]

1 **Q. At page 57 line 19 Mr. Rush states that the cost of processing a rate case is a normal**
2 **and essential cost of business of any public utility. Do you agree with that**
3 **statement?**

4 **A. Yes. However, this certainly does not mean that all the expenses incurred to process a**
5 **rate case are incurred to benefit customers. In fact, many of the costs incurred to process**
6 **a rate case are detrimental to customers as they are incurred in an effort to increase utility**
7 **rates over and above a reasonable level. This fact is the cornerstone of the Commission's**
8 **rate case expense allocation methodology that the Commission designed in KCPL's 2014**
9 **rate case.**

10 **Q. At page 57 line 20 Mr. Rush stated that "As the Commission acknowledged in its**
11 **Order in the investigatory docket on rate case expense treatment (Case No. AW-**
12 **2011-0330), the Commission's "current rules and practice" are such that**
13 **"regulated utilities generally recover all costs they incur in presenting a rate**
14 **case before the Commission." Did you find these statements in the Commission's**
15 **Order?**

16 **A. No, Mr. Rush did not identify the specific Commission order, he references. However, in**
17 **GMO Case No. ER-2016-0156, GMO witness Darrin Ives made the exact same statement**
18 **at page 3 line 5 of his rebuttal testimony. Mr. Ives references the Order Directing Staff to**
19 **Investigate and Opening a Repository File, Case No. AW-2011-0330 (filed April 27,**
20 **2011). I was unable to find the statement referred to by Mr. Rush in this Commission**
21 **Order.**

22 **Q. In his rebuttal testimony, Mr. Rush refers to the Commission's rate case expense**
23 **adjustment as a disallowance. Is he correct?**

24 **A. No, he is not correct.**

25 **Q. What is the difference between cost disallowance and cost allocation?**

1 A. A utility has above-the-line and below-the-line expense accounts. The Commission's
2 rate case expense allocation methodology does not disallow any expense. It merely
3 requires the utility to record [allocate] a portion of its rate case expense from an above-
4 the-line account to below-the-line account.

5 Below-the-line expense accounts are where the utility records expenses that do not
6 benefit regulated utility customers but benefit utility shareholders.

7 **Q. Is OPC recommending the Commission disallow any rate case expense in this rate**
8 **case?**

9 A. No. OPC is adopting the exact same methodology ordered by the Commission for KCPL
10 in its most recent rate case, Case No. ER-2014-0370 ("2014 rate case"). In its Report and
11 Order the Commission did not disallow any rate case expense; the Commission simply
12 allocated a portion of the rate case expense benefitting the shareholders to a below-the-
13 line expense account where it belongs.

14 **Q. Mr. Rush testified regulated utilities have generally recovered in rates reasonable**
15 **and prudently incurred expenses that they incur in presenting rate cases to the**
16 **Commission for resolution. Under the Commission's rate case expense methodology**
17 **in Case No. ER-2014-0370, do regulated utilities continue to recover in rates**
18 **reasonable and prudently incurred expenses to process a rate case?**

19 A. Yes. Under the Commission's rate case expense allocation methodology, in this rate
20 case, KCPL will have the opportunity to recover 100% of its reasonable allocation of
21 necessary and prudently incurred rate case expense from its rate payers.

22 **Q. Is OPC recommending a departure from the Commission's historical approach of**
23 **allowing the recovery of reasonable and prudently incurred rate case expenses in**
24 **rates?**

1 A. No. OPC recommendation is consistent with the Commission's Order in 2014 rate case.
2 If the OPC was recommending a departure from a Commission's rate making approach, it
3 would require OPC to support such a departure.

4 **Q. At page 58 line 12, Mr. Rush states OPC's support of the Commission's rate case**
5 **expense methodology may recommend a substantial disallowance in the**
6 **Company's rate case expenses if in this case the Commission were to order an**
7 **amount which is less than what the Company requested without any evidence (or**
8 **even so much as an allegation) of imprudence by the Company. Is this statement**
9 **true?**

10 A. No. As noted above, OPC is not recommending a disallowance of KCPL rate case
11 expense. It is simply proposing an allocation of an expense to the parties who benefit
12 from the incurring of the expense. There need not be any evidence of imprudence as this
13 is not an issue of prudence. It is an issue of cost allocation.

