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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION  
TRANSCRIPT OF PROCEEDINGS  
Hearing  
February 8th, 2017  
Jefferson City, Missouri  
Volume 8

IN THE MATTER OF )  
KANSAS CITY )  
POWER & LIGHT COMPANY'S )  
REQUEST FOR AUTHORITY )  
TO IMPLEMENT A )  
GENERAL RATE )  
INCREASE FOR ELECTRIC )  
SERVICE, )  
)  
)  
) File No. ER-2016-0285  
)  
)

MR. RONALD D. PRIDGIN ,  
Presiding Regulatory Law Judge  
Daniel Y. Hall, Chairman  
Commissioners:  
Stephen M. Stoll  
William P. Kenney  
Scott T. Rupp  
Maida J. Coleman

Reported by: MS. LISA BALLALATAK, CCR No. 1336  
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1 (The hearing commenced at 8:34 a.m.)

2 JUDGE PRIDGIN: Good morning. We are back  
3 on the record in ER-2016-0285. As I understand, we  
4 are going to begin with depreciation witnesses this  
5 morning, and then I understand the parties want to  
6 take a bit of a break to discuss some FAC witnesses  
7 before we put FAC witnesses on; is that correct?

8 MR. FISCHER: Yes, Judge.

9 JUDGE PRIDGIN: All right. Thank you.  
10 And it looks like we only have three depreciation  
11 witnesses today because Rogers is unavailable, so  
12 it'll be Spanos, Patterson, and Robinette?

13 MR. FISCHER: Yes. And with regard to  
14 Chris Rogers, it's my understanding that the parties  
15 don't have any questions for him. He's actually  
16 scheduled to appear on the second week, but if the  
17 commissioners don't have questions, we'd like to not  
18 have him come, and I'd introduce his testimony  
19 today.

20 JUDGE PRIDGIN: I'll wait to hear from the  
21 commissioners to see if we have any questions for  
22 Mr. Rogers, and if not, we can excuse his  
23 appearance.

24 MR. FISCHER: Thank you.

25 JUDGE PRIDGIN: And we'll get that

1 information to you when we can.

2 All right. Thank. Anything further, I  
3 guess, then, before Mr. Spanos takes the stand?

4 MR. FISCHER: I have a mini opening I'd  
5 like to give.

6 JUDGE PRIDGIN: Yes. Thank you. I'm  
7 sorry.

8 Anybody else have any opening as well?  
9 Thank you.

10 Mr. Fischer, when you're ready. I'm  
11 sorry.

12 MR. FISCHER: Okay. Thank you.

13 May it please the commission. My name is  
14 Jim Fischer, and I represent Kansas City Power &  
15 Light again today. The issue for the first part of  
16 the day is what depreciation rates should the  
17 commission order for KCPL? The company contends  
18 that the depreciation rate set forth in the  
19 depreciation study update, which is in Exhibit JJS-1  
20 attached to the direct testimony of John Spanos,  
21 those are the appropriate depreciation rates to use.  
22 These rates reflect the combined analysis of all  
23 KCPL assets through 2013 and include the most  
24 appropriate recovery methods and service values for  
25 all of those assets. Only depreciation rates for

1 the electric generation plant were actually updated.  
2 We're also asking, though, for a subaccount for the  
3 electric vehicle charging stations. The  
4 depreciation rates for all other plant accounts are  
5 the same as those that were authorized in the 2014  
6 KCPL rate case.

7 Now, the difference between the staff and  
8 the public counsel's proposed depreciation rates and  
9 the depreciation rates that we're suggesting is  
10 basically we have included the estimates of terminal  
11 net salvage that the company will incur upon  
12 retirement of its generating facilities. Now,  
13 terminal net salvage is composed of two things --  
14 two components: The retirement of the plant to a  
15 safe state, and then, secondly, the demolition of  
16 the plant. But KCPL is only asking that the  
17 retirement cost be included in depreciation rates  
18 and not the demolition costs. In order for  
19 customers to pay their cost of electric service,  
20 depreciation rates must allocate the full service  
21 value, which is the original cost versus the net  
22 salvage over the service life of the assets. If  
23 terminal net salvage is not included in  
24 depreciation, then the net salvage costs the company  
25 will incur upon the retirement of those assets will

1 not have been paid -- or will be paid by future  
2 customers after the assets are actually retired. So  
3 future customers will not be paying -- will not be  
4 receiving service from the assets, but yet, they are  
5 going to be asked to pay for the retirement, is --  
6 there's an intergenerational equity that we're  
7 trying to address here. Excluding terminal net  
8 salvage from depreciation, as the staff and the  
9 public counsel are proposing, creates this  
10 intergenerational equity, because future customers  
11 will pay the costs of the assets that have already  
12 been retired and from which they receive no benefit.  
13 The commission addressed the issue of net salvage in  
14 the Laclede rate case, GR-99-315 and ruled that net  
15 salvage should be included in depreciation. In most  
16 other states, that net salvage includes both the  
17 cost of retirement and the cost to dismantle the  
18 plants. While I believe the staff and public  
19 counsel accept this concept that net salvage should  
20 be included in depreciation rates, neither staff nor  
21 public counsel have included terminal net salvage in  
22 the depreciation recommendations. This is despite  
23 the fact that the staff has acknowledged in the  
24 incident case and in previous cases that terminal  
25 net salvage is likely to occur for production plant

1 assets.

2 Now, as Mr. Spanos explains in his  
3 testimony, staff and public counsel's recommendation  
4 for terminal net salvage are not consistent with the  
5 USOA, nor are they consistent with the commission's  
6 order in the Laclede order. These recommendations  
7 are also inconsistent with the NARUC depreciation  
8 manual that is commonly used throughout the country.  
9 KCPL retained the firm of Segal, Inc. to perform a  
10 detailed study of the expected retirement and  
11 dismantlement cost for the company's power plants.  
12 The results of that Segal report are set forth in the  
13 testimony of Chris Rogers' Schedule CRR-2. And as I  
14 mentioned, we -- the parties to this case don't have  
15 any questions for Chris Rogers, and we would waive  
16 him, unless the commissioners do have questions  
17 about that study.

18 He was previously a staff engineer here in  
19 the commission many years ago, whenever I was at the  
20 commission. The Segal report determined the cost  
21 expected to be incurred upon both the retirement and  
22 the dismantlement of the company's plants. These  
23 costs were based on a thorough review of the  
24 activities associated with terminal net salvage for  
25 these facilities. But the terminal net salvage used



1 in the depreciation study are based only on, as I  
2 mentioned, the retirement component of the Sega  
3 report. KCPL is not requesting that those  
4 dismantlement costs that are also included in that  
5 report be included in depreciation at this time.

6 Now, from my layman's perspective, the  
7 depreciation rates that KCPL is proposing in this  
8 case include the cost of shutting the doors to the  
9 power plant and making them safe, but not the full  
10 cost of dismantling the power plant structure  
11 itself. The terminal net value damage cost used for  
12 depreciation are, therefore, conservative estimates,  
13 from our standpoint, of the terminal net salvage  
14 cost. And as I mentioned, many other states include  
15 both the cost of retirement and the cost of  
16 dismantling the plant in their depreciation rates.  
17 Mr. Spanos, our witness, has experience around the  
18 country, and he can explain his experience on this  
19 issue in other states. The net salvage costs  
20 included in the depreciation study are not  
21 speculative estimates of terminal net salvage, but  
22 are instead a minimal level of the cost that the  
23 company will incur upon retirement.

24 In summary, depreciation principles as set  
25 forth in the NARUC depreciation manual and the USOA

1 and by the commission itself in Laclede require that  
2 net salvage be included in depreciation expense.  
3 The exclusion of the terminal net salvage cost  
4 results in an intergenerational inequity because  
5 future customers will be required to pay for the  
6 cost of retired assets that are no longer providing  
7 service. Despite the fact that staff has recognized  
8 that terminal net salvage costs will occur, staff  
9 has proposed to exclude those costs from  
10 depreciation rates at the present time. The staff's  
11 recommendation, as well as public counsel's,  
12 therefore, in our opinion, don't meet the  
13 requirements of the USOA; they contradict the  
14 Laclede order; and they, most importantly, produce  
15 this intergenerational inequity problem. For these  
16 reasons, we ask that the commission reject the  
17 staff's proposal and accept the depreciation rates  
18 that are being proposed by the company and the  
19 testimony of John Spanos.

20 Thank you.

21 JUDGE PRIDGIN: Mr. Chairman.

22 CHAIRMAN HALL: Good morning.

23 MR. FISCHER: Good morning.

24 CHAIRMAN HALL: The current depreciation  
25 rate that the commission approved in KCPL's last

1 rate case --

2 MR. FISCHER: Yes.

3 CHAIRMAN HALL: -- they did not include  
4 terminal net salvage; is that correct?

5 MR. FISCHER: That's correct.

6 CHAIRMAN HALL: Was that a litigated  
7 issue?

8 MR. FISCHER: No.

9 CHAIRMAN HALL: So KCPL, in the last rate  
10 case, did not attempt to do what it is trying to do  
11 in this rate case?

12 MR. FISCHER: This would be a different  
13 position, yes.

14 CHAIRMAN HALL: Can you explain the change  
15 in position?

16 MR. FISCHER: Well, I think John Spanos  
17 may be able to give you the best explanation for how  
18 things have evolved in Missouri, but several years  
19 ago, the commission changed its view of depreciation  
20 and went to a life-span method of depreciation.  
21 That includes recovery net salvage cost, but in the  
22 past, the terminal net salvage costs that the staff  
23 had supported did not -- were never included in the  
24 net salvage costs that are included in depreciation.  
25 In many states, they -- both the retirement and the

1 demolition costs are included in that terminal net  
2 salvage. We think that's the appropriate way it  
3 should be done under the life-span method, and we  
4 are bringing this to the commission's attention now  
5 to hopefully take care of this intergenerational  
6 inequity problem that results, because what we're  
7 asking for are the retirement costs that are going  
8 to be associated with this plan. Current customers  
9 ought to be paying for those because they're  
10 using --

11 CHAIRMAN HALL: I understand that  
12 argument.

13 MR. FISCHER: Okay.

14 CHAIRMAN HALL: I understand the argument.  
15 How much money are we talking about?

16 MR. FISCHER: The -- it's my understanding  
17 that the terminal net salvage is worth about nine  
18 and a half billion dollars, but then when you go to  
19 the true up at the end of the case, because of the  
20 additional plant that comes in the true-up period,  
21 there will be a total of -- the total value of  
22 depreciation is 15 million. But the actual terminal  
23 net value -- net salvage value is worth about nine  
24 and a half.

25 CHAIRMAN HALL: Is it possible that the --

1 and I can ask your witness this, as well, but -- I  
2 mean, when I was trying to figure out why the  
3 company changed its position from the last rate case  
4 to this one, I thought that it might be because you  
5 have an argument that the costs are less speculative  
6 now than they were before. Is that -- is there some  
7 truth to that?

8 MR. FISCHER: Well, I -- there is an  
9 Empire order where the commission looked at whether  
10 such things should be included as retirement, and  
11 they at that time said, You know, we're not seeing a  
12 lot of power plants being retired, so we're not  
13 going to include it at this point in time. But the  
14 facts are changing in the industry, and we are  
15 seeing retirements. We have the Venice plant  
16 retire, we had the Montrose plant, we have several  
17 coming up.

18 CHAIRMAN HALL: So the costs are less  
19 speculative?

20 MR. FISCHER: Yes, that's exactly right.

21 CHAIRMAN HALL: Okay. So now you're not  
22 attempting to get demolition costs within terminal  
23 net salvage?

24 MR. FISCHER: That's correct.

25 CHAIRMAN HALL: How does the company

1 intend to recover those costs?

2 MR. FISCHER: Well, those would -- those  
3 would -- I guess, until things change, they would be  
4 recovered at the end, whenever demolition costs  
5 occur. And there would be an intergenerational  
6 inequity there, too, but we're trying to limit it.

7 CHAIRMAN HALL: So would the company put  
8 those demolition costs into the test year expenses?

9 MR. FISCHER: Well, it's my understanding  
10 what happens is, that after that happens, in the  
11 next rate case, they would be put into the reserve.  
12 The reserve would then -- it would be -- the reserve  
13 would be reduced, and those costs would actually be  
14 recovered over the next series of the life of the  
15 plant. So they would get way deferred quite long  
16 into the future.

17 CHAIRMAN HALL: Okay.

18 MR. FISCHER: And then that's another  
19 concern we have; it's just we're delaying it and  
20 deferring it.

21 CHAIRMAN HALL: So there's not an issue  
22 with actually getting these costs recovered; it's  
23 the timing of the costs that is at issue here?

24 MR. FISCHER: It's timing and  
25 intergenerational equity problem.

1 CHAIRMAN HALL: Okay. All right. Thank  
2 you.

3 JUDGE PRIDGIN: Any opening from staff?  
4 Mr. Thompson?

5 MR. THOMPSON: Thank you, Judge.

6 Depreciation expense provides the officers  
7 of a utility with one of their chief sources of  
8 cash. This issue has to do with increasing  
9 depreciation expense by, as you heard Mr. Fischer  
10 tell you, \$15 million. People will be paying for  
11 the final removal, retirement, demolition,  
12 greenfielding of plants that may or may not ever  
13 occur. The commission addressed this issue in case  
14 ER-2004-0570 in 2005; that was an Empire District  
15 Electricity Company rate case. At that time, the  
16 commission decided that terminal net salvage was too  
17 speculative; it was not known and measurable.  
18 Instead, those costs could be expensed when they  
19 occurred. The company could request an AAO or else  
20 arrange for it to occur during a test year, and  
21 recovery could occur then. The company was not  
22 losing out. Instead, the rate payers were being  
23 protected from having to pay for something that  
24 might never occur. Yeah, Venice has been retired;  
25 Montrose has been retired, that's true. We don't

1 deny it. But it's a new day in Washington, D.C.  
2 There could be coal plants springing up all over the  
3 place, for all we know. Might not be any more coal  
4 plant retirements.

5 So I suggest to you that it is still  
6 speculative at best. There are mechanisms that the  
7 company can use to recover the money it actually  
8 spends on retirements so that they can be made  
9 whole.

10 As far as the rates to use, staff would  
11 urge you to direct KCPL to continue to use the  
12 depreciation rates for production plants that the  
13 commission approved in Case No. ER-2014-0370. The  
14 difference between the rates that staff favors in  
15 this case and the rates that KCPL favors is simply  
16 the addition of a component for terminal net  
17 salvage. It's the only difference.

18 Thank you very much.

19 CHAIRMAN HALL: One quick question. The  
20 testimony seemed -- at least, it was somewhat  
21 confusing to me, but Mr. Fischer said that the  
22 company is only seeking the retirement component of  
23 terminal net salvage and not the demolition. Does  
24 the staff agree with that?

25 MR. THOMPSON: I believe that is true.



1 CHAIRMAN HALL: And does staff agree that  
2 taking the Sega report -- does staff agree that KCPL  
3 accurately pulled out the demolition from those  
4 numbers, or is that something to ask your witness?

5 MR. THOMPSON: That's something to ask my  
6 witness.

7 CHAIRMAN HALL: Okay.

8 MR. THOMPSON: Thank you, sir.

9 COMMISSIONER KENNEY: Mr. Thompson, does  
10 staff look at something like this, that it would  
11 fall under an accounting authority order?

12 MR. THOMPSON: Yes.

13 COMMISSIONER KENNEY: Okay. So staff  
14 would look at it favorably that way?

15 MR. THOMPSON: Yes, sir.

16 COMMISSIONER KENNEY: Okay. Thank you.

17 JUDGE PRIDGIN: Mr. Opitz, when you're  
18 ready, sir.

19 MR. OPITZ: May it please the commission.  
20 Good morning. The company's request is -- while we  
21 disagree with staff on certain issues, we agree that  
22 the company's request is an unwarranted and  
23 unreasonable departure from past commission practice  
24 and accepted regulatory policies. The fact is that  
25 the discussion of intergenerational inequities

1     itself is speculative. Those may or may not occur,  
2     and we don't know what those amounts, if any, of  
3     intergenerational equities will be at this time.  
4     The company -- this is a big dollar issue, and the  
5     company is asking -- the company is the party asking  
6     for the change. You heard in the opening  
7     statements, and you've read in the testimony that  
8     these figures are based on estimates and a Sega  
9     report that is in itself an estimate. Mr. Thompson  
10    cited to the Empire case, where the commission  
11    specifically said that you shouldn't include  
12    terminal net salvage, and it's my understanding that  
13    that has been the practice of the commission since  
14    that time.

15             As it relates to the terminal net salvage  
16    issue, the company has not provided sufficient  
17    support for increasing the depreciation rates for  
18    this, and these costs are not measurable and they're  
19    not known, and so it should be rejected. As it  
20    relates to the rest of the depreciation rates,  
21    public counsel recommends continuing to use the  
22    depreciation rates set approximately one year ago in  
23    KCPL's last rate case. The updates, which were made  
24    in isolation, I think -- it's our position would  
25    improperly pull out certain things that are --

1 appear to be benefiting the company. This should be  
2 something that is looked at holistically with a  
3 total study, not just something that is isolated  
4 updates.

5 For our differences between the staff in  
6 this case, public counsel has excluded any  
7 depreciation rates for EV charging stations and  
8 Greenwood Solar. It's public counsel's position  
9 that those should not be included in rates, and so  
10 as a result of that, we have not included any  
11 depreciation rates for recovery of those assets in  
12 this case.

13 In conclusion, I ask that you continue to  
14 use the order of depreciation rates from KCPL's last  
15 rate case, less than one year ago, and to reject the  
16 company's attempt to drastically change commission  
17 practice and policy.

18 Thank you.

19 CHAIRMAN HALL: Good morning.

20 MR. OPITZ: Good morning.

21 CHAIRMAN HALL: What does -- how does OPC  
22 view the Laclede case that KCPL is relying upon as  
23 precedent for its position?

