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**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

Surrebuttal Testimony and Schedules of

Michael L. Brosch

Revenue Requirement

On behalf of

Midwest Energy Consumers' Group

January 27, 2017

~~MECG~~ Exhibit No. 654
Date ~~2-28-17~~ 1-27-17 Reporter KF
File No. ER-2016-0285

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STATE OF KANSAS)
) SS
COUNTY OF JOHNSON)

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:


1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. We have been retained by the Midwest Energy Consumer's Group in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony and schedules regarding revenue requirement issues, which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2016-0285.
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



Michael L. Brosch

Subscribed and sworn to before me this 26th day of January 2017.

RACHAEL THOMAS Notary Public - State of Kansas My Commission Expires <u>032519</u>
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Notary Public

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Surrebuttal Testimony of Michael L. Brosch

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City,**
3 **Missouri 64148.**

4 **Q ARE YOU THE SAME MICHAEL L. BROSCH WHO SUBMITTED DIRECT**
5 **TESTIMONY ON BEHALF OF THE MIDWEST ENERGY CONSUMER'S GROUP**
6 **("MECG") ADDRESSING REVENUE REQUIREMENT ISSUES ON NOVEMBER 30,**
7 **2016 IN THIS PROCEEDING?**

8 **A Yes. My experience and qualifications were explained in my previously-filed revenue**
9 **requirement testimony and the attached Appendix A.**

10 **Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 **A My surrebuttal testimony is responsive to the Rebuttal Testimony of KCPL witnesses Mr.**
12 **Tim Rush and Ms. Melissa Hardesty regarding KCPL's proposed trackers or use of**
13 **projected / forecasted expense levels for property taxes and certain transmission**
14 **expenses.**

15

1 **RATEMAKING MECHANISM PROPOSAL - PROPERTY TAXES**

2
3 **Q IN DIRECT TESTIMONY YOU RECOMMENDED THAT THE COMMISSION REJECT**
4 **KCPL'S PROPOSED TRACKER FOR CHANGES IN PROPERTY TAX EXPENSES,**
5 **AS WELL AS THE COMPANY'S ALTERNATIVE THAT WOULD INCLUDE**
6 **PROJECTED AVERAGE 2017 AND 2018 FORECASTED PROPERTY TAX**
7 **EXPENSES IN TEST YEAR REVENUE REQUIREMENTS. HOW HAS KCPL**
8 **RESPONDED TO YOUR POSITION?**

9 **A.** Mr. Rush states his disagreement that an expense must be extraordinary (i.e., "unusual
10 or infrequent") to merit tracker treatment and he argues that property taxes are a large
11 portion of the overall revenue requirement of the Company, accounting for \$50 million
12 annually in expense. Mr. Rush also opines that the Company has only "minimal" control
13 over the amount of property taxes that it pays.¹

14
15 **Q.** **DOES MR. RUSH OFFER ANY SUPPORT FOR HIS CONTENTION THAT**
16 **TRACKERS SHOULD NOT BE LIMITED TO EXTRAORDINARY ITEMS?**

17 **A.** No. Mr. Rush simply states that he disagrees "that an expense must be unusual or
18 infrequent to merit tracker treatment." In contrast to Mr. Rush's simple disagreement,
19 my assertion that trackers should be limited to "extraordinary" items is based upon
20 Commission's decisions in several recent KCPL rate cases. Specifically, in its decisions
21 in Case Nos. ER-2012-0174, ER-2014-0370 and EU-2014-0077, the Commission
22 expressly adopted an "extraordinary" standard for the consideration of KCPL's proposed
23 trackers. In fact, the Court of Appeals has recently upheld the Commission's application
24 of the "extraordinary" standard to requests to defer costs through a tracker mechanism.

¹ Rush Rebuttal, page 3.

1

2 **Q. DOES MR. RUSH OFFER ANY NEW ANALYSIS TO SUPPORT HIS ARGUMENT**
3 **THAT PROPERTY TAXES ARE LARGE AND MERIT SPECIAL RATEMAKING**
4 **TREATMENT VIA A TRACKER OR PROJECTED COST INCLUSION?**

5 A. Yes. Mr. Rush presents a table of "Property Tax Expense" in which he compares his
6 "Estimated Property Taxes Recovered" in the three prior rate orders to the Missouri
7 Jurisdictional portion of "Actual" property taxes paid in each of the years 2012 through
8 2015. From this historical comparison, Mr. Rush concludes that, "...the Company
9 under-recovered nearly \$16 million, or approximately \$4 million per year. This
10 represents an average under-recovery of 9% of property taxes."²

11

12 **Q. DO YOU DISAGREE WITH MR. RUSH'S ANALYSIS?**

13 A. No. If Mr. Rush is attempting to show that property taxes have increased over recent
14 years, then his analysis is correct. That said, Mr. Rush's attempt to look at a single cost
15 item in a vacuum, and use that as justification for a request to defer increases in that
16 single cost, reflects a fundamental misunderstanding with the function of utility
17 ratemaking.