14 For example, KCPL routinely incurs costs that benefit both its regulated and non-
15 regulated operations. KCPL uses an allocation methodology to share costs between both
16 regulated and non-regulated operations. It is important for KCPL to understand that it is
17 "cost allocation" and not "imprudence" that is the foundational principle on which the
18 Commission's policy is based.

19 **Q. In its 2014 Report and Order on KCPL's rate case expense, did the Commission**
20 **express in any sense that its allocation methodology was based on imprudence or**
21 **results in a disallowance?**

22 A. No. Similarly, OPC adjustment is not based on imprudence and does not result in a
23 disallowance. The Commission's rate case methodology is simply a tool created by the
24 Commission to insure that utility customers were not forced to pay for utility expenses
25 that did not provide them any benefit and potentially resulted in a customer detriment.

1 **Q. If KCPL files a rate case and only seeks to increase rates to a reasonable level it will**
2 **have the opportunity to recover 100% of its rate case expense from its utility**
3 **customers. Is that correct?**

4 A. Yes. This is how it works under the Commission's rate case expense methodology. If
5 KCPL seeks to increase rates above a reasonable level to increase shareholder profits, the
6 shareholders should pay for this attempt to seek unreasonable rates.

7 **Q. On page 59 line 12 Mr. Rush states customers benefit from a rate case process that**
8 **determines the just and reasonable rates that are to be paid for safe, adequate, and**
9 **reliable service. Does Mr. Rush accurately present the customer benefit from rate**
10 **case expense?**

11 A. Yes. However, customers do not benefit from utility expenses designed to increase rates
12 that are not just and reasonable. That is the basis of this issue. The expenses designed to
13 increase rates that are not just and reasonable should be appropriately allocated to
14 shareholders.

15 **Q. On page 59 line 13 Mr. Rush states shareholders benefit from a rate case process**
16 **that gives the company a meaningful opportunity to earn a reasonable return on**
17 **shareholders' investments in plant dedicated to the public use. Does Mr. Rush**
18 **accurately present the shareholder benefit from rate case expense?**

19 A. No. Mr. Rush excludes from the category of shareholder benefit the cost incurred by
20 KCPL to increase rates above a reasonable level. This is the exact same cost [rate case
21 expense] that was incurred in an effort to increase shareholder profits above a reasonable
22 level. In addition, Mr. Rush ignores that embedded within KCPL's request are several
23 mechanism which benefit only shareholders by shifting risk towards ratepayers including
24 multiple trackers and an FAC.

1 **Q. On page 59 line 17 Mr. Rush states rate case expenses are no different from other**
2 **costs that provide benefits to customers (i.e. generation, transmission and delivery**
3 **costs) because both shareholders and customers benefit from the company's**
4 **continued operation. Do you agree with this statement?**

5 **A. Yes, but his analogy is overly broad and general and therefore inadequate. Under his**
6 **analogy, you could also say that KCPL employees benefit from rate case expense because**
7 **they continue to benefit from the company's continued operation.**

8 A better example of how rate case expense is like other expenses is if KCPL sold a non-
9 regulated good or service to an outside entity and recorded revenues below-the-line. The
10 expenses incurred to produce the good or service should also be charged below-the-line.
11 In this scenario, KCPL would allocate to below-the-line accounts revenues and costs that
12 do not benefit rate payers. This is the exact theory expressed by the Commission.

13 **Q. At page 60 line 1 Mr. Rush says this fundamental objective of keeping the public**
14 **utility financially healthy and providing safe and adequate service can only be**
15 **accomplished if the company is able to attract investment by providing a reasonable**
16 **return to its shareholders. Do you agree with this statement?**

17 **A. Yes. However, this statement has nothing at all to do with the issue of rate case expense**
18 **in this rate case. For example, in the 2014 rate case, the Commission adopted its**
19 **allocation approach to rate case expense. Since 2014 KCPL has continued to provide**
20 **safe and adequate service and has remained financially healthy and provided a reasonable**
21 **return to its shareholders. In fact, in the rebuttal testimony of Staff witness Keith Majors**
22 **at page 4 line 2, he provided evidence that KCPL's 12 month ended September, 2016**
23 **earned return on equity exceeded the Commission's authorized return on equity for**
24 **KCPL.**

1 **Q. On page 60 line 6 Mr. Rush says it would make no sense to automatically disallow,**
2 **in the absence of any evidence or allegation of imprudence, any of the other costs**
3 **which benefit both the shareholder and the customer. Does Mr. Rush's testimony**
4 **continue to incorrectly describe the Commission's rate case expense allocation**
5 **methodology?**

6 **A. Yes. The Commission's rate case expense allocation methodology as supported by both**
7 **OPC and Staff in this rate case does not even consider the concept of expense**
8 **disallowance. Mr. Rush should understand this; however, it is not clear that he does.**

9 The rate case expense adjustment evidence Mr. Rush is looking for will be determined
10 when the Commission issues its report and order in this rate case. This will not be
11 evidence of imprudence but will be evidence of the appropriate amount of rate case
12 expense incurred by KCPL that should be allocated in part to ratepayers and in part to
13 shareholders based on benefit.