24 MR. OPITZ: It's my understanding that the  
25 Laclede case, while it does include the language

1 that's cited in the testimony of Mr. Spanos, it --  
2 and you can read this in the surrebuttal of John  
3 Robinett. There is additional language in there.  
4 The Laclede order does not specifically note  
5 terminal net salvage. And within that order,  
6 there's language discussing that the commission will  
7 permit experience costs -- experience costs, and  
8 Mr. Robinett may be able to articulate exactly what  
9 happened there, but my understanding is by using  
10 experience, those are costs that were known and were  
11 measurable, and that's in the calculation, which is  
12 included above, I believe, the sections quoted by  
13 Mr. Spanos in his testimony.

14 I will note that the Laclede case that is  
15 cited by Mr. Spanos, it has a GR-99 number, but I  
16 think it's the third report in order, and that was  
17 issued in January of 2005, and then the Empire order  
18 that is cited favorably by staff and by public  
19 counsel in this case is -- was issued approximately  
20 one month after that order. So that is the more  
21 recently time where the Empire said to exclude  
22 terminal net salvage.

23 CHAIRMAN HALL: And what is OPC's position  
24 on KCPL's argument that the Empire case that OPC and  
25 staff are relying on can be distinguished because of

1 a change in commission practice concerning the  
2 life-span method?

3 MR. OPITZ: I don't have, I guess, an  
4 answer for that. That might be something that Mr.  
5 Robinett is better able to address when he's on the  
6 stand. I think that that Empire case did make  
7 clear, as Mr. Thompson indicated, that there are  
8 alternatives for the company to recover this.  
9 Commissioner Kenney asked about the staff's position  
10 on the AAO. I wouldn't go quite so far as to  
11 endorse an AAO, but that commission order did say  
12 the company does have control over the timing of its  
13 rate case. So if we were presented with that issue,  
14 our office would look at it at that time, but I  
15 think our default position is the company controls  
16 the timing of the rate case. This -- right now,  
17 this cost isn't known, it isn't measurable; it's  
18 still an estimate, and so it shouldn't be included.

19 CHAIRMAN HALL: Okay. Thank you.

20 JUDGE PRIDGIN: Thank you. Any further  
21 bench questions?

22 All right. Thank you. Any other counsel  
23 wish an opening?

24 Hearing nothing further before -- we are  
25 at Mr. Spanos; is that correct?

1 All right. Mr. Spanos, if you'll come  
2 forward to be sworn, please.

3 (Technical difficulties by the reporter)

4 (A recess was taken.)

5 JUDGE PRIDGIN: Good morning. We are back  
6 on the record.

7 Madam court reporter, does counsel need to  
8 resume his direct?

9 THE REPORTER: Please.

10 JUDGE PRIDGIN: All right. Mr. Fischer,  
11 maybe if you can start your direct over.

12 Will that suffice for you, madam court  
13 reporter?

14 THE REPORTER: Oh, yes. Absolutely.

15 JUDGE PRIDGIN: All right. Thank you.

16 JOHN J. SPANOS,  
17 of lawful age, being first duly sworn, testifies as  
18 follows:

19 EXAMINATION

20 BY MR. FISCHER:

21 Q. Yeah, let's begin again.

22 Mr. Spanos, would you state your name and  
23 address for the record.

24 A. John J. Spanos, 207 Senate Avenue, Camp  
25 Hill, Pennsylvania 17011.

1 Q. And are you the same John Spanos that  
2 caused to be filed in this case direct rebuttal and  
3 surrebuttal, which has been marked as 145, 146, and  
4 147, respectively?

5 A. Yes.

6 Q. Do you have any changes or corrections  
7 that need to be made to those exhibits?

8 A. No, I do not.

9 Q. If I were to ask you the questions  
10 contained in the written documents, would your  
11 answers be the same and are they correct to the best  
12 of your knowledge and belief?

13 A. Yes.

14 MR. FISCHER: Judge, I would move, then,  
15 for the admission of Exhibits 145, 146, and 147.

16 JUDGE PRIDGIN: Any objections?

17 Hearing none, Exhibits 145, 146, and 147  
18 are admitted.

19 MR. FISCHER: And, Judge, before I tender  
20 Mr. Spanos to -- for cross-examination, I would like  
21 to correct something I said on my opening statement.  
22 I was informed that I was in error that in the last  
23 KCPL rate case, we actually had this issue before  
24 the commission, but we stipulated as a way to settle  
25 some of the issues in the case that we would

1 withdraw the issue, so we did have it in the last  
2 rate case, so I'm sorry I misspoke.

3 With that, Judge, I would tender the  
4 witness for cross-examination.

5 JUDGE PRIDGIN: Thank you.

6 Public counsel, any cross?

7 MR. OPITZ: Briefly, judge.

8 Permission to cross from my seat?

9 JUDGE PRIDGIN: Granted.

10 CROSS-EXAMINATION

11 BY MR. OPITZ:

12 Q. Good morning.

13 A. Good morning.

14 Q. Do you have a copy of your direct  
15 testimony with you?

16 A. I do.

17 Q. Would you please turn to page 7. And on  
18 line 17, the question is asked:

19 "Have you included a dismantlement  
20 component into the overall recovery of generating  
21 facilities?"

22 Would you read for me your answer at  
23 line 19 and 20, please.

24 A. My response here says: "Yes, a  
25 dismantlement component have been included to the



1 net salvage percentage for steam and other  
2 production facilities."

3 And as I have described in my rebuttal,  
4 the clarification of the language, so I think it's  
5 important to understand that.

6 MR. OPITZ: That's all of the question I  
7 have, Judge. Thank you.

8 JUDGE PRIDGIN: Thank you.

9 Mr. Thompson, any cross?

10 MR. THOMPSON: Thank you, Judge.

11 CROSS-EXAMINATION

12 BY MR. THOMPSON:

13 Q. Good morning, Mr. Spanos.

14 A. Good morning.

15 Q. Let's start with this dismantlement thing.

16 As I understand it, the Sega report distinguishes  
17 between two components of terminal net salvage; is  
18 that correct?

19 A. That is correct.

20 Q. And what are those two components?

21 A. As they describe it in their terminology,  
22 it's retirement cost and dismantlement cost.

23 Q. Now, the rates that you're sponsoring for  
24 Kansas City Power & Light Company here today, do  
25 they include dismantlement costs?

1           A.    No.  They only include the retirement cost  
2    column, which is what I was trying to explain in the  
3    last question, and we clarify that terminal net  
4    salvage has many meanings, that there seems to be  
5    some confusion.  And what we have included is just a  
6    retirement cost column, which is the cost to shut  
7    down the facility at the time of retirement, make  
8    sure that it's safe, allow all of the components to  
9    be properly taken care of.

10           **Q.    Okay.  Now, Mr. Spanos, you're being**  
11    **compensated for your involvement in this case; is**  
12    **that correct?  You're being paid?**

13           A.    Yes.

14           **Q.    Who is paying you?**

15           A.    KCP&L is my client.

16           **Q.    Okay.  And is this your first occasion**  
17    **testifying on depreciation during this calendar**  
18    **year?**

19           A.    No.

20           **Q.    How many other times have you testified**  
21    **this calendar year?**

22           A.    This calendar year?  Two.

23           **Q.    And how about in 2016?  Do you recall how**  
24    **many times you testified in 2016?**

25           A.    Let me ask a clarification.  You're asking

1 oral testimony or written testimony, since some  
2 cases don't require, always, oral testimony?

3 **Q. I understand. How about the two together?**

4 A. Based on the list of cases and the time  
5 that I prepared this testimony and through the end  
6 of the year, 24 times.

7 **Q. Okay. And with respect to testimony in  
8 utility rate cases, have you ever testified for the  
9 staff of a commission?**

10 A. No, I have not.

11 **Q. Have you ever testified for an industrial  
12 intervener?**

13 A. No, I have not.

14 **Q. Have you ever testified for a rate payer  
15 consumer advocate?**

16 A. No, I have not.

17 **Q. Okay. Do you understand that including  
18 terminal net salvage values in depreciation expense  
19 would be a change for this commission?**

20 A. The information has been supplied in front  
21 of this commission before, but there's been no  
22 distinction of terminal net salvage since the  
23 life-span component has been included into  
24 depreciation in Missouri.

25 MR. THOMPSON: No further questions.

1 Thank you, Judge.

2 JUDGE PRIDGIN: Mr. Thompson. Thank you.

3 Any bench questions? Mr. Chairman?

4 CHAIRMAN HALL: Good morning.

5 THE WITNESS: Good morning.

6 CHAIRMAN HALL: My understanding, based on  
7 your testimony, is that the company is not  
8 attempting to recover demolition costs, just  
9 retirement costs within the net terminal salvage  
10 depreciation component; is that correct?

11 THE WITNESS: That is correct.

12 CHAIRMAN HALL: So how would the company  
13 go about recovering its demolition expenses?

14 THE WITNESS: Once those costs are  
15 incurred -- and, first, let me make sure it's clear  
16 that we understand that we're -- not only do we  
17 include the life span approach, which is the  
18 concurrent retirement of the generating facilities,  
19 but we also have the remaining life component, which  
20 makes sure that the company becomes whole and the  
21 rate payers are paying appropriately for all of the  
22 costs; no more, no less. That's a distinction I  
23 want to make sure is clear in the understanding of  
24 what is in place today as approved procedures.

25 So with that in mind, the process would be

1 that when you do incur the dismantlement cost, those  
2 would be recovered over the life of the remaining  
3 plants within that function. So if it's a steam  
4 facility, they'd be recovered over the remaining  
5 life of the remaining steam facilities, and for  
6 other production, they would be recovered over the  
7 specific lives of the other production facilities,  
8 et cetera. So that's a key component that we need  
9 to understand in this case, that life span and  
10 remaining life are now part of the depreciation  
11 methodology, which are different than what we've  
12 already discussed this morning.

13 CHAIRMAN HALL: So there wouldn't be a  
14 need for an AAO to recover those expenses; they  
15 could just be recovered in the process you just  
16 described?

17 THE WITNESS: They can be recovered in the  
18 process I described. My concern is that those are  
19 being paid by rate payers --

20 CHAIRMAN HALL: I understand your concern.

21 THE WITNESS: But, yes, that's how that  
22 process would be recovered.

23 CHAIRMAN HALL: And would that same  
24 process apply for the retirement costs if the  
25 commission were to not adopt your position?

1 THE WITNESS: It would be. The  
2 distinction and why we've done it in this case is  
3 that in my mind, these retirement costs are not  
4 speculative or unknown; they're considered  
5 relatively known costs, similar to every other  
6 component within a depreciation study. So by  
7 incorporating that -- the retirement cost now,  
8 you're matching the generation of rate payers.

9 CHAIRMAN HALL: Right. And I understand  
10 the intergenerational inequity issue.

11 THE WITNESS: Very good.

12 CHAIRMAN HALL: Are the demolition costs  
13 less speculative than the retirement costs?

14 THE WITNESS: I think that the demolition  
15 costs are more speculative.

16 CHAIRMAN HALL: I'm sorry. I got that  
17 reversed. Okay. Explain that to me. Why are  
18 they -- why are they -- why are the retirement  
19 costs --

20 THE WITNESS: Less speculative?

21 CHAIRMAN HALL: -- less speculative than  
22 the demolition costs?

23 THE WITNESS: The retirement costs occur  
24 when the asset goes out of service, and you have be  
25 able to walk away from the facility that is safe,

1 properly shut down, cannot operate any longer. So  
2 those costs we know are occurring within the city,  
3 we know those things are occurring for these  
4 particular facilities and others in Missouri, so we  
5 know that those are -- have occurred. As far as the  
6 full dismantlement, we don't know when those -- the  
7 dismantlement will occur because of the fact that,  
8 usually, utilities wait until they know what they're  
9 going to be with that particular area, whether they  
10 build new generation, whether they sell the land to  
11 somebody else. So because of that, the actual time  
12 that you demolish a facility is not known, so then  
13 the overall costs are not known, and that's why the  
14 demolition component is considered more speculative  
15 than the actual retirement cost, because the  
16 retirement costs are going to happen when you retire  
17 to be able to shut down.

18 CHAIRMAN HALL: And so could the  
19 demolition costs just be rolled into the costs for  
20 the new facility?

21 THE WITNESS: It could. The issue, again,  
22 is you're now deferring those costs to new rate  
23 payers.

24 CHAIRMAN HALL: I understand.

25 THE WITNESS: But you can defer those

1 within the remaining life concept, assuming the new  
2 facility is a utility by the same company or -- one  
3 of the issues that I didn't discuss is, many times  
4 they retire one unit at a time, such as what we have  
5 in Montrose. So you might not necessarily be  
6 knowing of what that demolition is going to be or  
7 how it will affect a utility; that's one of the  
8 areas of concern.

9 CHAIRMAN HALL: How many different states  
10 have you appeared in providing testimony concerning  
11 terminal net salvage? Ballpark?

12 THE WITNESS: I would say 20 to 25. I've  
13 participated in 40, but they're not all having  
14 generation service.

15 CHAIRMAN HALL: So this is a contested  
16 issue nationally?

17 THE WITNESS: Yes.

18 CHAIRMAN HALL: Can you ballpark where  
19 most states are on the issue?

20 THE WITNESS: Most states are including  
21 some component of terminal net salvage in their  
22 depreciation rates.

23 CHAIRMAN HALL: So most states are  
24 including the retirement component -- maybe not the  
25 demolition, but the retirement component?



1 THE WITNESS: I'll add a slight  
2 distinction is that not all states segregate the two  
3 components of terminal net salvage; they will just  
4 include a dismantlement component, and then a  
5 portion of that is considered a terminal net salvage  
6 part, and that's why there's some language issues  
7 that we've had in my testimony, is because  
8 retirement costs and dismantlement or demolition are  
9 considered dismantlement altogether or terminal net  
10 salvage, so that's why there's some semantics in  
11 wording.

12 But to answer your question, most have a  
13 portion of the dismantlement, which can be  
14 associated with the retirement costs.

15 CHAIRMAN HALL: Thank you.

16 THE WITNESS: Yes.

17 JUDGE PRIDGIN: Further bench questions?

18 No bench questions. All right.

19 Any recross based on his questions?

20 Mr. Opitz?

21 MR. OPITZ: No, thank you, Judge.

22 JUDGE PRIDGIN: Mr. Thompson?

23 MR. THOMPSON: Thank you, Judge.

24 BY MR. THOMPSON:

25 Q. What about the states that do not include

1    **any component of terminal net salvage? What do they**  
2    **do?**

3           A.    Well, first, some of those are  
4    nonregulated, so, obviously, they have a different  
5    methodology. Of the other states that I've been  
6    involved in that don't include terminal net salvage,  
7    in many cases those costs are incurred at the end of  
8    time, and they have an intergenerational inequity  
9    issue that they are now in the process of reviewing,  
10   as well, mainly because we know that facilities are  
11   being retired and many were in the position similar  
12   to what we had here, in that they weren't sure  
13   whether facilities are going to be retiring. Now  
14   that it's a much more of a known activity or event,  
15   all of them are in the process of having discussions  
16   on this as well.

17           MR. THOMPSON: Thank you very much. No  
18   further questions, Judge.

19           JUDGE PRIDGIN: Mr. Thompson, thank you.  
20   Redirect?

21           MR. FISCHER: Yes. Briefly.

22                            FURTHER EXAMINATION

23   BY MR. FISCHER:

24           **Q. Mr. Spanos, do you happen to have the Sega**  
25   **report with you there?**

1           A.    I do not have it in front of me.

2           Q.    Okay.  Judge, may I approach the witness?

3                    JUDGE PRIDGIN:  You may.

4           Q.    (By Mr. Fischer)  I'd like to refer you to  
5   the summary table in this Sega report, which is  
6   found on page 1-7 to schedule -- CRR-2 is the Sega  
7   report itself.  And there is a -- two columns.  One  
8   has total retirement and one has dismantlement cost.  
9   Do you see that?

10          A.    Yes, I do.

11          Q.    You had some questions regarding whether  
12   you had included just retirement costs, and I  
13   believe you answered that you did just include the  
14   retirement costs; is that correct?

15          A.    Yes.  I've included the retirement cost  
16   component.  The only exception to that is for  
17   Sega -- well, wind, I've included also the scrap  
18   value because that would occur at retirement.

19          Q.    Could you just for the commission's  
20   benefit note how much are retirement costs and how  
21   much are demolition costs in the Sega report.

22          A.    Sure.  Total retirement cost for all  
23   generation is 236 million, approximately, and for  
24   dismantlement would be an additional 301 million.

25          Q.    Okay.  And you've include the lower

1     **number --**

2           A.     Yes, I have.

3           Q.     -- for retirement?   Now, from a layman's  
4     **perspective, sometimes it's hard to understand some**  
5     **of the jargon in this issue.  Can you explain what**  
6     **happens with retirement when a production plant is**  
7     **retired.  Say a coal-fired plant.  What would you**  
8     **actually do?**

9           A.     Sure.  First -- again, understanding that  
10    we have the life span.  That means that assets are  
11    retired at a concurrent date.  So when you have  
12    assets retired at a concurrent date, such as a unit  
13    or a facility, you also have major retirement costs  
14    to shut that facility down.  That did not happen  
15    over the life of the asset, but were part of the  
16    service value of the asset.  So you must at that  
17    point in time make that facility safe to be able to  
18    walk away from.  So you need to disconnect piping  
19    and pumps and things of that nature, make sure that  
20    you -- that area around the facility safe to  
21    operate.  So there are many components of each of  
22    those aspects.  Some assets are taken out of service  
23    and removed -- not that many, but there are some  
24    that are in that position.  You might have fencing  
25    or security that needs to be put around that area.

1 You have a lot of planning that goes into making  
2 sure that the other units or other assets are not  
3 affected by the shutdown of that particular  
4 facility. You could have stacks that need to be  
5 closed and made safe.