18

19 **Q WHY IS IT UNREASONABLE FOR MR. RUSH TO ISOLATE ONE SELECTED**
20 **ELEMENT OF THE COMPANY'S OVERALL REVENUE REQUIREMENT, THAT HAS**
21 **INCREASED HISTORICALLY, IN ORDER TO ARGUE FOR EXTRAORDINARY**
22 **RATEMAKING TREATMENT FOR ONLY THAT SELECTED ELEMENT OF COST?**

23 A It is critically important that utility regulation apply a balanced view of all elements of
24 revenue, expense and rate base investment levels at a synchronized or "matched" point
25 in time, rather than isolating selected items for special ratemaking consideration

² Id, page 4.

1 because the chosen expense, such as property tax, is increasing. Between rate case
2 test years, virtually every element of revenue and expense will change from test year
3 amounts. Revenues will be somewhat higher or lower depending upon weather and
4 economic conditions, rate base investment will change, some operating expenses will
5 have increased while others will decline. Capital cost rates, including the weighted cost
6 of debt and the required return for equity investors will have changed. The Commission
7 must not allow utilities to “cherry pick” only the most dramatically increasing elements of
8 expense for preferential ratemaking because doing so ignores the fact that both
9 favorable and unfavorable cost and revenue changes occur in the normal course of
10 business between rate case test years. I explained in my Direct Testimony why this
11 piecemeal approach to regulation should be rejected and show by example how
12 declining interest rates have produced interest expense savings of more than \$10.5
13 million annually for KCPL.³

14
15 **Q HAS KCPL PROPOSED ANY TRACKER / DEFERRAL TREATMENT FOR**
16 **DECLINING INTEREST RATES OR TO RECOGNIZE FORECASTED FUTURE**
17 **INTEREST EXPENSE SAVINGS FROM ANTICIPATED REFINANCINGS WITHIN THE**
18 **COMPANY’S REVENUE REQUIREMENT TODAY?**

19 **A** No. Nor has Mr. Rush presented any quantification, like he did for property taxes,
20 showing how much of the interest savings that has occurred historically between KCPL
21 test years flowed solely to the benefit of shareholders in the absence of such a tracker.
22 It would be extremely unfair to ratepayers to allow KCPL to track changes in only
23 increasing costs, such as property taxes, while ignoring and not tracking estimated

³ Direct Testimony of Michael L. Brosch at 21-22.

1 future annual interest expense savings that the Company estimates could range from
2 \$27.2 million to \$36.9 million on a total company basis over the next three years.⁴

3
4 **Q MR. RUSH ALSO CLAIMS THAT THE COMMISSION HAS PREVIOUSLY GRANTED**
5 **DEFERRAL ACCOUNTING TREATMENT FOR PROPERTY TAXES IN CONNECTION**
6 **WITH ACCOUNTING AUTHORITY ORDER (“AAO”) TREATMENT FOR CERTAIN**
7 **GAS SAFETY-RELATED FACILITY REPLACEMENT PROGRAMS.⁵ IS THIS TRUE?**

8 **A** Partially. In several cases involving gas safety / pipeline replacement, the Commission
9 did allow for the deferral of depreciation costs and carrying costs associated with gas
10 pipeline replacement. It is my understanding that in some cases, this may have included
11 increased property taxes. That said, it is important to recognize a significant distinction
12 between those situations and that currently faced by KCPL. Specifically, KCPL seeks
13 deferral of increased property taxes associated with business as usual expenses. On
14 the other hand, in those situations addressing gas pipeline safety, the increased costs
15 were incurred to meet the Commission’s gas pipeline safety regulations that were
16 promulgated in response to a significant number of gas pipeline explosions. Given that
17 these expenditures were incurred to meet the Commission-imposed regulation, the
18 Commission found that such costs were extraordinary. For instance, in Case No. GO-
19 90-215, the Commission found that United Cities Gas Company’s increased gas safety
20 costs associated with meeting this regulation were extraordinary because, “All of these
21 items are related to UCGC’s compliance with the Commission’s gas safety rules.”⁶ See
22 also, Case No. GO-91-359 in which the Commission stated, “The Commission finds that
23 said expenses are extraordinary inasmuch as they result from Company’s compliance

⁴ Id. Page 22 and Schedule MLB-2.