14 **Q. At page 60 line 8, Mr. Rush describes a scenario where shareholders benefit from**
15 **the construction of new power plants because the construction generally increases**
16 **the shareholders' earnings levels, while customers benefit from the additional**
17 **capacity used to serve them. He then states following the logic of Staff and OPC, a**
18 **portion of those power plant costs would be disallowed since both the shareholders**
19 **and customers benefit from those costs. Is his example at all appropriate to the**
20 **issue of allocating rate case expense in this rate case?**

21 **A. No. Again Mr. Rush confuses the ratemaking concept of disallowance with the**
22 **ratemaking concept of cost allocation. However, Mr. Rush's example can be made**
23 **slightly more appropriate or relevant to rate case expense with a minor modification. If**
24 **the power plant was built with excess capacity, the ratepayers who do not require this**
25 **capacity should not be required to pay in current rates for it. However, since the capacity**
26 **will allow KCPL to generate profits in the future, KCPL's shareholders will fund the**

1 portion of the plant costs that represent excess capacity. Customers do not benefit from
2 excess capacity, but shareholders may desire to invest now with the desire to receive
3 profits in the future. Under a reasonable allocation approach, the plant construction cost
4 for the excess capacity would be allocated to the shareholders.

5 **Q. Mr. Rush states that the Commission has promulgated regulations that require**
6 **the Company to periodically perform depreciation studies, and explain the**
7 **Company's rate requests in detail and while the KCPL believes these may be**
8 **appropriate regulations, it is apparent that such requirements will inevitably add to**
9 **the cost of processing rate cases. Are the costs of these items affected by the**
10 **Commission's rate case expense allocation methodology?**

11 **A.** No. The rate case expenses directly incurred for Commission required studies are not
12 included in the allocation ratio but are treated separately and amortized over the period
13 required by the Commission. These items include but are not limited to depreciation
14 studies and line loss studies.

15 **Q. At page 61 line 15 of his rebuttal testimony Mr. Rush states that the Commission's**
16 **2014 rate case methodology effectively restricts the Company's ability and right to**
17 **direct the presentation of its case. Please comment.**

18 **A.** There is no evidence provided by Mr. Rush that would allow me to evaluate this
19 statement. If KCPL wants to be restricted by complying with the Commission's
20 preferred allocation method on rate case expense, it has that option. However, there is
21 absolutely no restriction on KCPL to incur rate case expense in an amount needed to
22 secure just and reasonable rates as ordered by the Commission.

23 Mr. Rush's statement that an appropriate allocation of rate case expense affects its right
24 to direct the presentation of its rate case is absurd.

1 **Q. At page 63 line 5 Mr. Rush states that rate case expense is a normal part of doing**
2 **business within a regulated system. Do you agree?**

3 **A. Yes. I agree, similar to other utility expenses, rate case expense is a normal part of doing**
4 **business within a regulated system. Just like other utility expenses, rate case expense**
5 **must be held to the same standard. This Commission does not allow expenses that do not**
6 **benefit utility customers to be charged to these customers. I believe this is the primary**
7 **principle of the Commission's rate case allocation methodology – the costs follow the**
8 **benefits.**

9 **Q. Does this conclude your testimony?**

10 **A. Yes.**

KCPL/GMO

2016 Expense Account Implementation Plan

Pursuant to paragraph G of the July 1, 2015 *Partial Non-Unanimous Stipulation and Agreement as to Certain Issues* in Case No. ER-2014-0370, Kansas City Power & Light Company (“KCP&L” or “Company”) hereby submits the actions it has implemented to address expense account issues.

- **Officer Expenses**

- The general ledger default account for all officers has been set to below-the-line non-utility accounts. In order for an officer expense to be recorded to an operating utility account, the officer or administrative assistant must positively enter an operating utility account code to override this default coding.

