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Test Year; Jurisdictional and Utility
Allocations; Accounting Adjustments
Witness: Ronald A. Klote
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Sponsoring Party: Aquila, Inc. dba KCP&L Greater
Missouri Operations Company
Case No.: ER-2009-____
Date Testimony Prepared: September 5, 2008

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-____

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

**AQUILA, INC. dba
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

Kansas City, Missouri
September 2008

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TABLE OF CONTENTS

DIRECT TESTIMONY OF

RONALD A. KLOTE

KANSAS CITY POWER & LIGHT GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER – 2009 - _____

INTRODUCTION.....	1
SCHEDULES.....	2
TEST YEAR.....	3
JURISDICTIONAL / UTILITY ALLOCATIONS.....	48
PLANT IN SERVICE (MPS AND L&P).....	6
RB-20 CROSSROADS ENERGY CENTER (MPS ONLY).....	8
RB-25 ENVIRONMENTAL UPGRADES & OTHER CAPITAL ADDITIONS (MPS AND L&P).....	8
RB-26 RETIREMENT OF IATAN 1 SMOKESTACK (L&P ONLY).....	9
RB-30 JEC COMMON PLANT AND RESERVE (MPS ONLY).....	9
ACCUMULATED RESERVE FOR DEPRECIATION RB-35 ACCUMULATED RESERVE THROUGH 3-31-09 (MPS AND L&P).....	10
RB-40 ACCOUNTING AUTHORITY ORDER (“AAO”) (MPS ONLY).....	12
RBO-10 CUSTOMER DEPOSITS (MPS AND L&P).....	13
RBO-20 CUSTOMER ADVANCES (MPS AND L&P).....	14
RBO-30 ACCUMULATED DEFERRED INCOME TAXES (MPS AND L&P).....	15
RBO-31 ACCUMULATED DEFERRED INCOME TAXES – AAO (MPS ONLY).....	17
RBO-100 REGULATORY LIABILITY ERISA TRACKER (MPS AND L&P).....	18
WC-10 MATERIALS & SUPPLIES (MPS AND L&P).....	19
WC-20 PREPAYMENTS (MPS AND L&P).....	20
WC-21 PREPAYMENTS – PENSION (MPS AND L&P).....	20
WC-30 FUEL INVENTORIES (MPS and L&P).....	21
WC-40 EMISSION ALLOWANCE INVENTORY (MPS and L&P).....	25
WC-50 CASH WORKING CAPITAL CALCULATION (MPS AND L&P).....	26
R-30 ELIMINATE INTER-COMPANY OFF-SYSTEM REVENUE (MPS AND L&P).....	29
R-36 ELIMINATE OFF-SYSTEM REVENUE ASSOCIATED WITH WPKSE (MPS ONLY).....	30
FPP-17 AMORTIZATION OF PROCEEDS FROM EPA AUCTION PROCESS (MPS AND L&P).....	30
FPP-30 ELIMINATE INTER-COMPANY OFF-SYSTEM FUEL & PURCHASED POWER (MPS AND L&P).....	32
FPP-36 OFF-SYSTEM SALES COSTS ASSOCIATED WITH WPKSE (MPS ONLY).....	33
FPP-50 RESERVATION CHARGE (MPS ONLY).....	33

CS-5	PAYROLL (MPS AND L&P).....	34
CS-11	BENEFITS SUMMARY SCHEDULE (MPS AND L&P).....	36
CS-12	BENEFITS – MEDICAL, DENTAL AND VISION (MPS AND L&P).....	37
CS-13	BENEFITS – PENSION (MPS AND L&P).....	38
CS-13A	BENEFITS – ERISA TRACKER AMORTIZATION (MPS AND L&P).....	39
CS-14	BENEFITS – OTHER POST EMPLOYMENT BENEFITS (MPS AND L&P).....	40
CS-15	BENEFITS – 401K (MPS AND L&P).....	42
CS-18	BENEFITS – SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (MPS AND L&P).....	44
CS-21	INSURANCE (MPS AND L&P).....	44
CS-26	MAJOR MAINTENANCE EXPENSE (MPS AND L&P).....	45
CS-27	MAINTENANCE EXPENSE (MPS AND L&P).....	46
CS-30	INJURIES AND DAMAGES (MPS AND L&P).....	47
CS-35	BAD DEBT (MPS AND L&P).....	50
CS-40	PSC ASSESSMENT (MPS AND L&P).....	51
CS-45	CUSTOMER DEPOSIT – INTEREST (MPS AND L&P).....	51
CS-50	RATE CASE EXPENSE (MPS AND L&P).....	52
CS-57	TRANSMISSION EXPENSE (MPS AND L&P).....	52
CS-60	DUES AND DONATIONS (MPS AND L&P).....	53
CS-65	ADVERTISING (MPS AND L&P).....	56
CS-70	POSTAGE EXPENSE.....	57
CS-80	OUTSOURCE METER READING (MPS ONLY).....	57
CS-82	MPS SHARE OF JEC AND L&P SHARE OF IATAN EXPENSE (MPS AND L&P).....	58
CS-83	MISCELLANEOUS TEST YEAR ADJUSTMENTS (MPS AND L&P).....	60
CS-84	TRANSITION COSTS ASSOCIATED WITH ST. JOE MERGER (MPS AND L&P).....	62
CS-85	PAYROLL TAXES (MPS AND L&P).....	63
CS-90	PROPERTY TAXES (MPS AND L&P).....	64
CS-95	DEPRECIATION EXPENSE (MPS AND L&P).....	65
CS-98	SIBLEY AAO AMORTIZATION.....	66
CS-100	2007 ICE STORM AAO AMORTIZATION (L&P ONLY).....	66
TAX-1	CURRENT AND DEFERRED INCOME TAX CALCULATION (MPS AND L&P).....	68
	CAPITALIZATION RATIO (MPS AND L&P).....	73