6 So there are handfuls of costs which,  
7 obviously, we can see here can add up quite a bit at  
8 that end of life component.

9 **Q. And would those costs occur even if the**  
10 **company decided to leave the structure standing on**  
11 **that land?**

12 A. Absolutely. You'd have to have these  
13 assets happen for each of those particular units  
14 when they get retired to make sure that you can walk  
15 away from that facility at that time, until a better  
16 understanding of what's going to happen at that  
17 location.

18 **Q. And I believe you were asked a question,**  
19 **perhaps, by the chairman whether these are less**  
20 **speculative than dismantlement costs. Do you recall**  
21 **that?**

22 A. Yes. And --

23 **Q. Would you explain why that would be true.**

24 A. One thing that's very clear and is  
25 different than what we had, say, ten years ago is,

1 we've all seen these facilities being retired.  
2 Based on many of the rules and regulations, there  
3 are many, many, many units that have been retired  
4 since 2005, when there was not as much a concern or  
5 expectation that you would retire generating  
6 facilities in a fashion that you do. Today we know  
7 that generating facilities are being retired; we  
8 know that there are many more planned to be retired  
9 in the next five years because of some of the new  
10 Clean Air Acts and Clean Power Acts that are in  
11 place. So because of the fact that you have these  
12 retirements and expectations for them to retire,  
13 they're no longer speculative; they are just as much  
14 a likely event as the retirement of a pump or the  
15 retirement of a pole. I mean, all of those things  
16 are the same expectation as what we have built into  
17 our study as a whole. So that's why you can't  
18 consider these speculative. Now, the demolition  
19 component is a little bit less likely, and which is  
20 why we've kept it out, because that was asset -- or  
21 that activity isn't as defined within all of the  
22 different utilities.

23 **Q. You were asked some questions, too, about**  
24 **your experience in other states. Is it unusual for**  
25 **those two components to be kept separate in other**

1 **states, dismantlement and retirement?**

2 A. Normal studies do not segregate the two  
3 pieces; however, there are times when, as part of  
4 the agreement or -- either settlement or the case  
5 itself, a portion of the full costs are accepted  
6 because of the fact that there isn't an  
7 understanding of the dismantlement part of it, so  
8 they segregate the amounts after the fact in order  
9 to determine what is the most likely amounts to  
10 occur.

11 Q. If you were going to give the commission  
12 just a ballpark percentage of states that include  
13 both in your experience, what would it be?

14 A. Oh, I'd say -- that include both, 50 to  
15 75 percent, and include a component of the ones that  
16 I've dealt with, you're closer to 90 percent.

17 Q. Okay. You were also asked a question by  
18 the chairman about how dismantlement costs would be  
19 recovered if they weren't included in depreciation  
20 rates. Do you recall that question?

21 A. Yes.

22 Q. Could you elaborate a little bit and  
23 explain how long it takes for the company to  
24 actually recover those retirement costs or  
25 demolition costs if the traditional practice in

1 **Missouri was continued?**

2 A. The practice that we have in place today  
3 in Missouri would be that if you incurred costs  
4 today for, we'll say, the Montrose 1 unit, those  
5 costs would then be recovered of the remaining life  
6 of the remaining units at -- that are part of the  
7 steam function. So in this case, that could go as  
8 far as recovering all the way up through 2070, which  
9 is when the Iatan unit is the last one on -- that  
10 would be standing as we have it today. So you're  
11 now deferring those costs -- a portion of those  
12 costs for 55 years.

13 **Q. And those are retirement costs that**  
14 **occurred already; is that right?**

15 A. They've occurred -- currently, they're  
16 occurring. They're after the study was performed,  
17 but they are -- they have incurred since then up  
18 until now, and there's still more to be incurred.

19 **Q. So if I was a customer taking service**  
20 **from, say, Montrose, in the '50s, and that plant has**  
21 **now retired, at what point down the road would**  
22 **the -- all of the retirement costs finally be**  
23 **recovered by the company?**

24 A. Well, based on the current practice that  
25 would be -- a portion of it would happen each year



1 up through 2070.

2 Q. 2070?

3 A. That's correct.

4 Q. So --

5 A. Based on the remaining life of all of the  
6 facilities within steam.

7 Q. So 80 years after I take service is  
8 that -- under that hypothetical?

9 A. It would be 55 from today, but 120 after  
10 you took service, if you came in in 1950.

11 Q. I believe you were asked some questions  
12 about whether these were speculative costs. Do you  
13 recall that?

14 A. Yes.

15 Q. As a depreciation expert, do you base all  
16 of your depreciation rates on estimates?

17 A. Yes. You take a combination of  
18 statistical analysis, informed judgment, and then  
19 you interpret that information to come up with your  
20 estimate of service life, life span, net salvage  
21 component. So all of those pieces are an estimate,  
22 and you take as much information as you have  
23 available to you to make sure that you produce the  
24 most appropriate depreciation recovery pattern that  
25 is systematic and rational. In turn, the company

1 comes back every five years to reevaluate whether  
2 your estimates were accurate and whether you have to  
3 modify them, and that's what happened continually  
4 for this particular company and many others that I  
5 deal. There are very periodic time periods, usually  
6 it's around a five-year period that you come and  
7 review all of the estimates.

8 **Q. Do you know if this commission has rules**  
9 **that require that the companies come forward with**  
10 **periodic depreciation studies every five years?**

11 A. That's been the standard, yes.

12 **Q. In answer to one of the chairman's**  
13 **questions, you mentioned, I believe, that the change**  
14 **was needed due to the change in life span -- going**  
15 **to the life span in Missouri. Could you elaborate**  
16 **on that -- on why that is the case, in your opinion?**

17 A. Yes. First, the life-span methodology,  
18 which is -- or technique is -- was accepted in  
19 Missouri only a few years ago, so after the Empire  
20 case, after the Laclede case. So what that  
21 recognized was that the Missouri Commission agreed  
22 that there was a concurrent date of retirement.  
23 That was consistent, had been in place for many  
24 years across the country, so that whole practice has  
25 been relatively new, as far as depreciation in

1 Missouri. On top of that, the remaining life  
2 component was also included as an appropriate  
3 recovery pattern. The remaining life component then  
4 made sure that recovery, no more, no less, is done  
5 over the remaining life of the asset, or in this  
6 particular case, the function, because of the fact  
7 you have all of those assets in place.

8 So when you include both the remaining  
9 life and the life span technique, then you need to  
10 follow the NARUC manual to make sure that you are  
11 then including all components of net salvage.  
12 Uniform system accounts is net salvage, but the  
13 NARUC manual specifies what net salvage means for  
14 life span accounts, and that is the interim and the  
15 final retirement component, and those things are  
16 what is included or should be included in recovery  
17 patterns for generating facilities, which is what we  
18 have in place now. And that only started to be  
19 understood in -- the 2010 case.

20 **Q. Now, are you suggesting the NARUC manual**  
21 **specifies or suggests that net -- terminal net**  
22 **salvage should be included in depreciation?**

23 A. Yes. It's described in the document as to  
24 the fact that net salvage for generation and the  
25 life span component includes a composite of interim

1 and final net salvage, which, in this case, we're  
2 just determining as terminal net salvage, and that  
3 is how my calculations are put together in this  
4 study.

5 MR. FISCHER: Judge, I think that's all I  
6 have. Thank you very much.

7 JUDGE PRIDGIN: Thank you. Mr. Spanos,  
8 thank you very much. You may step down.

9 I believe the next witness is  
10 Mr. Patterson.

11 MR. THOMPSON: Judge, before we go on to  
12 the next witness, perhaps I should move for the  
13 admission of the testimony of Chris Rogers, who  
14 won't be here unless the commission has questions.

15 JUDGE PRIDGIN: All right. And do you  
16 have those exhibit numbers, Mr. Fischer?

17 MR. FISCHER: Yeah. That's Exhibit-- is  
18 it 140 -- 140.

19 JUDGE PRIDGIN: All right. 140 has been  
20 offered. Any objections?

21 Hearing none, 140 is admitted.

22 KENAN PATTERSON,  
23 of lawful age, being first duly sworn, testifies as  
24 follows:

25

1 EXAMINATION

2 BY MR. THOMPSON:

3 Q. Good morning, Mr. Patterson.

4 A. Good morning.

5 Q. How are you employed?

6 A. I'm employed as a regulatory engineer on  
7 the staff of the public service commission.

8 Q. Are you the same Kenan Patterson or caused  
9 to be prepared surrebuttal testimony that's been  
10 marked as Staff Exhibit 223?

11 A. Yes.

12 Q. And you also, as I understand it,  
13 contributed to staff's revenue requirement cost of  
14 service report?

15 A. Yes.

16 Q. Which has been marked, I believe, as Staff  
17 Exhibit 200. If I was to ask you those questions  
18 today, would your answers be the same?

19 A. Yes.

20 Q. You don't have any corrections or  
21 additions?

22 A. No, sir.

23 Q. And as far as you know, is the material  
24 included in your contribution in the report, and,  
25 also, in your surrebuttal testimony true and correct

1 to the best of your knowledge and belief?

2 A. Yes.

3 MR. THOMPSON: At this time, I would move  
4 for the addition of Mr. Patterson's surrebuttal  
5 testimony, Staff Exhibit 223.

6 JUDGE PRIDGIN: Any objections?

7 Hearing none, Exhibit 223 is admitted.

8 MR. THOMPSON: Thank you very much, Judge.  
9 At this time, I will tender Mr. Patterson for  
10 cross-examination.

11 JUDGE PRIDGIN: Mr. Thompson, thank you.

12 Mr. Opitz, any cross?

13 MR. OPITZ: No cross. Thank you.

14 JUDGE PRIDGIN: Mr. Fischer?

15 MR. FISCHER: Thank you, Judge. Just  
16 briefly.

17 CROSS-EXAMINATION

18 BY MR. FISCHER:

19 Q. Mr. Patterson, as I understand your  
20 testimony, you joined the staff in August of 2015;  
21 is that right?

22 A. Yes.

23 Q. And based on your credentials listed on  
24 page 45 of the staff report, it appears you  
25 participated in the last Missouri American water

1 case and three small water and sewer cases so far;  
2 is that right?

3 A. Yes.

4 Q. Did those cases settle?

5 A. I don't recall the --

6 Q. Okay.

7 A. -- final --

8 Q. Is it correct -- did you take the witness  
9 stand in any of those cases --

10 A. No, I did not.

11 Q. -- actually take cross?

12 A. No, I did not.

13 Q. Okay. So this would be the first time?

14 A. Yes.

15 Q. We'll try to make it brief, then.

16 Mr. Patterson, do you agree that the  
17 fundamental goal of depreciation accounting is to  
18 allocate the full cost of an asset, including its  
19 net salvage cost over the economic or service life  
20 so that utility customers will be charged for the  
21 cost of the asset proportion to the benefit they  
22 receive from consumption?

23 A. Yes, that's the concept of depreciation.

24 Q. Okay. And as I understand the  
25 depreciation issue in this case, the difference

1 between the staff and public counsel's proposed  
2 depreciation rates and those that are being  
3 sponsored by Mr. Spanos on behalf of KCP&L, the  
4 difference is that we've included the terminal net  
5 salvage that the company will incur upon retirement  
6 of those generating plants, and the staff and public  
7 counsel rates don't include those; is that right?

8 A. Yes.

9 Q. Do you agree that final net salvage is  
10 made up of two components, the first being the net  
11 salvage associated with the cost of retiring the  
12 plant, and the second being the dismantlement net  
13 salvage cost?

14 A. That's the way it's been defined in this  
15 case.

16 Q. Okay. So the issue, really, for the  
17 commission is whether the cost of retiring power  
18 plants should be included in depreciation rates. Is  
19 that -- is that correct in this case?

20 A. I think staff's position would be that the  
21 question is whether those costs are known and  
22 measurable.

23 Q. No. I -- well, okay. I understand that  
24 that's the staff position, but isn't the  
25 commission's decision to -- whether to include these



1 retirement costs in depreciation rates or not?

2 A. Yes.

3 Q. Is the cost to retire sometimes referred  
4 to as cost of removal as well?

5 A. Yes.

6 Q. In the case of a coal-fired power plant,  
7 would you describe your understanding of what costs  
8 would be included to retire the plant?

9 A. In general terms, it would be items  
10 necessary to comply with permits, orders, or  
11 generally make the situation safe for the plant or  
12 the continued operation that might be there.

13 Q. And that wouldn't include the cost of  
14 taking down the structure itself, that's  
15 dismantlement; is that right?

16 A. It would not necessarily include that  
17 cost, no.

18 Q. Okay. Staff and public counsel in this  
19 case have opposed including the cost of retiring  
20 coal-fired plants in current depreciation rates, and  
21 instead would wait to recover those retirement costs  
22 until a future rate case after the plant had  
23 actually retired; is that correct?

24 A. Staff has proposed not including those  
25 terminal net salvage costs in the calculation of

1 depreciation rates.

2 Q. Okay. And is it true that under your  
3 approach, the company would wait to recover the  
4 retirement costs until a future rate case after the  
5 plant has actually retired?

6 A. That is, I think, what it would amount to,  
7 yes.

8 Q. And is it your understanding that it's  
9 KCPL's position that those costs should be included  
10 in current depreciation rates so current rate payers  
11 pay those costs?

12 A. It's my understanding that they want that  
13 included in the current rates, yes.

14 Q. Mr. Patterson, are you aware that KCP&L  
15 retired Hawthorne 1, 2, 3, and 4 in 1984?

16 A. I'm not familiar with that, but I've heard  
17 that is the case, yes.

18 Q. Do you know if those units were retired in  
19 place and the structures have not been dismantled at  
20 this point?

21 A. I'm not familiar with those.

22 Q. Okay. Mr. Patterson, would you turn to  
23 page 2 of your surrebuttal testimony. And I'd like  
24 to refer you to your Footnotes 1, 2, 3, and 4.  
25 There you cite the National Association of

1 Regulatory Utility Commissioners, NARUC; Public  
2 Utility Depreciation Practices Publication; is that  
3 correct?

4 A. Yes.

5 Q. Sometimes that publication is referred to  
6 as the NARUC depreciation manual; is that correct?

7 A. Yes.

8 Q. And I believe you cite the NARUC  
9 depreciation manual as your source for several of  
10 your definitions and statements in your surrebuttal  
11 testimony; is that correct?

12 A. Yes.

13 Q. Would you agree that the NARUC  
14 depreciation manual is considered an authoritative  
15 source for depreciation practices in the United  
16 States for public utilities?

17 A. I believe it's one source that is often  
18 cited.

19 Q. Is it considered the primary manual used  
20 by regulatory agencies in the United States for  
21 depreciation practices?

22 A. I would not know what other agencies use.

23 Q. Well, here at the Missouri Commission, do  
24 you use any other manual?

25 A. Yes, we sometimes do refer to other

1 manuals.

2 Q. Okay. What other manuals would you refer  
3 to?

4 A. There's textbooks from the University  
5 of -- Iowa State University. I don't recall the  
6 name of the authors or the title of that book right  
7 now -- that we often refer to as a reference.

8 Q. Do you refer to the NARUC manual?

9 A. Yes. Also to that one.

10 MR. FISCHER: Judge, I'd like to have an  
11 exhibit marked.

12 JUDGE PRIDGIN: I believe this will be  
13 156.

14 (Exhibit No. 156 was marked for  
15 identification.)

16 MR. FISCHER: Judge, I'm going to give the  
17 witness one that I have marked because I'm going to  
18 refer to a passage there.

19 Q. (By Mr. Fischer) Mr. Patterson, I'd like  
20 to refer you -- does this appear to be the cover of  
21 the Public Utility Depreciation Practices Manual  
22 that you were referring to?

23 A. It appears to be.

24 Q. Okay. I'd like to refer you to page 161,  
25 which I've made a copy of for this exhibit, where it

1 has a discussion of salvage for life span  
2 categories. Do you see that?

3 A. Yes.

4 Q. That paragraph? In the next-to-the-last  
5 paragraph, I'd like to have you look at where it  
6 says, "Net salvage associated with final retirements  
7 must be composited with interim net salvage  
8 resulting from expected piecemeal retirements in  
9 order to develop an estimate of future net salvage.  
10 Therefore, in order for the life-span method to be  
11 applied properly, individual records of additions  
12 and retirements associated with each building and  
13 large installation must be maintained."

14 Do you see that?

15 A. Yes.

16 Q. And it goes on to say, "Such records allow  
17 for data on interim and final retirements, gross  
18 salvage, and the cost of removal to be separately  
19 identified."

20 Is that right?

21 A. Yes.

22 Q. Mr. Patterson, wouldn't you agree that the  
23 NARUC depreciation manual suggests that net salvage  
24 associated with final retirements must be included  
25 with interim net salvage?

1 A. That is what this passage would indicate.

2 Q. And that's what KCPL is suggesting be done  
3 in this case; is that true?

4 A. Yes. Something like that.

5 Q. And is it your understanding that  
6 Mr. Spanos has included the cost of removal of power  
7 plants in his depreciation rate for a production  
8 plant?

9 A. The parts that have been identified as  
10 retirement costs, yes.

11 Q. If you turn to the next page of that  
12 exhibit, page 162 of the NARUC depreciation manual.  
13 Do you see a table there that illustrates how  
14 average net salvage is to be calculated?

15 A. Yes.

16 Q. Does that table indicate to you that to  
17 calculate average net salvage, you start with gross  
18 salvage percentage, and then you subtract the cost  
19 of removal percentage? Down below the table itself.

20 A. Yes.

21 MR. FISCHER: Judge, I'd move for the  
22 addition of the Exhibit --

23 JUDGE PRIDGIN: 156.

24 MR. FISCHER: -- 156.

25 JUDGE PRIDGIN: 156 has been offered. Any

1 objections?