⁵ Rush Rebuttal, page 5.

⁶ *Order Granting Request for Accounting Order*, Re: United Cities Gas Company Case No. GO-90-215, effective July 31, 1990, page 2.

1 with the Commission's gas safety orders.”⁷ Thus, while the Commission has found that
2 gas companies' compliance costs, associated with compliance with gas safety
3 regulations is extraordinary, it has repeatedly found that KCPL's requests for deferral of
4 property taxes to be not extraordinary.

5

6 Q MR. RUSH ALSO REFERENCES A PRIOR MISSOURI RATE CASE CLAIMING THAT
7 THE COMMISSION'S ORDER "...AUTHORIZED MGE TO DEFER PROPERTY
8 TAXES ON GAS HELD IN STORAGE IN THE STATE OF KANSAS.”⁸ DOES THIS
9 PRIOR ORDER REPRESENT PRECEDENT FAVORING PROPERTY TAX TRACKING
10 IN THE FORM NOW PROPOSED BY KCPL?

11 A. No. As the following quote reveals, the Commission found that it was appropriate to
12 allow for deferral of these property taxes because it was extraordinary in that it applied
13 to a new property tax on gas held in storage to be assessed for the first time by the
14 State of Kansas. There are a number of important aspects to this case. First, the
15 Commission expressly applied an “extraordinary” standard to its consideration of the
16 new property taxes. Second, the Commission found that most property taxes do not fit
17 this “extraordinary” standard. Third, the Commission held that the subject property taxes
18 were “extraordinary” in that Kansas had not previously charged such taxes before. As
19 such, these property taxes were not already reflected in the utility's rates. Finally, the
20 Commission noted that these taxes were subject to an ongoing legal challenge and their
21 collection was speculative:

22

23

⁷ *Order Granting Authority*, Re: Missouri Public Service Company Case No. GO-91-359, effective January 28, 1992, page 3.

⁸ Rush Rebuttal, page 5.

1 In Case No. GU-2005-0095, the Commission granted MGE an Accounting
2 Authority Order allowing it to record on its books a regulatory asset representing
3 the expenses associated with property taxes. The property tax concerns natural
4 gas storage held by MGE in the state of Kansas. MGE contends that it should not
5 have to pay the tax and informs the Commission that the matter is now before the
6 Supreme Court of Kansas. Staff agrees with MGE that there is no reason to
7 vacate the Commission's prior Order. It also agrees that this issue involves no
8 money and will make no difference with regard to revenue requirement. OPC
9 opposes this request arguing that the AAO is inappropriate because the costs to
10 be deferred are not known and measurable.

11
12 In its order initially granting the AAO, the Commission reasoned that an
13 AAO is appropriate if MGE demonstrates that the costs to be deferred are
14 "extraordinary, unusual and unique, and not recurring." In this case, the costs that
15 MGE seeks to continue deferring are property taxes. In most cases, the payment
16 of property taxes by a utility would not be a fit subject for an AAO. MGE, like all
17 investor-owned utilities, routinely pays property taxes. Again, like all investor-
18 owned utilities, MGE is routinely allowed to recover the taxes it pays from its
19 ratepayers through the inclusion of those tax payments in its cost of service when
20 its rates are calculated in a rate case.

21
22 The Kansas property tax on gas held in storage in that state is unusual in
23 that MGE, which does not serve customers in Kansas, has never before had to
24 pay property tax in Kansas. However, if the Kansas taxes are found to be legal in
25 the ongoing court challenge, and MGE is required to pay the tax, it should be able
26 to recover those tax payments for future years through its rates when it includes
27 those taxes in its cost of service in a future rate case.