DIRECT TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2009-_____

1 **Q: Please state your name and business address.**

2 A: My name is Ronald A. Klotz. My business address is 1201 Walnut, Kansas City,
3 Missouri 64106.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L") as Senior Manager,
6 Regulatory Accounting.

7 **Q: What are your responsibilities?**

8 A. My responsibilities include the preparation and review of accounting exhibits and schedules
9 associated with KCP&L and Aquila, Inc. dba KCP&L Greater Missouri Operations
10 Company ("Company" or "GMO") regulatory filings. I also have responsibility for the
11 completion and filing of certain regulatory reports to the Federal Energy Regulatory
12 Commission ("FERC") and Department of Energy, among others.

13 **Q: Please describe your education, experience and employment history.**

14 A.. In 1992, I received a Bachelor of Science Degree in Accountancy from the University of
15 Missouri-Columbia. I am a Certified Public Accountant holding a certificate in the State
16 of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of
17 increasing responsibilities in the auditing division. I conducted and led various auditing
18 engagements of company financial statements. In 1995, I joined Water District No. 1 of
19 Johnson County as a Senior Accountant. This position involved extensive operational

1 and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as
2 a Senior Consultant. This position involved special accounting and auditing projects in
3 the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila
4 holding various positions within the Regulatory department until 2004 when I became
5 Director of Regulatory Accounting Services. This position was primarily responsible for
6 the planning and preparation of all accounting adjustments associated with regulatory
7 filings in the electric jurisdictions. In July, 2008, I began my employment with KCP&L.
8

9 **Q. Have you previously testified in a proceeding at the Missouri Public Service
10 Commission or before any other utility regulatory agency?**

11 A. Yes. I have testified before the California Public Utilities Commission, the Public
12 Utilities Commission of Colorado and the Missouri Public Service Commission.

13 **Q. What is the purpose of your direct testimony in this case before the Missouri Public
14 Service Commission (“Commission”)?**

15 A. The purpose of my direct testimony is to present certain schedules and to describe
16 various accounting adjustments made to GMO Territory Formerly Served by Aquila
17 Networks– MPS (“MPS”) and GMO Territory Formerly Served by Aquila Networks-
18 L&P (“L&P”) rate case filings.

19 **SCHEDULES**

20 **Q. Have you attached schedules to your testimony?**

21 A. Yes. Schedules RAK-1 through RAK-5 constitute the accounting schedules summarizing
22 both the MPS and L&P electric rate filings and are attached to my direct testimony.

23 **Q. Please describe Schedule RAK-1.**

1 A. Schedule RAK-1 represents the revenue deficiency calculated with a return on equity of
2 10.75%. GMO witnesses Samuel C. Hadaway supports the return on equity and capital
3 structure.

4 **Q. What information is included on Schedule RAK-2?**

5 A. This schedule illustrates the detailed components of rate base. Rate base represents
6 GMO investment to provide safe and reliable service to customers in the MPS and L&P
7 service territories.

8 **Q. Please describe Schedule RAK-3.**

9 A. Schedule RAK-3 is the adjusted income statement, which reflects net income available to
10 MPS and L&P, respectively, after all known and measurable changes have been made.

11 **Q. What is the purpose of RAK-4?**

12 A. Schedule RAK-4 is an explanation of all adjustments to test-year revenues and expenses.

13 **Q. Are you sponsoring all of the adjustments on Schedule RAK-4?**

14 A. No. There will be other GMO witnesses sponsoring adjustments in Schedule RAK-4.

15 **Q. Please describe Schedule RAK-5.**

16 A. Schedule RAK-5 is the Cash Working Capital schedule.

17 **TEST YEAR**

18 **Q. What historical test year did MPS and L&P jurisdictions use in determining rate
19 base and operating income?**

20 A. The Company used the test year ending December 31, 2007 for the purposes of its rate
21 case filing.

1 **Q. Please explain the period used to make adjustments to reflect known and**
2 **measurable changes that have been identified since the end of the historical test year**
3 **end.**

4 A. Adjustments are made to reflect changes in the level of revenues, expenses and rate base
5 that either have occurred or are expected to occur by the time of the April 30, 2009 true-
6 up in this rate case. We used March 31, 2009 as a proxy since that is a quarter-end
7 reporting period and we do not expect any major changes from March to April. We will
8 true up to actuals as part of the true-up process.