2 Hearing none, 156 is admitted.

3 Q. (By Mr. Fischer) Mr. Patterson, if the  
4 commission included the estimated cost of retiring  
5 power plants in depreciation rates, is it correct  
6 that customers' rates would include those costs  
7 during the service life of the plants?

8 A. Yes.

9 Q. In other words, the retirement costs of  
10 those plants would be recovered in rates of the  
11 customers who are getting the benefits of using the  
12 power plants; is that true?

13 A. They would accrue to the customers who are  
14 customers during the times those rates are in place,  
15 yes.

16 Q. And those rates would be in place while  
17 those power plants were operating; is that right?

18 A. It would generally correspond, yes.

19 Q. Now, if the commission decides not to  
20 include the cost of retirement of those power plants  
21 in depreciation rates, but chooses to wait to  
22 include them in rates until the plants actually  
23 retire, in that circumstance, only the customers  
24 that happen to be customers at the time of  
25 retirement and afterwards would pay for those

1 retirement costs; is that right?

2 A. Could you restate that, please?

3 Q. Yeah, it's a little convoluted. But what  
4 I'm trying to say -- or ask, if the commission  
5 rejects the position of the company and continues  
6 its current practice, isn't it true that only the  
7 customers that happen to be customers at the time of  
8 the retirement or in the future, only those  
9 customers would pay for those retirement costs?

10 A. Yeah, those costs would be calculated in  
11 depreciation rates at that time, so, yes.

12 Q. If the commission adopts staff's proposed  
13 depreciation rates, the customers who are getting  
14 the benefit of using the power plants now wouldn't  
15 have the cost of retiring those current power plants  
16 in their rates; correct?

17 A. Not the cost of -- not the terminal net  
18 salvage cost we've been discussing.

19 Q. And, in fact, under that approach, the  
20 customers who are on the system today, while the  
21 plant is online, wouldn't pay anything for the cost  
22 of retiring those plants unless they happen to be  
23 customers of the company after the plant gets  
24 retired in the future; is that right?

25 A. I suppose it could be construed that way,



1 yes.

2 Q. Okay. Mr. Patterson, have you ever toured  
3 a site where a power plant was being retired?

4 A. As I recall, I was part of a site visit at  
5 Montrose.

6 Q. Okay. And that was -- Montrose is a plant  
7 that KCPL has retired recently?

8 A. Is in the process of retiring one of its  
9 units, yes.

10 Q. Would you describe for the commission what  
11 you saw, in terms of what they were doing to retire  
12 that plant from a physical standpoint?

13 A. Actually, it's been long enough, I don't  
14 remember the details of it.

15 Q. Okay. Is it your understanding that KCPL  
16 and GMO, the sister company, expect to be retiring  
17 plants in the future?

18 A. That is their expressed intention, yes.

19 Q. And, in fact, do you agree that electric  
20 companies across the state are moving toward more  
21 renewable energy facilities, such as wind and solar  
22 facilities?

23 A. I know they have constructed and proposed  
24 new wind and solar facilities.

25 Q. KCPL and GMO are also promoting energy

1 efficiency and demand-side management programs that  
2 are expected to reduce demands for power and energy;  
3 is that true?

4 A. I'm not familiar with those programs.

5 Q. Okay. I think the commission probably is.

6 In the process, would you expect older  
7 coal-fired power plants to be retired in the future?

8 A. It's a possibility, yes.

9 Q. Well, isn't it more than a possibility?  
10 Isn't it a certainty that these plants will -- at  
11 some point will be retired?

12 A. At some time I would expect some sort of  
13 retirement for these plants, yes.

14 Q. Is there any doubt in your mind that these  
15 power plants will be retired in the future?

16 A. As they are, yes. What's in their place,  
17 I wouldn't know how to speculate on, so ...

18 Q. Well, these assets are not assets that are  
19 going to last forever. Would you agree with that?

20 A. True. True.

21 Q. And the question in this case is, how the  
22 cost of retirement of these power plants will be  
23 recovered from rate payers through depreciation  
24 rates or through some other method; is that right?

25 A. Yes.

1 Q. Staff agrees that the cost of retiring  
2 power plants is a legitimate cost of providing  
3 electric service to customers; correct?

4 A. Yes.

5 Q. So the difference between the staff's  
6 proposed depreciation rates and KCPL's is that KCPL  
7 has included the estimates of terminal net salvage  
8 that the company will incur upon retirement, and the  
9 staff has not?

10 A. Yes.

11 Q. So the bottom line is that under staff's  
12 approach, customers won't pay for the cost of  
13 retirement of those plants while they're using the  
14 plants?

15 A. Yes. They won't be included in the  
16 calculation of the depreciation rates.

17 Q. So under staff's approach, isn't it true  
18 that the cost of retirement would only be considered  
19 after the plant is retired, and then that cost would  
20 be included in the depreciation reserve for  
21 production plants?

22 A. In the depreciation reserve and in the  
23 calculation of new depreciation rates.

24 Q. And it -- do you agree that the company  
25 would not recover those retirement costs until

1     **that -- for a number of years into the future?**

2           A.    Yes.  They would begin recovering those  
3     costs when the rates were adjusted.

4           Q.    **And that could be 40 or 50 years, because**  
5     **that's how long the power plant accounts would be**  
6     **there for the existing plants at that time?  That's**  
7     **not a good question, but do you understand what I'm**  
8     **trying to say?**

9           A.    Yeah.  It would be based on the plant and  
10    reserves and remaining life expectations in the  
11    future, yes.

12          Q.    **Mr. Patterson, have you investigated how**  
13    **other states treat retirement costs for power plants**  
14    **in their depreciation rates?**

15          A.    No.

16          Q.    **You didn't do that at all for purposes of**  
17    **this case?**

18          A.    No.

19                MR. FISCHER:  That's all I have.  Thank  
20    you very much.

21                JUDGE PRIDGIN:  Mr. Fischer, thank you.  
22    Any bench questions?

23                CHAIRMAN HALL:  Good Morning.

24                THE WITNESS:  Good morning.

25                CHAIRMAN HALL:  So it's staff position

1 that the retirement costs should not be included in  
2 the depreciation rates because those costs are not  
3 known and measurable; is that correct?

4 THE WITNESS: Yes.

5 CHAIRMAN HALL: So I want to get a better  
6 understanding of what is not known and measurable.  
7 It's not whether or not a retirement will occur, or  
8 is it the actual costs that will be, associated with  
9 that retirement?

10 THE WITNESS: The cost and possibly the  
11 extent of what that retirement might entail.

12 CHAIRMAN HALL: I'm sorry. I don't  
13 understand that answer.

14 THE WITNESS: Well, in terms of what might  
15 actually need to happen at that time -- yes.

16 CHAIRMAN HALL: Do you understand the  
17 distinction I made between speculating as to whether  
18 a retirement will occur versus speculating as to  
19 what those costs will be for the retirement?

20 THE WITNESS: Yes.

21 CHAIRMAN HALL: Okay. So is it staff's  
22 position that both are unknown and unmeasurable, or  
23 is it just that one of them is unknown and  
24 unmeasurable?

25 THE WITNESS: Primarily, that the costs

1 are not known and measurable.

2 CHAIRMAN HALL: So you do believe a  
3 retirement will occur, but what you don't know is  
4 what the costs will be associated to that  
5 retirement?

6 THE WITNESS: Yes.

7 CHAIRMAN HALL: Okay. Did you review the  
8 Sega report in connection with your testimony?

9 THE WITNESS: Yes.

10 CHAIRMAN HALL: And did you look at how  
11 that report put together those costs?

12 THE WITNESS: Yes.

13 CHAIRMAN HALL: And what -- what do you --  
14 how do you evaluate that report on that issue?

15 THE WITNESS: Well, I don't have any  
16 detailed comments on that report. It appears to try  
17 to project the activities being needed and estimate  
18 those costs, either based on the preparer's estimate  
19 or based on company provided by the -- KCPL as  
20 indicated by the preparer. And then it -- as noted  
21 in -- and I think they referenced a particular table  
22 from that report that summarizes those costs,  
23 breaking them down into retirement costs,  
24 dismantling costs, and gross salvage.

25 So, in general, the methodology is maybe

1 similar to what someone might do for construction  
2 estimating. The only thing that seemed somewhat  
3 curious to me that -- was that the -- all of the  
4 gross salvage -- the positive value was attributed  
5 to offsetting the dismantlement costs, and none of  
6 those costs were considered during the retirement  
7 phase that is proposed to be included in rates by  
8 KCPL. I don't honestly know how that should be  
9 divided or if that's an appropriate thing, but  
10 that's something that arose from the methodology  
11 used by the preparer.

12 CHAIRMAN HALL: Do you believe that  
13 KCP&L's position is supported by the NARUC  
14 depreciation manual?

15 THE WITNESS: The NARUC depreciation  
16 manual does refer to final net salvage as a  
17 component when using this method.

18 CHAIRMAN HALL: So it does support KCP&L's  
19 position on this issue?

20 THE WITNESS: Yes.

21 CHAIRMAN HALL: Are you aware of any rule  
22 that would require the commission to follow the  
23 NARUC depreciation manual?

24 THE WITNESS: I'm not aware of any.

25 CHAIRMAN HALL: Are there other examples

1 where the commission has in the past, to your  
2 knowledge, deviated from the NARUC depreciation  
3 manual?

4 THE WITNESS: On this, very much in the  
5 case cited, related to Empire district, the  
6 commission chose not to include term salvage in that  
7 instance.

8 CHAIRMAN HALL: How about in areas  
9 unrelated to this particular issue?

10 THE WITNESS: I would not describe myself  
11 as familiar with those other areas to offer an  
12 example.

13 CHAIRMAN HALL: Okay. Concerning the  
14 issue of the Empire decision and KCP&L's argument  
15 that that can be distinguished from the current  
16 situation because between the time of that decision  
17 and now, the commission has adopted the life span  
18 component, and that -- and on that basis, we need  
19 not follow the holding on this issue in the Empire  
20 case. What is your position on that?

21 THE WITNESS: Well, net salvage is a  
22 consideration in any of the methods. The  
23 particulars of the life-span method might present an  
24 issue of distinguishing salvage that's been  
25 collected from salvage you'll need to collect in the



1 future, but the general concept of net salvage is  
2 present in any method of calculating depreciation.

3 CHAIRMAN HALL: Okay. So the commission's  
4 adoption of the life span component -- life span --

5 THE WITNESS: Or method, yes.

6 CHAIRMAN HALL: Life-span method does not  
7 in any way distinguish the Empire holding from the  
8 current situation, in your view?

9 THE WITNESS: No.

10 CHAIRMAN HALL: Do you believe that KCP&L  
11 properly segregated and compiled the retirement  
12 costs versus the demolition cost?

13 THE WITNESS: Other than the possibility  
14 that something might have occurred, because their  
15 methodology applied all of the gross salvage to  
16 the -- offsetting the demolition and did not include  
17 any of it. I don't have any estimate of how much  
18 gross salvage might apply to the retirement portion,  
19 but I do know that none of that is included in  
20 what's proposed.

21 CHAIRMAN HALL: Do you believe that the  
22 retirement costs are less speculative today than  
23 they were maybe ten, 15 years ago, or did you  
24 believe they are just as speculative now?

25 THE WITNESS: In the case of something

1 that may be 50 years away, I would say, just as  
2 speculative.

3 THE WITNESS: So even though coal plant  
4 retirements are becoming much more common, you still  
5 believe and staff still believes that the retirement  
6 costs associated with retiring those coal plants are  
7 just as speculative now as they were 20 years ago,  
8 when coal retirement was not as common?

9 THE WITNESS: Yes.

10 CHAIRMAN HALL: KCP&L has cited the  
11 commission's holding in the Laclede case as  
12 precedent for its position. How do you respond to  
13 that?

14 THE WITNESS: I believe that the Empire  
15 case is also relevant, and it more directly  
16 addresses the issue of terminal net salvage than the  
17 Laclede case.

18 CHAIRMAN HALL: So what was the holding in  
19 the Laclede case?

20 THE WITNESS: Off the top of my head, I  
21 don't recall the details of that.

22 CHAIRMAN HALL: Okay. I have no further  
23 questions. Thank you.

24 JUDGE PRIDGIN: Thank you.

25 Any further bench questions?

1 Any redirect -- recross?

2 MR. OPITZ: Just a few recross briefly.

3 CROSS-EXAMINATION

4 BY MR. OPITZ:

5 Q. Mr. Patterson, the chairman was asking you  
6 some questions about the Empire case. Do you recall  
7 that?

8 A. Yes.

9 Q. And in one of your answers, you mentioned  
10 that net salvage is included under any method. Do  
11 you recall that statement?

12 A. Yes.

13 Q. So net salvage is currently built into  
14 depreciation rates?

15 A. It is.

16 Q. And is that -- but just not terminal  
17 salvage; right?

18 A. Correct.

19 Q. Is there a term that is used to describe  
20 that net salvage that's built into rates currently?

21 A. In some of the testimony in this case, the  
22 term "interim net salvage" has been used.

23 Q. The companies -- would you agree that the  
24 company's position presumes that the current net  
25 salvage built into rates is insufficient to recover

1     **any costs of retirement?**

2           A.     Well, I -- yes. Retirement as its been  
3     used in this case, I would say that's their  
4     position.

5           A.     Okay. Are you able to say with any  
6     certainty if you know whether the current net  
7     salvage, including rates is sufficient to cover  
8     those costs?

9           A.     I don't know if they ultimately will be or  
10    not.

11          **Q.     But it's possible that they would be?**

12          A.     It's possible that they could.

13                   MR. OPITZ: Thank you.

14                   JUDGE PRIDGIN: Mr. Opitz, Thank you.

15                   Mr. Fischer?

16                                   EXAMINATION

17    BY MR. FISCHER:

18          **Q.     Yes. The chairman asked you, I think,**  
19    **about the distinction between whether the retirement**  
20    **will occur versus the known and measurable changes**  
21    **of the retirement costs. Do you recall that?**

22          A.     Yes.

23          **Q.     Mr. Patterson, would you agree that all**  
24    **depreciation rates are based on estimates?**

25          A.     Yes.

1 Q. For example, can you tell me how long  
2 Iatan 2 is going to be operating?

3 A. No.

4 Q. Are your depreciation rates based upon an  
5 assumption or an estimate of how long Iatan 2 will  
6 be operating?

7 A. They are.

8 Q. Is it known and measurable how long Iatan  
9 2 will be operating?

10 A. Based on plans proposed by the company and  
11 previous reviews that's been accepted as a date.

12 Q. And can those change in the future?

13 A. They could.

14 Q. For example, has the life span of Wolf  
15 Creek changed since it was originally certificated  
16 by the commission?

17 A. I'm not familiar with that.

18 Q. Okay. If the life span or even the  
19 operating license of a power plant changed, would  
20 the periodic five-year depreciation studies update  
21 that information and modify the depreciation rates  
22 that take that into account?

23 A. They should, yes.

24 Q. Isn't that the same thing that will happen  
25 if retirement costs are included in depreciation

1 rates in this case?

2 A. Conceivably, yes.

3 Q. So there's really no distinction between  
4 retirement costs versus every other cost that you  
5 would -- that you're estimating in your depreciation  
6 studies; correct?

7 A. No. The interim net salvage rates are  
8 based on historic retirements in net salvage costs.

9 Q. So you're agreeing that there's really not  
10 a distinction?

11 A. I am not agreeing.

12 Q. Oh, you're not agreeing?

13 A. No.

14 Q. Tell me what the difference is.

15 A. The difference is the interim net salvage  
16 costs that have been included are based on historic  
17 actual costs, and the proposed are based on a  
18 current estimate.

19 Q. So you're saying that your depreciation  
20 rates for production power plants like Iatan 2 are  
21 based on historic costs?

22 A. Yes, sir. A rate based on historic costs.

23 Q. Even though you don't know what the life  
24 span is actually going to be on a known and  
25 measurable basis?

1 A. But the costs are based on historic cost.

2 Q. What historic cost -- you're talking about  
3 how much we spent for the plant -- the original  
4 cost? Is that what you're talking about?

5 A. And the cost of interim retirements over  
6 the life of that plant and net salvage over the life  
7 of that plant.

8 Q. Isn't is true, though, that your  
9 depreciation rates for Iatan 2 are based upon an  
10 estimate of what the life of that plant will be?

11 A. Yes.

12 Q. Those aren't historic, are they?

13 A. Not particularly, no.

14 Q. The chairman also asked you about the  
15 Empire decision. Do you recall that?

16 A. Yes.

17 Q. Do you recall that the commission in that  
18 case said that the reason they weren't going to  
19 include terminal net salvage was because the reason  
20 is that generating plants are rarely retired?

21 A. That was one of the reasons stated.

22 Q. Okay. And that's really not true anymore,  
23 is it? We're seeing retirements across the country,  
24 across our state fairly routinely; right?

25 A. Retirements are occurring.

1 MR. FISCHER: Okay. That's all I have.

2 JUDGE PRIDGIN: Mr. Fischer, thank you.

3 Mr. Patterson, thank you.

4 MR. THOMPSON: Don't we get to redirect,  
5 Judge?

6 JUDGE PRIDGIN: I'm sorry. My mistake.

7 Yes, Mr. Thompson.

8 MR. THOMPSON: Thank you. I'll try not to  
9 delay you very long.

10 JUDGE PRIDGIN: My mistake.

11 EXAMINATION

12 BY MR. THOMPSON:

13 Q. Now, Mr. Patterson, I understand you said  
14 you visited the Montrose site.

15 A. Yes.

16 Q. And a retirement is going on there right  
17 now; isn't that correct?

18 A. Yes.

19 Q. Of one of the units there?

20 A. Yes.

21 Q. Do you happen to know how many units there  
22 are there in total?

23 A. I don't exactly recall. Three, I think.  
24 There may be more.

25 Q. Okay. But there are some units there that



1 are continuing to operate?