- **Additional Review of Transactions**

- The Wells Fargo company credit card program administrator is reviewing various samples of company credit card business transactions each month to ensure company credit card policy compliance as well as accurate accounting code block coding is followed.
- When company credit card accounting code block coding is questioned, follow up is done with the employee to get more information on the transaction and educate the employee on proper use of accounting code block values.
- Company credit card business transactions are looked at every month for proper information regarding meal attendees, business purpose and to/from information on mileage. Employees who might be missing this information are contacted directly.

- **Job Aids**
 - Job aids used by all the executive administrative assistants were reviewed for completeness and accuracy regarding company accounting code block policies associated with the implementation of the new company credit card transaction process.
 - Training sessions were held with the executive administrative assistants to educate them on the coding of expense reports.
- **Restriction of Chartfield Values**
 - Wells Fargo, the company credit card provider, has been provided a shortened list of available accounting code block chartfield values. With this reduced list, employees can only choose from those values that should be used for company credit card purchases.
 - All combinations of accounting code block chartfield values are sent thru all possible accounting code block edits to ensure no coding rules are broken in the combinations that are entered.
- **Default Accounting Code Block Chartfield Values Review**
 - Default accounting code block chartfield values were reviewed in the third and fourth quarters of 2015. This review enabled the Company to continue to educate employees on the proper use of operating unit and accounting code block.
 - All default accounting code block chartfield values are now re-reviewed on a quarterly basis.

ER-2016-0179

Conner Surrebuttal

Schedule ACC-S-2

has been deemed

“Highly Confidential”

in its entirety

ER-2016-0179

Conner Surrebuttal

Schedule ACC-S-3

has been deemed

“Highly Confidential”

in its entirety

ER-2016-0179

Conner Surrebuttal

Schedule ACC-S-4

has been deemed

“Highly Confidential”

in its entirety

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office in
Jefferson City on the 27th day of
April, 2011.

In the Matter of a Working File to)
Consider Changes to Commission)
Rules and Practices Regarding Rate)
Case Expense)

File No. AW-2011-0330

**ORDER DIRECTING STAFF TO INVESTIGATE AND OPENING A
REPOSITORY FILE**

Issue Date: April 27, 2011

Effective Date: April 27, 2011

Testimony presented in recent rate cases and escalating rate case expense requests have led the Commission to consider whether changes should be made to its current rules and practices whereby regulated utilities generally recover all costs they incur in presenting a rate case before the Commission. The Commission wants to consider whether it is appropriate for shareholders to bear responsibility for a portion of rate case expense, or whether it is appropriate to establish a dollar or revenue percentage cap on rate case expense that can be passed on to ratepayers. To assist it in these efforts, the Commission will direct its Staff to investigate that question and file a report of its findings. In undertaking its investigation, Staff shall study how all other states handle this issue.

To further assist it in reviewing these questions, the Commission will solicit informal written comments and suggestions from interested persons and companies. This file shall serve as a repository for documents and comments. Using this file, any person with an

interest in this matter may view documents and may submit any pertinent responsive comments or documents. As this is not a contested case, any person may file a comment without counsel and without *ex parte* constraints (arising from this matter). Intervention requests are not necessary to submit comments or view documents.

The public is welcome to submit comments by forwarding electronic communications through the electronic filing and information system (EFIS) or by mailing written comments. You may submit electronic comments at the Commission's website at <http://www.psc.mo.gov>. (Click on the EFIS/Case filings link on the left side of the page. Scroll down and click on the public comment link. Please reference File No. AW-2011-0330). Written comments in hard copy should be addressed to the Commission at P.O. Box 360, Jefferson City, Missouri 65102 and should reference File No. AW-2011-0330. The public can view the contents of the file by following the link at <http://www.psc.mo.gov>.

THE COMMISSION ORDERS THAT:

1. This case is established as a repository for documents and comments regarding the Commission's consideration of changes to the Commission's rules and practices regarding the recovery of rate case expense.

2. The Commission's Staff shall investigate the question of whether any changes should be made to the Commission's rules and practices regarding the recovery of rate case expense and shall report its findings to the Commission no later than July 1, 2011.

3. This order shall become effective immediately upon issuance.

BY THE COMMISSION

(SEAL)



**Steven C. Reed
Secretary**

Gunn, Chm., Clayton and Jarrett, CC., concur;
Davis and Kenney CC., concur with concurring opinions to follow.

Woodruff, Chief Regulatory Law Judge