28
29 The problem is that, at the moment, MGE cannot include the Kansas taxes
30 in its cost of service in this rate case. As a general rule, for an item of cost to be
31 included in a utility's cost of service, that item of cost must be both known and
32 measurable. A utility's customers should not be expected to pay, through their
33 rates, for costs that are speculative and uncertain. MGE's Kansas tax liability is
34 now measurable – it has received a bill from the Kansas tax authorities for the
35 2004 year. Future tax bills can be estimated – but its Kansas tax liability is not yet
36 known because of the uncertainty resulting from the ongoing legal challenge. If
37 MGE prevails in court, it may never have to pay the Kansas property taxes.

38
39 The amount of taxes that MGE might have to pay in Kansas is significant
40 to both MGE and to its ratepayers. It would not be appropriate to allow MGE to
41 recover millions of dollars from its ratepayers for taxes that it might never have to
42 pay. On the other hand, taxes are a legitimate cost of doing business for which
43 ratepayers should be responsible. It would not be fair to MGE's shareholders to
44 shift that burden on to them if those taxes ultimately must be paid. Furthermore, it
45 was MGE's decision to challenge the legality of the Kansas taxes, a decision that
46 could greatly benefit its ratepayers, that has placed MGE in this difficult position.
47 If MGE had accepted the Kansas taxes without challenge, it could have simply
48 passed the added taxes on to its ratepayers through this rate case. Instead, by
49 looking out for the interest of its ratepayers, it has created the possibility that it will
50 not be able to recover several million dollars to which it would otherwise be

1 entitled. It is that conundrum that makes an AAO the appropriate means for
2 dealing with the potential Kansas tax liability.
3

4 Having been granted an AAO, MGE may continue to defer the cost of
5 paying the Kansas property taxes for consideration in a future rate case after the
6 legality of those taxes is determined and the costs are both known and
7 measurable. If those taxes are found to be illegal and MGE does not have to pay
8 them, then the deferred amounts will simply be written off the balance sheet and
9 neither the ratepayers nor the shareholders will be harmed. If, on the other hand,
10 MGE ultimately must pay the taxes, it will be able to make its case for the
11 inclusion of its additional tax liability into its cost of service in a future rate case.
12

13 This uncertainty surrounding MGE's obligation to pay a significant amount
14 of taxes is an unusual and unique situation that is not likely to recur. As such, it
15 meets the Sibley standard for the granting a continued AAO, which is
16 appropriate.⁹ [emphasis added, footnotes omitted]
17

18 **Q. DOES MR. RUSH SUGGEST THAT FAILURE TO PROVIDE TRACKER TREATMENT**
19 **FOR PROPERTY TAXES WILL CONTRIBUTE TO AN EARNINGS SHORTFALL FOR**
20 **THE COMPANY?**

21 A. Yes. He refers to his table of "under-recovered" historical property taxes and states,
22 "...if property tax costs continue to rise as expected, the Company will experience more
23 earnings shortfall due to under-recovery of property taxes that can never be
24 recovered."¹⁰
25

26 **Q. IS KCPL EXPERIENCING ANY EARNINGS SHORTFALL AT THIS TIME THAT**
27 **COULD REASONABLY BE ATTRIBUTED TO ITS HISTORICAL UNDER-RECOVERY**
28 **OF PROPERTY TAXES, TRANSMISSION EXPENSE OR ANY OTHER ISOLATED**
29 **ELEMENT OF THE OVERALL COST OF SERVICE?**

30 A No. The most recently submitted KCPL Quarterly Earnings Surveillance Report, for the
31 twelve months ending September 30, 2016, reveals actual Missouri Jurisdictional
32 earnings exceeding the Overall Cost of Capital established most recently by the

⁹ *Report and Order*, Re: Missouri Gas Energy, Case NO. GR-2006-0422, pages 24-26.

¹⁰ Rush Rebuttal, pages 5-6.

1 Commission, with an achieved Return on Common Equity also above Commission-
2 authorized levels. While these results reflect an un-adjusted basis of accounting that is
3 not weather normalized, the reported earnings also exclude the additional contribution
4 from any rate relief that may be awarded in the instant rate case. These results argue
5 against granting any piecemeal rate tracking or other regulatory sweeteners to KCPL at
6 this time, because traditional Missouri regulation appears to be producing a reasonable
7 opportunity for the Company to earn a fair return on investment without such
8 extraordinary remedies.