2 A. Yes.

3 Q. And do you happen to know what the plans  
4 are for retiring those other units?

5 A. In details, no. I think in the company's  
6 depreciation study and other documents they've  
7 proposed a retirement date for those, but ...

8 Q. Okay. So in the process of retiring this  
9 one unit at Montrose, I think it's, in fact, called  
10 Montrose No. 1; isn't that right?

11 A. Yes.

12 Q. Do you happen to know how much it's  
13 costing to do that?

14 A. No.

15 Q. And do you have any idea when those costs  
16 will be known?

17 A. No.

18 Q. Not in time for this rate case?

19 A. Correct.

20 Q. And there was also some mention of some  
21 units at the Hawthorne site?

22 A. Yes.

23 Q. Do you recall that?

24 A. I do recall that.

25 Q. I think Mr. Fischer asked you if you were

1     aware that in 1984, they retired Hawthorne 1, 2, 3,  
2     and 4. Have you ever been to the Hawthorne site?

3             A. I don't recall.

4             Q. There's still at least one unit at  
5     Hawthorne operating, isn't there, or do you know?

6             A. I don't know.

7             Q. Okay. Do you happen to know what the  
8     costs of retiring those four units at Hawthorne  
9     were?

10            A. No, I do not.

11            Q. And those are the only units this company  
12     has ever retired; isn't it?

13            A. I don't know the extent.

14            Q. You don't know that either. Okay. So the  
15     chairman asked you about the general concept of  
16     depreciation.

17            A. Yes.

18            Q. And the cost to construct a plant is  
19     known; isn't it?

20            A. Yes.

21            Q. That's a historical cost?

22            A. Yes.

23            Q. And you can estimate the number of years  
24     the plant will be in service; correct?

25            A. Yes.

1 Q. May or may not hit it right on, but,  
2 nonetheless, you can estimate?

3 A. Yes.

4 Q. And then you simply divide that cost to  
5 construct over that number of years; right?

6 A. That's -- yes. That's typically the plain  
7 component.

8 Q. That's a lawyer's view of depreciation.  
9 I'm sure there's nuances that I'm missing. But you  
10 don't know what it's going to cost to retire, do  
11 you?

12 A. No.

13 Q. Do you think the cost at Montrose 1 will  
14 be the same as the cost at Hawthorne 1?

15 A. I would be surprised if it were.

16 Q. Okay. So it might vary, based on the  
17 particular circumstances at that site?

18 A. Yes.

19 Q. So how can you estimate what the cost will  
20 be?

21 A. I don't know.

22 Q. Is that, perhaps, the main reason that  
23 staff doesn't want to include these costs?

24 A. Yes.

25 Q. Because they are speculative costs?

1 A. Yes.

2 Q. Now, you told Mr. Fischer that staff has  
3 no quarrel with the eventual recovery of these  
4 costs, does it?

5 A. Right.

6 Q. I think at the opening statement from the  
7 reconciliation, you pointed out that the value of  
8 this issue is about \$9 million; right?

9 A. Yes. That's my understanding.

10 Q. And then someone corrected me to say that,  
11 well, at true up, it's going to be worth about  
12 15 million. Do you recall?

13 A. I do recall that.

14 Q. And as far as you know, is that correct?

15 A. I don't know the details of that, sir.

16 Q. You don't know. Okay. Well, for purposes  
17 of my question, assume that 15 million is right, and  
18 assume that the commission grants the request of  
19 KCPL and adds this component of terminal net salvage  
20 to rates, and assume that at some point in the  
21 future, when all of these production facilities have  
22 been retired and replaced with whatever the future  
23 may hold for us, what if the actual cost has been  
24 only \$5 million? What happens to that \$10 million  
25 over recovery? Do you have any idea?

1           A.    There's a reserve account that tracks the  
2 accumulated reserve.  That's the only thing I  
3 could --

4           **Q.    If you know, can it be returned to the**  
5 **customers that paid too much?**

6           A.    Not to my knowledge, no.

7           **Q.    They're just out of luck; is that right?**

8           A.    Yes.

9           **Q.    Do you think that's a good reason to keep**  
10 **speculative costs out of rates?**

11          A.    Yes.

12                   MR. THOMPSON:  Thank you.  No further  
13 questions.

14                   JUDGE PRIDGIN:  Mr. Thompson, thank you.  
15 Mr. Patterson, thank you.  You can step  
16 down.

17                   And this looks to be a good time to take a  
18 break.  We will then resume with Mr. Robinett on the  
19 stand.  Let's go back on the record at 10:35.

20                   Anything from counsel before we go off the  
21 record?

22                   All right.  Thank you.  We will stay in a  
23 recess until 10:35.  Thank you.  We are off the  
24 record.

25                   (A recess was taken.)

1 JUDGE PRIDGIN: Thank you. We are back on  
2 the record. I understand our next witness will be  
3 Mr. Robinett and will be the last witness on  
4 depreciation, and that the parties would then want  
5 some time to discuss some FAC issues before we  
6 proceed to FAC. We will see how long it takes  
7 Mr. Robinett to get on and off the stand. The  
8 commission has agenda at noon, so we'll see how long  
9 this takes. We may simply roll your discussion in  
10 with lunch and then resume after agenda. We'll see  
11 how long examination takes.

12 Anything further from counsel before Mr.  
13 Robinett takes the stand?

14 JOHN A. ROBINETT,  
15 of lawful age, being first duly sworn, testifies as  
16 follows:

17 EXAMINATION

18 BY MR. OPITZ:

19 Q. Good morning, Mr. Robinett.

20 A. Good morning.

21 Q. Would you state and spell your name for  
22 the record, please.

23 A. John A. Robinett, and it's  
24 R-o-b-i-n-e-t-t.

25 Q. And where are you employed and in what

1 capacity?

2 A. I'm employed by the Missouri Office of the  
3 Public Counsel as a public utility engineer.

4 Q. Are you the same John Robinett who  
5 prefiled direct, rebuttal, and surrebuttal testimony  
6 that has been premarked as OPC Exhibits 313, 314,  
7 and 315 in this case?

8 A. Yes.

9 Q. Do you have any corrections to make to  
10 that testimony?

11 A. No.

12 Q. If I were to ask you the same questions  
13 that are posed in your prefile testimony, would your  
14 answers be the same?

15 A. They would.

16 Q. And your answers contained in that  
17 testimony are true and correct to the best of your  
18 information and belief?

19 A. Yes.

20 MR. OPITZ: With that, Judge, OPC moves to  
21 enter into evidence Exhibits 313, 314, and 315.

22 JUDGE PRIDGIN: Any objection?

23 Hearing none, Exhibits 313, 314, and 315  
24 will be admitted into evidence.

25 MR. OPITZ: Thank you, Judge. OPC tenders

1 the witness for cross-examination.

2 JUDGE PRIDGIN: Thank you. Any cross from  
3 staff, Mr. Thompson?

4 MR. THOMPSON: Why, thank you, Judge.

5 CROSS-EXAMINATION

6 BY MR. THOMPSON:

7 Q. Were you here during the testimony of  
8 Mr. Spanos and also of Mr. Patterson?

9 A. Yes.

10 Q. So you're familiar with this issue?

11 A. Yes.

12 Q. And you, in fact, were employed previously  
13 as a staff engineer, were you not?

14 A. Utility engineering specialist with staff.

15 Q. And did your duties include depreciation?

16 A. They did.

17 Q. Okay. Are you familiar with the  
18 commission's decision in Case ER-2004-0570 that's  
19 been referred to here as the Empire decision?

20 A. I am.

21 Q. And did that or does that decision provide  
22 guidance with respect to terminal net salvage?

23 A. I believe it does, yes.

24 Q. And when you were employed as part of  
25 staff, did staff follow the guidance in this



1     **decision?**

2             A.    Yes.

3             **Q.    And as far as you can tell from what's**  
4     **transpired here today, is staff still following the**  
5     **guidance provided by that decision?**

6             A.    Yes.

7             MR. THOMPSON:  At this time, I would  
8     request that the commission take administrative  
9     notice of its decision in ER-2004-0570 having to do  
10    with the Empire District Electric Company.

11            JUDGE PRIDGIN:  Any objections?

12            Hearing none, the commission will take  
13    notice of that decision.

14            MR. THOMPSON:  Thank you, Judge.  Do I  
15    need to provide a copy of it to the commission?

16            JUDGE PRIDGIN:  That is not necessary.

17            MR. THOMPSON:  Thank you.

18            **Q.    (By Mr. Thompson)  Are you aware of any**  
19     **reason why the commission should change its policy**  
20     **with respect to terminal net salvage?**

21            A.    No.

22            **Q.    Do you consider those costs to be**  
23     **speculative?**

24            A.    Yes.

25            MR. THOMPSON:  Thank you.  I have no

1 further questions.

2 JUDGE PRIDGIN: Mr. Thompson, thank you.

3 Any cross from the company? Mr. Fischer?

4 CROSS-EXAMINATION

5 BY MR. FISCHER:

6 Q. Mr. Robinett, you were not involved in the  
7 Empire case in 2004; is that true?

8 A. That is true.

9 Q. Can you tell me when this commission  
10 adopted the life-span method?

11 A. That was in the Ameren case, ER-2010-0036.

12 Q. 2010?

13 A. 2010, yeah.

14 Q. And so that was after the Empire case;  
15 correct?

16 A. Yes, it is.

17 MR. FISCHER: I have no other questions.

18 JUDGE PRIDGIN: Any bench questions?

19 CHAIRMAN HALL: Yes. Thank you.

20 Good morning.

21 THE WITNESS: Good morning.

22 CHAIRMAN HALL: What is the life-span  
23 method?

24 THE WITNESS: Essentially, my

25 understanding of the life-span method is you are

1 basically taking a designated life of the asset. So  
2 there -- let's say we have -- 2040 is the date. So  
3 with that, there's a remaining life aspect, and  
4 you're going to have the cost of removal and the  
5 reserve at a certain point -- at this point in time.  
6 The remaining life takes into account how much net  
7 salvage needs to be incurred over the entire life of  
8 that asset and puts that on top of what the original  
9 cost is. So that is the entire cost that needs to  
10 be collected. You take away from that what you  
11 currently have as reserve so that is the amount  
12 remaining to be collected over the remaining life of  
13 that asset.

14 CHAIRMAN HALL: And what approach did that  
15 replace?

16 THE WITNESS: Mass asset accounting.

17 CHAIRMAN HALL: Can you explain that  
18 process to me or that method to me?

19 THE WITNESS: Essentially, with that, all  
20 of the units at that point in time were all thrown  
21 together and looked at as -- you came up with an  
22 average life of all of the utilities together. The  
23 life span you are specifically breaking out in each  
24 individual plant as a life.

25 CHAIRMAN HALL: So is terminal net salvage

1 a component of that process?

2 THE WITNESS: It's hard to say, truly. To  
3 the account that -- in the historical net data that  
4 is available that those costs have been included, I  
5 would say there is terminal built in, if that makes  
6 sense. So say there we have experienced a  
7 retirement and the company has booked those costs  
8 for a given period. We -- those would be included  
9 in the historical. So there would be a component  
10 built in for the net salvage component as a whole  
11 that did have the effects of some terminal costs,  
12 yes.

13 CHAIRMAN HALL: So do you believe that the  
14 decision in the Empire case is still instructive to  
15 this commission even though it was -- it was the  
16 commission's position prior to adoption of the life  
17 span approach?

18 THE WITNESS: I think the commission  
19 clearly stated that net salvage that they intended  
20 to include in that case was for experienced net  
21 salvage. So it was something that had to have  
22 occurred, and the company had it incurred already.

23 CHAIRMAN HALL: Okay. Do you believe that  
24 the NARUC depreciation manual is supportive of  
25 KCP&L's position in this case?

1 THE WITNESS: In part.

2 CHAIRMAN HALL: Why only in part?

3 THE WITNESS: Because that -- with the  
4 life span, there is that distinct breakdown, but  
5 earlier -- and that whole book is actually roughly  
6 170 pages' worth. There is prior discussion about  
7 what net salvage is, and it clearly states, in my  
8 opinion, that net salvage is for a retired -- it's  
9 seeking that an action has occurred and that there's  
10 expenses that have occurred.

11 CHAIRMAN HALL: So -- I guess I would find  
12 it helpful if those parties that believe that the  
13 NARUC depreciation manual does not require  
14 retirement to be included in depreciation, that they  
15 identify in the manual where that is set forth,  
16 because it would appear to me that it does -- it  
17 does require us to include retirement in  
18 depreciation, so I'll just leave it at that.

19 I have no further questions. Thank you.

20 JUDGE PRIDGIN: Mr. Chairman, thank you.

21 Any bench questions?

22 Any recross? Mr. Thompson?

23 MR. THOMPSON: No, thank you, Judge.

24 JUDGE PRIDGIN: Mr. Fischer?

25

1 EXAMINATION

2 BY MR. FISCHER:

3 Q. Mr. Robinett, the chairman asked you about  
4 the mass asset accounting, which was the previous  
5 method used here at the commission. Typically,  
6 under mass asset accounting, when would retirement  
7 costs be recovered?

8 A. It's usually built in.

9 Q. To the current --

10 A. The current order -- I mean, to the extent  
11 that the retirement cost is based on the  
12 historicals, so the -- it may or may not fully  
13 collect that value.

14 Q. So it --

15 A. Based on the experience.

16 Q. So if the commission was using that  
17 method, current rate payers would be paying for the  
18 excepted retirement costs; is that right?

19 A. I would say they could be, yes.

20 Q. Probably are; isn't that true?

21 A. Under mass asset?

22 Q. Yes.

23 A. I would say potentially, yes.

24 Q. Potentially, but would you agree probably  
25 are?

1 A. I'm not sure.

2 Q. Okay.

3 MR. FISCHER: Thank you.

4 JUDGE PRIDGIN: Redirect, Mr. Opitz?

5 MR. OPITZ: A few, Judge.

6 EXAMINATION

7 BY MR. OPITZ:

8 Q. Mr. Robinett, the chairman was inquiring  
9 about the NARUC manual. Do you recall that?

10 A. Yes.

11 Q. One question he asked was related to the  
12 retirements of the NARUC manual. Is it your  
13 position that the NARUC manual requires any of the  
14 recommendations contained therein?

15 A. No. And I don't think that the commission  
16 is bound by the NARUC recommendations on  
17 depreciation; it's a suggestion.

18 Q. You were in the hearing room when staff's  
19 witness was on the stand; correct?

20 A. Yes.

21 Q. And the company entered a NARUC manual  
22 that the chairman seemed to reference in his  
23 question to you. Do you recall that?

24 A. They entered a portion of it, yes.

25 Q. So you're aware that there is a NARUC

1     **manual that has additional information in there?**

2             A.     Yes.

3             MR. OPITZ:   Judge, may I approach?

4             JUDGE PRIDGIN:   You may.

5             MR. OPITZ:   And I only have a copy of it,  
6     but I'm going to offer to enter it, so can I have it  
7     marked before I give it to the witness?

8             (Exhibit No. 319 was marked for  
9     identification.)

10            **Q.   (By Mr. Opitz)   Mr. Robinett, do you**  
11 **recognize what I've handed you?**

12            A.     Yes.

13            **Q.   And what is that?**

14            A.     That is the publishing in 1996 of the  
15     public utility depreciation practices.

16            **Q.   And is that the complete copy document**  
17 **that was previously admitted into evidence in this**  
18 **case?**

19            A.     It appears to be, yes.

20            **Q.   The chairman asked you if you could point**  
21 **to areas within there that you suggested did not**  
22 **support the proposition that the company stated in**  
23 **its testimony. Do you recall that?**

24            A.     Yes.

25            **Q.   Are you able to find that portion in that**



1 document?

2 A. I believe I have it, yes.

3 Q. And can you read to me that portion of the  
4 document that you believe supports your position  
5 here.

6 A. Sure. It's on page 18.

7 "The practical difficulties of estimating,  
8 reporting, and accounting for salvage and the cost  
9 of retirement have raised questions as to whether  
10 more satisfactory results might be obtained if net  
11 salvage were credited or charged as appropriate to  
12 collect operations at the time of retirement instead  
13 of provided over the life the asset. Advocates of  
14 such a procedure contend that salvage is not only  
15 more difficult to estimate than service lives, but  
16 for capital intensive public utilities, it is  
17 typically a minor factor in the entire depreciation  
18 picture. The obvious exception, of course, is a  
19 huge retirement cost of the decommissioning nuclear  
20 power plans. The advocates of recording salvage at  
21 the time of the retirement further contend that  
22 salvage could properly be accounted for on the basis  
23 of known happenings at the date of retirement,  
24 rather than on speculative estimates of factors,  
25 such as junk material prices, future labor costs,

1 and environmental mediation costs in effect at time  
2 of the retirement."

3 **Q. Thank you.**

4 MR. OPITZ: Judge, I would move the  
5 admission of OPC Exhibit 319.

6 JUDGE PRIDGIN: 319 has been offered. Any  
7 objection?

8 Hearing none, 319 is admitted.

9 **Q. (By Mr. Opitz) Mr. Robinett, you were**  
10 **asked about the life-span method by both the**  
11 **chairman and, I believe, Mr. Fischer. Does the**  
12 **adoption of the life-span method by the commission**  
13 **change your recommendation in this case?**

14 A. No.

15 MR. OPITZ: That's all of the questions I  
16 have. Thank you, Judge.

17 JUDGE PRIDGIN: Mr. Opitz, thank you.

18 Mr. Robinett, thank you. You may step  
19 down.

20 And before we go on to FAC witnesses, I  
21 understood that the parties would like some time to  
22 talk about some FAC issues before we go on to those  
23 witnesses; is that correct?

24 MR. STEINER: That's right, Judge.

25 JUDGE PRIDGIN: And if I could -- did I

1 understand that you were thinking maybe somewhere in  
2 the 30- to 60-minute window?