9 **JURISDICTIONAL / UTILITY ALLOCATIONS**

10 **Q. Have jurisdictional / utility allocation factors been developed for the MPS and L&P**
11 **jurisdictions?**

12 A. Yes. Since MPS's electric operations encompass both retail and wholesale jurisdictions,
13 it is appropriate to develop allocation factors to segregate the electric retail operations
14 from wholesale operations for this case. In addition, L&P operations include costs
15 associated with the provision of electric service and steam service. As such, allocation
16 factors have been developed to separate costs between the two utility services.

17 **Q. Please explain the categories of jurisdictional allocations used to separate retail and**
18 **wholesale operations for MPS operations.**

19 A. Separate allocation factors were developed to separate costs using the following cost
20 drivers: (1) Demand (Capacity), (2) Energy, (3) Transmission, (4) Distribution, (5)
21 Payroll, and (6) Plant. These factors were applied to their associated cost of service
22 components to create a split between the retail and wholesale operations for MPS
23 operations.

1 **Q. Please describe the L&P operations at its Lake Road generation facility?**

2 A. Two separate products are produced at the L&P Lake Road Station: electricity for GMO
3 L&P electric power grid, and process steam (referred to as “Industrial Steam”) delivered
4 to industrial customers located near the Lake Road Station. The two business operations
5 are referred to as the electric and steam jurisdictions.

6 **Q. Briefly describe each allocation factor used in the current rate case to separate L&P
7 rate base and cost of service between electric and steam products.**

8 A. The allocation factors are:

- 9 1. Allocated Plant Base Factor – this is the ratio of all allocated steam plant to total
10 regulated electric and steam plant.
- 11 2. Land Factor, Structures Factor, Access Electric Equipment Factor, Electric/Steam
12 Plant Factor (FERC 310, 311, 315, 341-346)– this is the ratio of all allocated steam
13 production plant to total electric and steam production plant.
- 14 3. Boiler Plant Factor (FERC 312) – this is the ratio of all allocated steam boiler plant
15 equipment to total regulated electric and steam boiler plant equipment.
- 16 4. Turbogenerators (“turbogen”) Factor (FERC 314) – this is the ratio of all allocated
17 steam turbogen units to total regulated electric and steam turbogen units.
- 18 5. 900# Steam Demand Factor (used in steam production allocation calculations),
19 Miscellaneous Steam Gen Equipment Factor (FERC 316) – this is the weighted ratio of
20 the highest maximum steam coincident peaks over the previous three years and the total
21 highest maximum coincident peaks over the previous three years.
- 22 6. Electric after Steam operation and maintenance (“O&M”) allocation (O&M Factor) –
23 this is the ratio of allocated payroll applicable to steam business to the total generation

1 payroll charged to O&M. The allocated payroll applicable to steam business is
2 calculated using the ratio of the previous three years of steam coal burn to total Lake
3 Road coal burn applied against total Lake Road payroll charged to O&M.

4 7. Electric after Steam administrative and general (“A&G”) allocation (A&G Factor) –
5 this factor is comprised of the sum of a 50% weighting of steam O&M to total O&M
6 from Annual Report Form 1, page 323 and a 50% weighting of total allocated steam plant
7 to total steam and electric plant.

8 **Q. Will GMO continue to allocate the cost of Lake Road operations?**

9 A. Yes. In Case No. HR-2005-0450 it was stipulated that “Aquila will continue to allocate the
10 cost of Lake Road operations between steam and electric in the Aquila Networks - L&P
11 division.” GMO plans to continue to allocate costs between the electric and steam
12 businesses.

13 **PLANT IN SERVICE (MPS and L&P)**

14 **Q. Please explain how plant in service was derived.**

15 A. The MPS and L&P plant in service includes plant that is directly assigned to the MPS
16 and L&P jurisdictions and corporate common plant that is allocated to the MPS and L&P
17 jurisdictions.

18 **Q. Explain what is meant by direct plant in service.**

19 A. Direct plant in service represents assets that specifically relate to MPS or L&P service
20 territories and provide use to these entities in order to serve their respective customers
21 with electric utility operations. Direct plant includes the plant categories of production,
22 transmission, distribution and general plant facilities.

23 **Q. How are the direct plant in service balances derived?**