9
10 **Q. WHAT WOULD HAVE BEEN THE EFFECT ON EARNINGS HAD THE COMMISSION**
11 **GRANTED KCPL'S REQUEST FOR A PROPERTY TAX OR TRANSMISSION**
12 **TRACKER IN THE LAST CASE?**

13 **A.** KCPL's request in the last case was to defer the incremental increase in certain costs
14 until the next rate case. The practical effect of such a request is to: (1) increase current
15 earnings and (2) increase future rates. This occurs because the incremental amount of
16 a cost is eliminated from current earnings and deferred until the next case. Thus, the
17 elimination of those incremental costs has the effect of boosting current earnings. Next,
18 since those incremental costs are deferred into the next rate case, they have the effect
19 of increasing future rates resulting from that case.

20 Therefore, while KCPL has recently earned a return on equity that was in excess
21 of the Commission authorized return, this return on equity would have been even higher
22 if the Commission had granted KCPL's request to defer property taxes and transmission
23 costs in the last case. Furthermore, rates resulting from this case would be higher than
24 they otherwise would be absent the tracker. Clearly, the Commission's decision to reject
25 KCPL's proposed trackers in the last case was not only appropriate, it also prevented
26 even a higher level of overearnings.

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Q. AT PAGE 3 OF HER TESTIMONY, KCPL WITNESS HARDESTY CONTINUES TO ADVOCATE FOR THE INCLUSION OF A FORECASTED LEVEL OF PROPERTY TAXES. DO YOU HAVE A RESPONSE TO THIS REQUEST?

A. Yes. As reflected at pages 15-18 of my Direct Testimony, the request to use a forecasted level of costs raises many of the same concerns as deferral mechanisms. Specifically, the use of a forecasted level of particular costs fails to preserve the matching concept importantly found in proper utility ratemaking. In addition, it reduces the utility's incentives to minimize costs. Finally, the use of forecasted costs is dependent on the utility's ability to accurately forecast costs. As indicated in my testimony, recent NRRI reports indicate that utilities have a natural inclination to overstate costs.

RATEMAKING MECHANISM PROPOSAL – TRANSMISSION NET COSTS

Q DOES MR. RUSH ALSO ARGUE THAT KCPL HAS FAILED TO FULLY RECOVER ITS TRANSMISSION COSTS THROUGH TRADITIONAL RATEMAKING?

A Yes. He states, “[a]s the Company has seen case after case, the Company is not recovering its transmission costs, due to the rising costs the Company is experiencing. This issue has been addressed several times before and the outcome has been the same, which is to not allow forecasted transmission costs, or transmission costs in the FAC, in rates.”¹¹ According to Mr. Rush, [w]hile this has been the outcome in prior cases, I believe that the recent report sponsored by the Staff of the Commission should help to give some light to the fact that utilities are facing rising costs and that the Commission has the “tools” to help address this issue.” The “recent report” being

¹¹ Rush Rebuttal, page 6.

1 referenced is the Staff Report dated October 17, 2016 in MPSC Docket No. EW-2016-
2 0313.

3
4 **Q. DID THE STAFF REPORT FILED IN CASE NO. EW-2016-0313 RECOMMEND**
5 **IMPLEMENTATION OF TRACKING OR FORECASTED COST INCLUSION FOR**
6 **EITHER PROPERTY TAXES OR TRANSMISSION EXPENSES?**

7 A. No. The Staff Report instead stated, "Additional trackers could be implemented, as a
8 means to encourage investment, but Staff recommends they be considered on a case-
9 by-case basis based on all relevant evidence. Proposals to apply tracker or rider
10 treatment to normal and ongoing types of utility costs should be subject to strict
11 scrutiny."¹²

12
13 **Q. DID STAFF APPLY "STRICT SCRUTINY" TO KCPL'S PROPERTY TAXES AND**
14 **TRANSMISSION EXPENSE TRACKING PROPOSALS IN THIS KCPL RATE CASE?**

15 A. Yes. After providing extensive historical and factual information, Staff witness Karen
16 Lyons ultimately disagrees with KCPL's proposed transmission expense inclusion in the
17 FAC as well as the Company's alternative request for a stand-alone tracker for
18 transmission costs. Ms. Lyons also recommends continued traditional, test year
19 regulation of KCPL's property tax expense by including updated annualized costs in the
20 Company's true-up based, upon a historical property tax ratio methodology.¹³

21 In support of these recommendations, Staff witness Keith Majors provides
22 detailed testimony about regulatory lag and the Company's recent ability to earn above
23 its authorized return, ultimately concluding, "KCPL has presented a very limited and one-
24 sided analysis respecting its view of regulatory lag in its direct testimony. The Company

¹² *Staff Report*, dated October 17, 2016, MPSC Docket No. EW-2016-0313, page 73.