3 MR. STEINER: Yes, that's right.

4 JUDGE PRIDGIN: And with that -- I mean,  
5 there would seem to be little sense in resuming;  
6 just simply break again so the commissioners could  
7 get to agenda, so I think this is going to be a good  
8 time --

9 COMMISSIONER KENNEY: Could I ask a  
10 question?

11 JUDGE PRIDGIN: Absolutely.

12 COMMISSIONER KENNEY: I have an  
13 explanation and two questions. This is for KCP&L.  
14 I'd like to know what member of the company I can  
15 ask about a tariff provision dealing with an  
16 extension of main line. All of our utilities and  
17 co-ops do this type of work a little differently. I  
18 know GMO and KCP&L, when they have a main line  
19 extension come into a new subdivision -- as an  
20 example, KCP&L would map out where they want all of  
21 the conduit and pedestals; the developer would have  
22 a subcontractor install all of the conduit and  
23 pedestals, and then KCP&L would require a deposit --  
24 they call it a main line deposit from that  
25 developer. And then when -- at the end of each

1 year -- now, Ameren does it a little different.  
2 Ameren supplies all of the conduit, they supply the  
3 pedestals, and they do not require a deposit.  
4 Missouri Gas Energy used to require a deposit. Once  
5 Sega took them over, they don't require a deposit,  
6 so -- I guess because they adopted Laclede's tariff.  
7 So everybody does it -- Empire does different, and I  
8 know a couple of co-ops that does that differently.

9           So my question is this -- and the question  
10 arises because one of the provisions that KCP&L  
11 requires on their refund -- refunds are processed at  
12 the end of every year, I believe, and they have a  
13 form schedule that a developer would fill out, and  
14 each of those items, the developer would receive a  
15 deposit refund from the company. The most expensive  
16 one is an add-on heat pump of which they give the  
17 developer about \$500, and this add-on heat pump  
18 costs that new consumer who buys that house over  
19 \$1,300. The add-on heat pump allows electricity to  
20 be used for heat -- it's your air conditioner, and  
21 at about 40 degrees or above, it was deemed more  
22 efficient to run it off electricity instead of gas,  
23 and the gas would kick in. Now, this is an  
24 incentivize for the utility because they get  
25 increased base load. If -- so what happens, though,

1 that developer, in order to get that money, makes  
2 that consumer pay an extra 1,300 or \$1,500 on the  
3 purchase of that house just to add -- put on an  
4 add-on heat pump, which they don't use very often.  
5 They prefer natural gas because it comes out warm;  
6 electric comes out cool.

7 Now, my question is twofold: Is that in  
8 the current tariff for KCP&L in this case, and,  
9 secondly, is that still the case of business for  
10 KCP&L Kansas as of January 2017? Because I know of  
11 two developments that have ceased that -- the  
12 requirement that the builders install add-on heat  
13 pumps. So the reason that goes in is the developer  
14 puts in his contract that that builder has to put an  
15 add-on heat pump in the project, and it's just an  
16 extra \$1,300 or \$1,500 that the buyer of the house  
17 has to pay. And the developer wants that money, so  
18 it's kind of -- it's a lose -- a win-lose situation  
19 or a lose-lose, so ...

20 MR. THOMPSON: Commissioner, I'm not sure  
21 who can answer it, but we'll discuss at the break  
22 and we'll get back to you.

23 COMMISSIONER KENNEY: You're fine. We've  
24 got two weeks. Thank you.

25 Oh, and I have one other question. I was

1 very concerned how long the day was going to go, and  
2 I saw an attorney walk in here with a really big  
3 briefcase and then an extra box.

4 MR. LOWRY: I'll try not to keep you too  
5 long.

6 JUDGE PRIDGIN: Thank you, Commissioner.

7 This does look to be a good time to break  
8 so that the parties can discuss these FAC issues and  
9 then the commission has agenda at noon. It would be  
10 my preference to go back on the record at  
11 one o'clock to start taking FAC witnesses.

12 Is there anything further from counsel  
13 before we stand in recess?

14 All right. Hearing nothing, we will then  
15 be in recess until 1:00 p.m. Thank you very much.  
16 We are off the record.

17 (A lunch recess was taken.)

18 JUDGE PRIDGIN: Good afternoon. We are  
19 back on the record. I believe we are now ready for  
20 opening statements on the FAC issues. Anything from  
21 counsel before we proceed to those opening  
22 statements?

23 MR. ZOBRIST: Judge, Don Frerking on  
24 behalf of Kansas City Power & Light was scheduled  
25 for next week, but he actually has two issues

1 related to the fuel adjustment clause, and I've  
2 consulted with counsel for staff. And, pardon me, I  
3 have not consulted with public counsel, but,  
4 Mr. Optiz, we were going to take Don Frerking on his  
5 two issues, which are the FERC administrative fees  
6 and the SPP base plan issues. I was going to put  
7 him on after Mr. Crawford.

8 MR. OPITZ: Can I have a moment, Judge, to  
9 look --

10 MR. ZOBRIST: I apologize, Judge. I  
11 should have consulted with Mr. Opitz.

12 (Discussion off the record.)

13 MR. ZOBRIST: Thank you, Judge. We're  
14 going to put Mr. Frerking at the end of the  
15 company's witnesses. So he'll come in after  
16 Mr. Rush.

17 JUDGE PRIDGIN: All right. Thank you.

18 MR. LOWRY: Your Honor, I did have one  
19 matter, as well, I wanted to take up briefly, if it  
20 pleases the commission. I filed a motion to take  
21 official notice of some materials yesterday and I  
22 have a mistake in that motion and I'd like to offer  
23 a verbal amendment to it that I can -- if you would  
24 like for me to, I can formally amend it in writing  
25 for EFIS later, but Item No. 10 in that motion, that

1 actually is incorrect. OPC was not a signatory to  
2 that particular stipulation. It was cited and  
3 quoted from by Mr. Riley in his testimony in this  
4 case, but they're not signatory, so that should be  
5 stricken. And Item No. 11 should become  
6 Item No. 10.

7 JUDGE PRIDGIN: Okay. Thank you.  
8 Anything further before we go onto opening  
9 statements?

10 MR. LOWRY: My other question, Your Honor,  
11 is, one of the reasons I filed that motion is to try  
12 to, you know, frankly shorten up the hearing. And I  
13 was wondering if you were going to rule on that or  
14 how you wanted to handle that motion.

15 JUDGE PRIDGIN: I certainly can. Is there  
16 any objection to Mr. Lowry's request?

17 Hearing none, that request is granted.

18 MR. LOWRY: Thank you, Judge.

19 JUDGE PRIDGIN: All right. Anything  
20 further before we go to opening statements?

21 Mr. Zobrist, when you're ready, sir.

22 MR. ZOBRIST: May it please the  
23 commission, I'd like to outline the issues we're  
24 going to talk about this afternoon related to the  
25 fuel adjustment clause to give you a perspective on



1 what we think should be the same and what should  
2 stay the same, what we think should change, and  
3 suggestions and recommendation by other parties that  
4 we think should be rejected.

5 The first basic question is whether  
6 Kansas City Power & Light has met the criteria for  
7 the commission to authorize continuation of the fuel  
8 adjustment clause. Staff and the company agree that  
9 it has met the criteria. Public counsel has raised  
10 certain issues with regard to filing requirements  
11 that we will deal with in the course of our  
12 discussions, but we believe that we met all of those  
13 filing requirements.

14 The second major issue, should the  
15 commission authorize KCPL to continue to have an  
16 FAC? KCPL staff and public counsel with  
17 reservations agree that it should be continued. So  
18 the question is, what cost should flow through  
19 KCP&L's fuel adjustment clause? We believe that all  
20 costs reflecting fuel and fuel handling, other than  
21 internal labor, should as through the clause. Now  
22 the fuel handling is a new issue. We believe that  
23 fuel handling under Missouri law is sufficiently  
24 related to the definition of fuel, that it should  
25 flow through the fuel adjustment clause. Again,

1 other than internal labor. And this is in accord  
2 with the Uniform System of Account No. 501, which  
3 defines fuel.

4 We believe that all cost regarding  
5 purchase power and off-system sales should flow  
6 through the fuel adjustment clause. We are asking  
7 the commission again to reconsider the issue of the  
8 transmission of electricity for others, including  
9 associated SPP charges as projected for 2017 and  
10 2018. We think that is appropriate for the fuel  
11 adjustment clause.

12 And, finally, we believe that the tariffs  
13 under which the company takes service from  
14 Southwest Power Pool, that the administrative  
15 charges assessed by FERC and by NERC that they also  
16 should flow through the fuel adjustment clause. And  
17 Mr. Rush is the primary policy witness on this.  
18 Mr. Frerking, on behalf of the company, will address  
19 some of these issues, as well as a couple of other  
20 witnesses.

21 What revenues should flow through the fuel  
22 adjustment clause? Off-system sales as they are  
23 today, revenues from the sale of renewable energy  
24 credits and allowances as they are today, and then  
25 balancing off our request that you reconsider

1 transmission, that all transmission revenues flow  
2 through the fuel adjustment clause as well.

3 One of the areas of disagreement -- the  
4 major areas of disagreement that we with the Office  
5 of the Public Counsel which seeks to redefine fuel  
6 and purchase power and define it very narrowly. The  
7 goal of OPC appears to be to eliminate certain  
8 existing and significant elements of the fuel  
9 adjustment clause or overcomplicate the process by  
10 which fuel and purchase power costs are administered  
11 today by requesting that resource codes and further  
12 descriptions, in addition to the USOA accounts and  
13 subaccounts, which are in the tariff today, that  
14 they be added to the tariff.

15 Public counsel states that only direct  
16 costs should be included in the fuel adjustment  
17 clause. The word "direct" is not in Missouri Law.  
18 It's not in Section 386.266.1. Public counsel say  
19 they only want delivered fuel commodity cost with  
20 inventory adjustments, adjustments that are not  
21 specified by them in any detail. Only those costs  
22 as adjusted to flow through the fuel adjustment  
23 clause. They also seek to exclude certain essential  
24 elements of purchase power, such as ancillary  
25 services and other energy charges from SPP that are

1 in the existing fuel adjustment clause. And  
2 Jessica Tucker who filed only surrebuttal in the  
3 case will talk about why these charges are essential  
4 elements of purchase power.

5 And as I said, alternatively to chopping  
6 off parts of the fuel adjustment clause tariff that  
7 exists today, public counsel appears to want to have  
8 not just resource codes, but more specific  
9 descriptions of the cost elements, the position that  
10 this commission rejected in 2015 in the company's  
11 rate case.

12 Now, staff and OPC both oppose the use  
13 of -- oppose the flowing through of fuel handling  
14 expenses, yet our point and our argument is that  
15 these appear within Uniform System of Account 501,  
16 which defines fuel cost. And both staff and public  
17 counsel continue their opposition to the company  
18 with regard to the transmission costs. The true  
19 purchase power cost and revenues that the commission  
20 has previously determined, as well as the opposition  
21 to certain administrative charges.

22 Now, the Uniform System of Accounts is set  
23 forth with what we call prime accounts. That's the  
24 three-digit code: 501, 555, 447. They either  
25 define fuel or they define purchase power or they

1 define sales for resale, off-system sales. The  
2 reason that we believe that the prime accounts and  
3 the subaccounts that are now in the tariff work is  
4 because the goal should be accuracy with simplicity.  
5 The current system is a mechanical process, is  
6 working well, and any changes to be made to the fuel  
7 adjustment clause should conform to the Uniform  
8 System of Accounts.

9 We also have an issue with regard to  
10 FERC Order 668 relating to accounting and financial  
11 reporting practices. And this is another proposal  
12 of the Office of the Public Counsel. FERC Issue  
13 Order 68 in 2005, which provided for the netting of  
14 wholesale sales and wholesale purchases, and this  
15 was essentially done for financial reasons. It is  
16 not relevant to a state fuel adjustment clause. It  
17 is not relevant to rate making. We believe that if  
18 the commission were to order us to follow 668 and  
19 the fuel adjustment clause, it would actually  
20 obscure the real purchases and sales, and would be  
21 less transparent than what we have today.

22 Now, it's interesting recognizing the  
23 complexity and the lack of transparency insert of  
24 its proposals. For the first time on surrebuttal,  
25 public counsel referred to FERC's Fuel Adjustment

1 Clause found in the Code of Federal Regulations as  
2 supporting their arguments or perhaps even a model  
3 to follow. And if you look at FERC's Fuel  
4 Adjustment Clause, it's a surrebuttal schedule of  
5 Ms. Mantle's testimony and I believe Mr. Riley's.  
6 There is no -- there is no reason within the FERC  
7 Fuel Adjustment Clause that relates to what Missouri  
8 has adopted -- what Missouri has approved in the  
9 various tariffs that have come before you. This was  
10 not mentioned in direct testimony; it was not  
11 mentioned in rebuttal testimony. It's a new  
12 argument and presents a significant change in OPC's  
13 position. But I must say the one thing that we like  
14 about their reference to the FERC Fuel Adjustment  
15 Clause is that it defines cost by virtue of Prime  
16 Uniform System of Account Codes. It talks about 501  
17 fuel cost.

18           There's also a reference to -- I think  
19 it's 518, with regard to nuclear fuel cost. So we  
20 like the fact that they, at least on surrebuttal,  
21 are recognizing the value of limiting the  
22 descriptions of the cost by the FERC prime account.  
23 However, this is a federal wholesale fuel adjustment  
24 clause. It was not designed for customers that we  
25 are dealing with here; residential, commercial, and

1 industrial retail customers. It was also not  
2 designed to be a model for any state, certainly for  
3 Missouri's fuel adjustment clause, and we believe it  
4 is not appropriate to let alone adopt or even use it  
5 as a model or as a basis for support for what this  
6 commission has spent many years studying and  
7 implementing through the various tariffs.

8           Some two or three final issues. The  
9 sharing mechanism, the 95/5 percent sharing  
10 mechanism has been in Kansas City Power & Light's  
11 tariff since 2015. Public counsel once again  
12 advocates a change to 90 -- to 90 percent to  
13 10 percent. We believe that that sharing mechanism  
14 is to be maintained, that there should be no change  
15 in that ratio.

16           We have a disagreement with staff on  
17 certain reporting requirements. We don't believe  
18 that any additional reporting requirements should be  
19 imposed. We will continue to provide the  
20 information that the Commissioner ordered us to  
21 provide in the prior cases -- in the prior rate  
22 case. We have no objection to that, but we do  
23 oppose staff's proposal regarding the as-burned  
24 monthly fuel report.

25           Highly technical issue, but the point is,

1 if we were compelled to accept staff's  
2 recommendation, it will require changes to the  
3 company's general ledger system, which we think will  
4 just create an unnecessary burden. It's not  
5 required by the statute. It's not required by the  
6 Uniform System of Accounts. We believe that  
7 proposal should be rejected.

8 And finally, we have an issue with regard  
9 to heat rate testing. Mr. Crawford is the witness  
10 on that issue. Public counsel suggests that, first  
11 of all, the company didn't provide necessary heat  
12 rate data required by your regulation. We believe  
13 we did. Staff believes that we did. There is no  
14 need to direct the parties in this case to determine  
15 what baseline heat rates are as proposed by public  
16 counsel. Staff's witness, Mr. Luebbert, makes a  
17 very good point that the current regulations are  
18 adequate, and if there's are any changes to be made,  
19 it shouldn't be made just in this company's rate  
20 case.

21 Finally, there is an issue with regard to  
22 the ability of the company to add cost and revenue  
23 types to its FAC between rate changes. This is  
24 mainly related to the RTO category that we get from  
25 Southwest Power Pool. And the tariff now permits



1 KCP&L to include a new scheduled cost of revenue  
2 with a 60-day notice filing. And there's a  
3 challenge procedure. So if someone thinks that's  
4 not a good idea, they can challenge it. They can  
5 come before you for a ruling. And, similarly, any  
6 party can also seek to include a new schedule or  
7 charge under a similar procedure that allows a  
8 challenge. We think these changes -- or we think  
9 this ability to change these cost and revenue types  
10 allows the fuel adjustment clause to work more  
11 efficiently.

12 So in summary, we are asking -- the major  
13 new ask that we are asking for is fuel handling  
14 clauses, but overall we think the fuel adjustment  
15 clause is working well and we don't think that any  
16 radical changes in reporting or accounts would  
17 benefit consumers or otherwise provide any  
18 particular improvement in the clause that we're  
19 operating under right now.

20 Thank you.

21 CHAIRMAN HALL: Good afternoon. I just  
22 have a couple of brief questions. What standard do  
23 you believe we should employ in determining whether  
24 or not the company has an FAC?

25 MR. ZOBRIST: Well, I think it's the

1 standards that were set forth in your rule, which  
2 relate to volatility and size and those sorts of  
3 things. So we're not advocating any change to that.  
4 I think there are some parties that want you to look  
5 at fairly minute portions of those.

6 CHAIRMAN HALL: Volatility and  
7 materiality?

8 MR. ZOBRIST: I think that's correct, yes.

9 CHAIRMAN HALL: Okay. Who is -- I'm  
10 sorry. I didn't mean to cut you off. Were you --

11 MR. ZOBRIST: No.

12 CHAIRMAN HALL: Is Mr. Rush the witness  
13 who would be best equipped to answer questions about  
14 why -- why transmission costs are material and  
15 volatile?

16 MR. ZOBRIST: Yes.

17 CHAIRMAN HALL: Okay. Thank you.

18 JUDGE PRIDGIN: Anything else from the  
19 bench?

20 All right. Thank you. Mr. Zobrist, thank  
21 you.

22 Opening from staff. Mr. Berlin, when  
23 you're ready, sir.

24 MR. BERLIN: Good afternoon. May it  
25 please the commission. I'm Bob Berlin, and I will

1 be addressing the fuel adjustment clause, or the FAC  
2 issues, and I will provide an overview of staff's  
3 position in this case on those issues.

4 In staff's opening statement on Monday,  
5 you heard that KCPL has chosen to litigate many of  
6 the same FAC issues that were settled by agreement  
7 of the parties in KCPL's last rate case, and those  
8 conditions were ordered by the commission in  
9 September of 2015 in that last rate case, which was  
10 ET-2014-0370. The staff has been satisfied with the  
11 various allowable FAC costs and reporting  
12 requirements that were imposed by the Commission's  
13 report and order from that last KCPL rate case. The  
14 staff believes this process is working, working  
15 well, and recommends continuing on with the FAC as  
16 it was set forth in that last rate case.

17 I would also point out that in the last  
18 GMO rate case much effort was expended by the  
19 parties in that case to make the GMO FAC, Greater  
20 Missouri Operations Company, look like and work like  
21 the KCPL FAC. Now KCPL wants to make significant,  
22 unnecessary, and unsupported changes to its FAC so  
23 that we'll be significantly different. I will  
24 briefly address the two areas of change to the FAC  
25 that KCPL wants to make, changes that staff does not

1 support.

2 First let me address some of the new costs  
3 that KCPL proposes to add, which staff opposes. And  
4 I'm going to give you some costs in the subaccount,  
5 and these costs include security services,  
6 contractor labor, meal allowances for the union,  
7 safety and medical supplies, employee amendments,  
8 consulting fees, mileage reimbursement, rental car  
9 expense, legal fees, office expenses -- and the list  
10 goes on, but I'm going stop here. I think you get  
11 the picture. These types of costs certainly go  
12 beyond the threshold question. The question of is  
13 it a cost or revenue for fuel or purchase power?

14 So what happens if we get into a gray  
15 area, such as fuel-related costs in the fuel  
16 handling subaccounts, such as the cost of contract  
17 labor, materials, and equipment for handling fuel?  
18 Staff didn't consider these costs. Staff concluded  
19 that these costs are not appropriate for including  
20 in the FAC because they fail to fall within the  
21 established criteria used by the commission and used  
22 by the staff to determine whether a fuel or purchase  
23 power cost should be included in a utility's FAC.  
24 So what are these criteria?

25 First we ask, is the cost substantial

1 enough to have a material impact on the revenue  
2 requirement and the final performance of the  
3 business between rate cases? Here the answer is no.  
4 Staff determined the contractor labor, materials,  
5 and equipment for fuel handling to represent less  
6 than 2 percent of staff's base cost for this case.

7           Second, is the cost beyond the control of  
8 management, where utility management has little  
9 influence over experienced revenues or cost levels?  
10 Here the answer is no. KCPL management has control  
11 over these costs through planning and management and  
12 contractor oversight of those costs. And third, is  
13 the cost volatile in amount causing significant  
14 swings in income and cash flows if not tracked?  
15 Again, the answer is no. These costs are not  
16 volatile in unit pricing and do not cause  
17 significant swings in company income.

18           So how does or how can KCPL recover these  
19 costs if those costs are not included in the FAC?  
20 KCPL can recover them in the same way that it has  
21 recovered these costs in the past, through the base  
22 rates that are established in this rate case. Now,  
23 what about transmission costs? Transmission costs  
24 are kind of like the movie Groundhog Day. Here we  
25 are on a new day, and KCPL is, again, trying to add

1 to its FAC, its SPP transmission cost, its cost from  
2 the FERC, and administrative fees from the  
3 North American Electric Reliability corporation, or  
4 NERC. Staff opposes these additions in this case  
5 the same as it did in the last case. Again, the  
6 staff recommends, just as the commission approved  
7 previously, that only SPP transmission costs that  
8 KCPL incurs to transmit power it did not generate  
9 for its own native load and cost to transmit excess  
10 electric power it is selling to third parties in  
11 locations outside of the SPP be included in KCPL's  
12 FAC.

13 The question of whether to include  
14 transmission costs in the FAC has been before this  
15 commission multiple times. KCPL's current FAC  
16 tariff, which staff supports, is consistent with the  
17 tariffs of GMO, Empire, and Ameren on the treatment  
18 of transmission costs: No changes should be made.

19 Now, moving onto the matter of FAC  
20 reporting requirements. In its position statement,  
21 KCPL states it opposes providing staff certain  
22 information related to the as-burned monthly fuel  
23 report that KCPL currently provides. Mr. Zobrist  
24 just referenced that. It's interesting to me that  
25 KCPL never stated that in its direct case filing,

1 but raises it for the first time in Mr. Rush's  
2 surrebuttal, which is contrary to the Commission's  
3 Rule 242.130, Sub 7, Sub A, that requires company to  
4 explain its position in its direct testimony. This  
5 report is required by commission rule and KCPL had  
6 agreed to provide this report to staff as explained  
7 in the last rate case report and order. And so KCPL  
8 has been providing this report to staff, but now no  
9 longer wants to provide it.

10 And, finally, in closing, staff does  
11 support continuation of the 95/5 sharing  
12 arrangement. I would like to note, though, that on  
13 the matter of the FAC issues that I just discussed,  
14 the staff will offer David Russe as its witness.  
15 However, due to availability, Mr. Russe is set to  
16 appear out of order on February 24th. Today,  
17 though, staff will offer Ashley Sarver as its  
18 witness for staff's calculation as staff's direct  
19 case base factor of .01349 dollars per kilowatt  
20 hour. Staff will also offer Jay Luebbert as its  
21 witness on a matter of heat rate testing  
22 requirements for generation units under commission  
23 Rule 24-3.161. Staff's position is that the  
24 proposed recommendation to require baseline heat  
25 rates is an issue better suited for an FAC rule

1 making.

2 This completes my remarks on the FAC.

3 I'll be glad to answer any questions. Thank you.

4 JUDGE PRIDGIN: Thank you.

5 Opening from public counsel? Mr. Opitz,  
6 when you're ready.

7 MR. OPITZ: May it please the commission.  
8 Good afternoon. When considering this issue, I ask  
9 you to keep in your minds the -- what you believe to  
10 be the Commission's primary obligation, which is the  
11 protection of the public. The protection that is  
12 given to the utility is only incidental. You set  
13 rates at a level that allows them to provide safe  
14 and adequate service, and it's my belief that  
15 anything more is unjust and unreasonable.

16 Now, even if you disagree with that  
17 proposition, at a minimum I think you would agree  
18 with me that commissioners have at least an  
19 obligation to ensure the interest of rate payers is  
20 at least balanced with that of the utility. FAC,  
21 especially one under the terms proposed by the  
22 company in this case, creates a drastic and  
23 unreasonable imbalance.

24 The FAC is a single-issue rate-making  
25 mechanism that permits an electric company to



1 increase rates outside of a general case.  
2 Specifically, the statute 386.262 identifies that an  
3 electric corporation may be authorized to increase  
4 rates in order to reflect increases and decreases in  
5 its prudently-incurred fuel and purchase power cost,  
6 including transportation. Now, as an initial  
7 matter, and in keeping in mind the protection of the  
8 public, the statute contains permissive language,  
9 meaning that you do not have to authorize an FAC at  
10 all. Since it began authorizing FACs; however,  
11 under this current statute, the commission has  
12 recognized time and time again that an FAC is a  
13 privilege. For example, in ER-2008-0318 at page 74  
14 of the report and order, the commission stated, "As  
15 the commission previously indicated, a fuel  
16 adjustment clause is a privilege, not a right which  
17 can be taken away if the company does not act  
18 prudently."

19 In ER-2008-0093 the commission concluded  
20 some sort of financial incentive is needed to ensure  
21 Empire pays close attention to its fuel and purchase  
22 power costs, and to remind the company that a fuel  
23 adjustment clause is a privilege and not a right,  
24 which can be taken away from the company if it does  
25 not act prudently.

1           Now in this case, in its direct testimony,  
2    OPC witness, Ms. Mantle, recommended that the  
3    commission authorize an FAC for KCPL as described in  
4    Ms. Mantle's testimony. However, after having  
5    reviewed the testimony of KCPL on this issue, I will  
6    tell you that I am greatly alarmed that the company  
7    appears to view the FAC not as simply a  
8    cost-recovery mechanism that is a privilege, but as  
9    a determinant in how it meets its customer's energy  
10   needs and as a policy statement of what it believes  
11   the commission deems important.

12           Rate adjustment mechanisms, such as the  
13   FAC, allow the utility to charge its customers more  
14   without consideration of all other cost and savings  
15   between rates cases. In fact, the statute makes it  
16   clear that an electric utility with an FAC is  
17   expected to continue to manage its fuel prudently,  
18   and the commission may include features designed to  
19   provide incentives to improve the efficiencies and  
20   cost effectiveness of its fuel and purchase power  
21   procurement activities. It should not be used as  
22   means to achieve the greatest cost recovery possible  
23   for any variety of costs and revenues that can be  
24   plausibly classified as fuel or purchase power.

25           When a utility views the FAC as anything

1 other than a privilege and an opportunity to recover  
2 the cost of prudently-incurred fuel and purchase  
3 power costs and instead it changes its fuel  
4 procurement practices not to improve the  
5 efficiencies or seek cost effectiveness but based on  
6 recovering the most money from its customers, then I  
7 think the commission should seriously consider  
8 whether or not the utility is deserving of the  
9 privilege of an FAC.

10 To be clear, the FAC is a cost-recovery  
11 mechanism that benefits the company's shareholders.  
12 Often, if not always, it is a detriment to rate  
13 payers. And FAC shifts risks to customers, it  
14 increases the rate volatility to customers, who --  
15 those customers who have no control over how the  
16 company manages its fuel cost or its purchasing  
17 practices. It deprives customers of the protections  
18 received in a full rate case, and it reduces the  
19 utility's incentive to control cost and actively  
20 manage -- otherwise actively manage its costs.

21 With an FAC, KCPL can recover cost  
22 increases, at least at some level, from customers  
23 outside of a rate case without considering all  
24 relevant factors and regardless of whether cost  
25 savings or increase revenues, offset any increases,

1 decreases to fuel -- or decreases to fuel and  
2 purchase power costs.

3           Without an FAC, the company to the extent  
4 its fuel and purchase power costs increase beyond  
5 what is already built into rates would have to  
6 absorb that increase until it filed and was  
7 authorized to implement new rates. Importantly,  
8 under that scenario, the company would keep the  
9 benefit of any savings that it might be able to  
10 achieve. As KCPL witness Mr. Blunt recognizes in  
11 his testimony, there is a very clear incentive to  
12 manage all costs retained in fixed rates. So to has  
13 the commission recognized that some form of  
14 incentive mechanism is necessary in the FAC in order  
15 to counter the inherent disincentive to control fuel  
16 and purchase power cost.

17           Now, in KCPL's last rate case, the  
18 commission found that KCPL's requested 100 percent  
19 recovery of cost might act as a disincentive to  
20 manage its fuel expense properly. I understand the  
21 KCPL is asking for that again based on the position  
22 statements. To preempt any suggestions that a  
23 prudence review or a prudence audit is a sufficient  
24 protection for customers, I disagree. That's wrong.  
25 A prudence review is necessarily limited by the

1 availability of trained people with the time  
2 available to devote to a detailed examination of a  
3 company's actions. So the commission has stated  
4 that; however, an after-the-fact prudence review is  
5 not a substitute for an appropriate financial  
6 incentive, nor is an incentive provision intended to  
7 be a penalty against the company. Rather, a  
8 financial incentive in the FAC recognizes that fuel  
9 and purchase power activities are very complex and  
10 that there are actions that Empire, the company in  
11 that case, can take that will affect the cost  
12 effectiveness of those activities.

13           If the commission approves an FAC, a  
14 mechanism to incentivize KCPL to control costs is  
15 necessary to protect customers and to balance their  
16 interests against the company's. The primary  
17 incentive so far in Missouri has been so-called the  
18 FAC sharing percentage. For the last year, KCPL has  
19 had a 95/5 sharing. That means that for all  
20 increases or decreases in fuel and purchase power  
21 outside of a rate case, customers are billed at  
22 95 percent. Public counsel believes and has offered  
23 testimony that a 90/10 sharing mechanism would give  
24 the company the opportunity to retain an even  
25 greater portion of savings and would be an even

1 greater incentive to control its costs.

2 In addition to the 90/10 sharing  
3 percentage, public counsel proposes that only  
4 changes in fuel and purchase power and  
5 transportation costs be recovered through the FAC.  
6 Before discussing the particular recommendations, it  
7 is important to consider why adopting public  
8 counsel's proposal would protect the public and more  
9 fairly balance the interest of the customers and the  
10 utility shareholders.

11 In public counsel's recommendation, only  
12 the direct fuel and purchase power cost and the  
13 direct cost of transportation that fuel or purchase  
14 power -- that are fuel or purchase power in the  
15 following categories would be included. Fuel as  
16 defined by FERC for its FAC, the cost of uranium,  
17 the cost of energy purchased through bilateral  
18 contracts, the cost of capacity of bilateral  
19 contracts of less than one year, the cost of the true  
20 purchase power calculated as required by FERC  
21 Order 668, the cost of transmission directly tied to  
22 purchase power, and all of those costs there would  
23 also be revenues included in the FAC. And those  
24 included should be revenues from the sales of energy  
25 calculated as required by FERC Order 668 and net

1 insurance recoveries, subrogation recoveries, and  
2 settlement proceeds relating to cost and revenues in  
3 the FAC.

4           It was suggested in an opening statement  
5 that public counsel changed its position and has  
6 cited to the FERC FAC as our way to include fuel or  
7 to define fuel to the FAC. I would disagree with  
8 that characterization. I think that the FERC FAC  
9 supports the testimony of Ms. Mantle, and it is a --  
10 evidence that shows that her direct testimony is  
11 reasonable and it is implied -- it is applied in  
12 other situations. Including the cost in revenues  
13 that public counsel suggests in the testimony of  
14 Ms. Mantle would be similar to these FERC FAC  
15 requirements. Only fossil fuel expenses  
16 appropriately charged to FERC Account 151 fuel stock  
17 would be eligible to be included in the FAC. We  
18 would also allow nuclear fuel charges, which are  
19 booked to, as I understand, USOA Account 518.

20           In contrast, the company wants to continue  
21 using unduly broad categories that would permit it  
22 to recover legal fees, hotel expenses, labor, cell  
23 phones, contractor material, and many other costs  
24 that I believe staff counsel held up here a moment  
25 ago in the FAC simply because the company has

1 recorded them in the broad 501 fuel account. These  
2 aren't the kinds of costs that the commission should  
3 include in the FAC. OPC's proposal would include  
4 transportation costs, as previously defined by the  
5 commission.

6 In KCPL's last rate case, about a year  
7 ago, the commission concluded that transportation  
8 costs have been determined to include transmission  
9 cost, but limited only those connected to purchase  
10 power cost. The commission went on to state:

11 "The appropriate transmission cost to be  
12 included in the FAC are, one, costs to transmit  
13 electric power that did not generate to its own  
14 load, true purchase power and, two, cost to transmit  
15 excess electric power and selling to third parties  
16 to locations outside of SPP off-system sales. OPC's  
17 proposal is consistent with that. KCPL's request  
18 for more to be included shifts the risks and shifts  
19 the balance further in the company's favor. It is  
20 unreasonable and it should be rejected. For  
21 purchase power, I will point out that when you  
22 listen to the testimony or you read the testimony  
23 that's been pre-filed, OPC and the company do not  
24 necessarily agree on how that should be defined.  
25 Public counsel's definition of purchase power is the



1 same as the Commission's definition. It is the  
2 power purchase to meet the requirements of KCPL's  
3 customers above the amount of its own generation in  
4 every hour. KCPL's definition is much broader,  
5 again, shifting the balance in favor of the utility.

6 Furthermore, public counsel asks that the  
7 commission direct the company to work with staff and  
8 OPC and any other parties that may be interested to  
9 determine the baseline heat rates for each of the  
10 utility's nuclear and nonnuclear generator, steam  
11 and combustion turbines, and heat recovery steam  
12 generators. These baselines we believe should be  
13 filed with the minimum filing requirements in the  
14 case. But, importantly, they are a great resource  
15 that will enable parties in future cases to  
16 determine if KCPL has been prudent in its  
17 maintenance of its generation fleet once granted in  
18 FAC.

19 To the extent that other parties have  
20 suggested that public counsel is, through its  
21 recommendations, micromanaging the utility regarding  
22 the FAC, well, I reject those assertions and so  
23 should the commission. The FAC, despite being a  
24 significant shift in the balance between customers  
25 and the company, does, in fact, contain a number of

1 customer protections.

2 First, it is clear that a company seeking  
3 an FAC must come in and apply periodically for the  
4 mechanism. Section 386.226 requires that the  
5 establishment, continuation, or modification of an  
6 FAC only occur in a general rate case and only upon  
7 approval by the commission. These provisions allow  
8 the parties in each rate case to make  
9 recommendations, just as public counsel has done,  
10 and so that the commission may consider the best way  
11 to implement an FAC that balances the needs of the  
12 customers with the needs of the company. For that  
13 reason, public counsel and all parties should  
14 carefully examine in each rate case in which an FAC  
15 is requested the FAC the company proposed. The  
16 reasons for continuing aspects of an FAC simply  
17 because, Well, that's the way that it has been done  
18 and that's the way we think it should continue,  
19 should not be acceptable to the commission.

20 In its report and order in Ameren  
21 Missouri's last rate case, ER-2014-0258, the  
22 commission, when discussing OPC's position in that  
23 case that Ameren had not met the minimum filing  
24 requirements, specifically found the minimum filings  
25 Ameren made in this case are substantially similar

1 to the filings it made in past rate cases and have  
2 never been challenged in the past. That does not  
3 mean that those minimum filings cannot be improved  
4 in the future. In fact, OPC believes the ability to  
5 consider and adopt changes is a significant way that  
6 the commission can protect its customers. FACs have  
7 developed over time. As we continue to gain more  
8 experience and knowledge and learn about the costs  
9 that are being flowed through and the costs that  
10 they're trying to take out or put in, we can become  
11 aware of how things can and should be improved.