¹³ Rebuttal Testimony of Karen Lyons, pages 13-33.

1 is quick to point out all the costs that have increased since its last rate case. But KCPL
2 has ignored any cost reductions that have occurred since the rates determined in
3 KCPL's 2014 rate case have been in effect. Staff, in presenting the rebuttal testimonies
4 of various witnesses, is attempting to identify some of the cost savings and benefits
5 KCPL has not recognized in its request concerning regulatory lag and the deferral
6 mechanisms. Staff disputes the need for these various single issue ratemaking
7 mechanisms requested by the Company in this case."¹⁴

8
9 **Q DID GMO RECENTLY REQUEST DEFERRAL TREATMENT FOR TRANSMISSION**
10 **COSTS AND PROPERTY TAXES?**

11 A Yes. In its recent rate case, GMO sought many of the same deferral proposals now
12 sought by KCPL. Ultimately, GMO settled that rate case without implementation of any
13 of the deferral proposals. Clearly, GMO believed that it was possible to earn its
14 authorized return without the deferral mechanisms that KCPL believes are necessary.

15
16 **Q DOES MR. RUSH ALSO PROVIDE REBUTTAL INFORMATION SUMMARIZING**
17 **KCPL'S HISTORICAL TRANSMISSION EXPENSES, COMPARED TO THE**
18 **AMOUNTS HE ESTIMATES THE COMPANY WAS ALLOWED TO RECOVER IN**
19 **PAST RATE CASES?**

20 A. Yes. As with property taxes, Mr. Rush argues that, "...without a tracker, any earnings
21 shortfall resulting from a mismatch between actual transmission expenses and the rate
22 allowance for those costs included in rates will be lost forever. Although rates can be
23 adjusted on a going forward basis to reflect the increased transmission expenses
24 experienced during the historical test year for the second rate case, those increased
25 cost levels will only be recovered on a going forward basis, and if transmission costs

¹⁴ Rebuttal Testimony of Keith Majors, pages 8-24.

1 continue to rise as expected, the Company will experience more earnings shortfall due
2 to under-recovery of transmission expenses that can never be recovered.”¹⁵

3
4 **Q WHAT DO THE “BUDGET” AMOUNTS APPEARING IN MR. RUSH’S TABLE**
5 **REVEAL ABOUT THE FINANCIAL IMPORTANCE OF TRACKING FUTURE**
6 **CHANGES IN KCPL TRANSMISSION EXPENSES?**

7 A Starting this year, KCPL has budgeted that its transmission expenses will stabilize, with
8 an expected increase of only \$387 thousand, or about one percent, in Missouri
9 Jurisdictional expense in 2018, compared to 2017. The historical growth in KCPL’s
10 historical transmission expenses, that has been cited by the Company in requesting
11 extraordinary rate tracker treatment or FAC inclusion of such expenses, no longer
12 supports these proposals because of the expected future expense stabilization. In fact,
13 KCPL has recently dropped its request for a cyber-security tracker because of “recent
14 moderation in the level of increases.” Certainly, given its forecasts, increases in
15 transmission costs are also expected to moderate.

16
17 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING KCPL’S REQUEST FOR A**
18 **TRANSMISSION TRACKER OR THE USE OF FORECASTED TRANSMISSION**
19 **COSTS?**

20 A. I would only point out that KCPL’s position with regard to a transmission costs is very
21 similar to that presented for property taxes. As such, many of the arguments addressed
22 above in regards to property taxes are equally applicable to transmission costs.
23 Specifically, the Commission has historically applied an extraordinary standard to
24 requests for a transmission tracker. Based upon such a standard, the Commission has
25 rejected KCPL’s transmission tracker request on three separate occasions. KCPL’s

¹⁵ Rush Rebuttal, page 8.

1 request for a transmission tracker violates the matching concept inherent in proper
2 ratemaking. KCPL's request is also one-sided in that KCPL has not also requested a
3 tracker for cost items that are expected to decrease like interest costs. Furthermore, as
4 with property taxes, KCPL's request in the last case, if granted, would have led to an
5 even higher level of over-earnings on KCPL's part. Finally, as with all costs, utilities
6 have a natural inclination to overstate costs. Given this, the use of forecasted costs
7 should be avoided.

8

9 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

10 **A Yes.**