12 Currently, the company is proposing what  
13 it considers to be improvements. I note that those  
14 punitive improvements the company is seeking are for  
15 the benefit of the company's shareholder. The  
16 public counsel has a different interest. We  
17 represent the rate payers. It is our view that the  
18 FAC, as proposed by the company, shifts the balance  
19 in favor of the utility by an unjust and by an  
20 unreasonable amount. In order to realign that  
21 balance, public counsel, rather than offering  
22 blanket opposition has proposed changes that the  
23 commission should consider in making KCPL's FAC.  
24 Perhaps there is no better time to do so than in  
25 this case. Although the company may say that

1 certain costs are increasing, based on the review of  
2 the staff and the parties in this case, the company  
3 has earned above its authorized ROE for the past 12  
4 months.

5 In the first rate case in which the  
6 commission approved an FAC under the current  
7 statute, the commission found that an FAC should not  
8 be authorized for the mere convenience of an  
9 electric utility. It may be convenient for the  
10 utility to include more and more costs in the FAC,  
11 but that is not just and it is not reasonable for  
12 rate payers. I understand listening here today that  
13 KCPL doesn't want to provide reporting requirements  
14 because it believes it would be a burden. I would  
15 point you back to that first order that says, Well,  
16 it doesn't necessarily mean that an FAC should be  
17 issued just for the convenience of the utility.  
18 These burdens are meant to pale in comparison to  
19 what the utility would face if it did not have this  
20 privilege of a cost tracker. These protections are  
21 for the commission to be able to learn this  
22 information and for its staff to monitor the  
23 information and for the public to be able to learn  
24 about what's going on with these FACs.

25 In that first case, the commission also

1 stated, "A reasonable fuel adjustment clause should  
2 be straightforward and simple to administer. It  
3 should retain some incentive for company efficiency  
4 and be readily audible and verifiable through an  
5 expedited regulatory review." I believe that public  
6 counsel's recommendations achieve that goal. I also  
7 believe that the company's recommendations move the  
8 commission further away from that goal.

9 In conclusion, public counsel's proposal  
10 will make KCPL's FAC more transparent and manageable  
11 for KCPL to administer and the commission to  
12 oversee. It will reduce this incentive for the  
13 implementation of efficiencies and it will increase  
14 incentives for cost saving. Importantly, it will  
15 improve the protection of the public by balancing  
16 appropriately the interest of the customers and the  
17 utility.

18 Thank you, and I'm happy to answer any  
19 questions that you may have.

20 COMMISSIONER STOLL: It's been mentioned  
21 before, but I believe you mentioned that OPC  
22 believes that the company has been over-earning for  
23 the past eight months.

24 MR. OPITZ: If I said eight months, I  
25 misspoke, and I believe it's in testimony in this

1 case, and I said it during my opening statements  
2 that the surveillance reports provided by the  
3 company from year-end September 30th, which is the  
4 12 months immediately following the company's last  
5 rate increase, show that the company has earned an  
6 actual return of 9.88 percent, I believe. Their  
7 authorized return in that rate case was 9.5 percent.

8 COMMISSIONER STOLL: Well, if that is the  
9 case, at what point does the Office of Public  
10 Counsel or staff believe it's appropriate to come in  
11 and file a complaint against the utility for  
12 over-earning?

13 MR. OPITZ: I think that there are a  
14 number of factors that go into that. By the time  
15 that data came out in September, the company had  
16 already filed its rate increase in July. So, you  
17 know, that would be one factor, is we are already  
18 undertaking a review of the company's rates. I  
19 think that it's important to recognize that when an  
20 over-earnings complaint is filed, there is a burden  
21 shift, and it would -- right now, the company has  
22 the burden because it's seeking the increase. Had  
23 public counsel filed an over-earnings complaint, it  
24 would have been similar to the over-earnings  
25 complaints filed against Ameren Missouri not too

1 long ago where the complainants had the burden. And  
2 I think in that particular case, the Commissions --  
3 in one of the two the Commissions' order noted that  
4 surveillance reports alone are not enough to show  
5 that there's over-earning. So that's one  
6 indication.

7 Now, I will say that after the commission  
8 case has -- or the company's case has proceeded, the  
9 numbers by the parties as of the direct case are  
10 still to my knowledge showing a negative, meaning  
11 that the company has currently authorized rates that  
12 permit it to meet its authorized ROE.

13 COMMISSIONER STOLL: So if the company  
14 hadn't come in in the time period when they did, you  
15 feel that you -- do you feel that OPC or staff  
16 should file a complaint? Let's say they've been  
17 out, you know, a year and a half, two years. At  
18 what point do you --

19 MR. OPITZ: I don't know that I can answer  
20 that on every case. I think it has to be a  
21 case-by-case basis. To my knowledge, there's been  
22 one successful -- maybe two successful rate  
23 reductions, and those were before my time working  
24 for the commission -- for public counsel and prior  
25 to that for the commission staff, briefly.

1 COMMISSIONER STOLL: Okay.

2 MR. OPITZ: I know that they have been  
3 brought. I know that public counsel has a pending  
4 complaint against Laclede Gas, and that was stayed  
5 to run concurrently with its rate case. I can  
6 attest that myself and our office believe that  
7 complaint cases are extremely difficult to  
8 prosecute, primarily because the company controls  
9 all the information that we would need to be able to  
10 prove a complaint. As to what circumstance would  
11 show that an over-earnings complaint is necessary, I  
12 don't have a direct answer for you on that, but I  
13 think it's something that if certain information  
14 came to our attention, we would try and -- I would  
15 recommend to my director that we would pursue it in  
16 any way that we could.

17 COMMISSIONER STOLL: Okay. I was just  
18 curious. Thank you.

19 COMMISSIONER RUPP: Afternoon. Following a  
20 little bit on Commissioner Stoll's question where  
21 you were talking about the over-earnings, and you  
22 made the statement that in the past orders that  
23 Commissions have taken away the FAC if the company  
24 has acted imprudent. So do you feel the company has  
25 acted imprudently, or is that the same thing that



1 you were talking about the over-earnings?

2 MR. OPITZ: So I don't -- and I may have  
3 misheard you just now, and I did not intend to  
4 convey that those cases I read where the commission  
5 had taken away an FAC. Those citations were that  
6 the commission, when it issued an FAC, it made  
7 the -- made clear to the utility and to the parties  
8 in its order that it was a privilege and that it  
9 would take it away if the utility was acting  
10 imprudently.

11 COMMISSIONER RUPP: But yet you're arguing  
12 that we take away the FACs. Do you believe the --  
13 does the Office of Public Counsel believe that the  
14 company has acted imprudently?

15 MR. OPITZ: So to be clear, public counsel  
16 is proposing an FAC for this company.

17 COMMISSIONER RUPP: Radically different.

18 MR. OPITZ: It is different than what the  
19 company currently has, and it's dramatically  
20 different than what the company is requesting. I  
21 think that our proposal is something that still  
22 provides the company a tremendous opportunity to  
23 collect fuel purchase power and transportation costs  
24 increases outside of a rate case, and certainly  
25 that's authorized by statute. Now, I don't believe

1 that the commission has to. And I stated in here  
2 that I think there's portions of the company's  
3 testimony that, in my mind, and in the mind of some  
4 of my witnesses shows that the company may be  
5 prioritizing cost recovery rather than trying to  
6 effectively and efficiently manage its fuel  
7 operations to the extent that it can.

8           COMMISSIONER RUPP: So, therefore, does the  
9 Office of Public Counsel believe that the company is  
10 acting imprudently?

11           MR. OPITZ: I don't know that I would say  
12 that.

13           COMMISSIONER RUPP: Okay. Yesterday we  
14 heard expert testimony on ROEs and cost of capital  
15 and things of that nature. And we had testimony  
16 that said that the markets, bond rating agencies,  
17 the financial markets do not -- and I'm going to  
18 paraphrase -- they gave the impression that they  
19 don't believe and FAC is a privilege; it's more if  
20 you do not have one, it can be viewed as a penalty.

21           So with that in mind, the way that you are  
22 proposing changes to the FAC, but yet you're also  
23 arguing for a range of an ROE of 7.9 to 8.75. If  
24 this FAC were to be changed in the way you're  
25 suggesting, do you believe that a higher ROE would

1 be warranted, considering how the financial markets  
2 view the FAC?

3 MR. OPITZ: So higher than that range or  
4 on the high end of that range?

5 COMMISSIONER RUPP: Higher than that range  
6 and/or higher than what the company currently has.

7 MR. OPITZ: I can tell you that I think  
8 having an FAC reduces risk to the company. So  
9 having an FAC in itself, in my mind -- and I'm not  
10 able to quantify it and I haven't quantified it --  
11 does reduce what the rewarded ROE should be. Now,  
12 I'm not able to -- and I don't know that I can tell  
13 you anyone who will testify for public counsel. We  
14 don't have anyone on staff who can quantify the  
15 difference between the equity that should be awarded  
16 to the FAC as the company is requesting versus the  
17 equity they should be awarded to FAC as public  
18 counsel's --

19 COMMISSIONER RUPP: So in a general  
20 statement, would you say if a company is given a  
21 more restrictive FAC, should there be a  
22 corresponding increase in an ROE?

23 MR. OPITZ: A more restrictive --

24 COMMISSIONER RUPP: Restrictive changes  
25 that -- that the markets would probably view as --

1           MR. OPITZ: I think concepts -- and I'm  
2 going to caveat that as I think that concept is  
3 probably accurate; however, I think we would have to  
4 consider the magnitude of the difference of the  
5 FACs. Part of our recommendations here -- I think  
6 the costs that are passed through are a largely --  
7 the big costs remain the same. So the magnitude of  
8 difference between our recommendation and their  
9 recommendation compared to what they have now, I  
10 think it's probably smaller than compared to what  
11 they have now versus what they're requesting.

12           COMMISSIONER RUPP: And then you had also  
13 made the comment that you believe that FACs are to  
14 the detriment of the rate payer.

15           MR. OPITZ: Yes. I believe that's true.

16           COMMISSIONER RUPP: Then why are you  
17 advocating for an FAC, if your role as the OPC is to  
18 protect the rate payer?

19           MR. OPITZ: I think that as a practical  
20 matter, I think that if we came in here, like we  
21 have in nearly every other case and said, No,  
22 they've not met the filing requirements. We say,  
23 No. I mean, you can only kick a dog so many times  
24 before he stops coming back. You know, we --

25           COMMISSIONER RUPP: Probably the most

1 honest answer from somebody I've heard standing at  
2 that podium.

3 MR. OPITZ: We are going to continue to  
4 look at every FAC, and if we determine that it's not  
5 winnable or we think that, you know, this is a case  
6 where they should not have one, we're going to  
7 advocate that position, or I will recommend to my  
8 director that we advocate for that position. That  
9 wasn't the case here. I think part of it is  
10 informed by -- you know, we've seen that the  
11 company's earnings compared to before they had an  
12 FAC to what they've had with an FAC, and I think  
13 that, you know, we've seen, yeah, they've done very  
14 well with an FAC, but I think that we can have an  
15 FAC that better protects customers. It is something  
16 that's authorized by statute. I don't think we  
17 should be against it in every case. I think the  
18 recommendations we're making here are reasonable,  
19 and I think they're designed to protect the public  
20 as well as making the FAC more readable, more -- not  
21 necessarily concise, but manageable for the staff  
22 and for public counsel to review.

23 COMMISSIONER RUPP: Great. Thank you.

24 MR. OPITZ: Thank you.

25 JUDGE PRIDGIN: Any further bench

1 questions?

2 Mr. Opitz, thank you.

3 Mr. Lowery -- have I overlooked any other  
4 counsel wishing to make opening?

5 Okay. Mr. Lowry, when you're ready, sir.

6 MR. LOWRY: Good afternoon. May it please  
7 the commission. As I think you know, my name is  
8 Jim Lowry, and I represent Ameren Missouri in this  
9 case. As our presence here today would indicate,  
10 Ameren Missouri has taken an interest in OPC's  
11 arguments that seek to radically change the FAC that  
12 KCPL has today.

13 Now, OPC's position in this case believes  
14 to radically change the FAC's obvious, both when you  
15 compare to KCPL's current FAC and what OPC is  
16 proposing, but from our perspective, more  
17 importantly, when you compare it to the FAC that  
18 Ameren Missouri has had for a number of years and  
19 that the other utilities in Missouri have.

20 Now, I want to acknowledge something --  
21 and this might go to Commissioner Kenny's comment  
22 this morning when I entered the room with my box.  
23 It's true that the commission doesn't have to decide  
24 FAC issues in our pending rate case the same that  
25 they decide those issues in this case. We recognize

1 that. But there are factual differences in the  
2 case. We are proposing in our case the same FAC  
3 that we've had for a period of time. We're not  
4 proposing to make some of the changes that KCPL is  
5 proposing, but we're interested in the issues in  
6 this case, keenly interested because, for the most  
7 part, with very limited exceptions, the arguments  
8 that OPC is making in this case don't have anything  
9 to do with factual differences, they're policy-based  
10 arguments. Mr. Opitz's opening statements reflects  
11 that they're policy-based arguments. And what OPC  
12 is really doing in this case, instead of just  
13 opposing FACs outright, which is what they've  
14 typically done, what they're doing is they are  
15 attacking your fairly long-standing now and  
16 consistent FAC-related decisions. They're  
17 challenging conclusions that you've made in the  
18 past. They may not say it out loud, but that's what  
19 they're doing.

20 The evolution of FACs in Missouri has  
21 taken place over the last ten to 12 years. It's  
22 been the result of many commission decisions. Ms.  
23 Barnes has a schedule attached to her testimony that  
24 I think lists every single one of them. They go  
25 back to 2006, 2007, after Senate Bill 179 became law

1 in 2005. OPC has sought many times to impose  
2 greater sharing. In fact, 11 times. Ms. Mantle for  
3 OPC has proposed six times, eight times overall,  
4 including when Ms. Mantle was on the staff. The FAC  
5 we have today has evolved through a lot of  
6 stipulations, a lot of cases, a lot of decisions,  
7 and there's really no claim being made in this case  
8 that it doesn't work well, that it's been unfair,  
9 that KCPL or other utilities have abused the  
10 privilege.

11 OPC, in effect, is just attempting to  
12 define fuel and purchase power and offset system  
13 sales in the narrowest possible way that it can.  
14 And I think that's sort of an opposition to the  
15 FAC-like position. We probably can't stop the FAC,  
16 so let's make it less effective for the utility,  
17 despite the fact that the utility has -- has not  
18 been demonstrated to have abused its privilege in  
19 any way. OPC attempts to justify its position by  
20 making seven arguments, and I'll go through very  
21 quickly, but they really haven't been talked about  
22 that much this morning, and I was a little surprised  
23 by that.

24 The first argument OPC makes is that their  
25 proposal is consistent with the FAC statute. Well,



1 what does that mean? Does it mean OPC is claiming  
2 that the commission has been for years approving  
3 fuel adjustment clauses that are inconsistent with  
4 the FAC statute? Well, we ask -- OPC really isn't  
5 saying. We asked Ms. Mantle that question in a data  
6 request. And, first, OPC's lawyers objected to the  
7 data request. That called for legal conclusion.  
8 But then Ms. Mantle answered it, and she said, I  
9 don't have an opinion about that. This, despite the  
10 fact that throughout her testimony in a few places,  
11 she will call things non-fuel and non-purchase  
12 power. Well, I think the implication of her  
13 language is that OPC takes the position that the  
14 commission has had it wrong for a number of years.  
15 We disagree with that. And I think when you look at  
16 other positions that she takes, she mentions that,  
17 Well, spinning reserves and this and that component  
18 are not mentioned in the FAC statute. Well, neither  
19 is energy. Neither is capacity, yet, those are the  
20 components that she favors in the FAC. It can't be  
21 the case, obviously, that the general assembly was  
22 expected to list every single component of these  
23 costs and revenues in order for it to be eligible  
24 for the conclusion in the FAC. If that were the  
25 case, then OPC's Proposal wouldn't hold up either.

1           The second argument OPC makes is that  
2    their recommendation will "increase transparency."  
3    Our witnesses will explain why this claim, which is  
4    sorely lacking any evidence, other than a subjective  
5    statement that it's true, is not true and why, in  
6    fact, the opposite is true. And our testimony  
7    explains that and you can ask our witnesses about  
8    it.

9           The third argument is stripping the FAC of  
10   many of these costs and revenue components will  
11   limit disincentives to implement efficiencies. What  
12   really -- this argument really comes down to this:  
13   OPC is arguing that your past consistent decisions,  
14   where you said that there are a number of features  
15   in place today that already provide a sufficient  
16   incentive, that you've been wrong about that. You  
17   have consistently ruled that greater incentive is  
18   not needed because first -- and we agree with  
19   this -- that FAC is a privilege; it's not a right.  
20   It gets reviewed in every rate case, and you have to  
21   come in for a rate case every four years. You've  
22   said that provides a significant incentive. In  
23   fact, Ms. Mantle has agreed with that. You  
24   indicated that prudence reviews apply an incentive,  
25   and that has to happen every 18 months. You have

1 said -- and I agree with Mr. Opitz on this. You  
2 have said that prudence reviews alone aren't enough,  
3 and, therefore, you imposed 5 percent sharing, but  
4 on numerous occasions, you have indicated that  
5 there's no need for more than 5 percent sharing.  
6 And keep in mind that that 5 percent sharing  
7 prevents the recovery, if it's an increase or  
8 prevents the return if it's a decrease, of 5 percent  
9 of prudently incurred changes in that energy cost.  
10 It has nothing to do with imprudently-incurred  
11 costs. And, finally, you indicated that unless  
12 there's evidence that there's been an abuse of the  
13 privilege, there's no justification to make the kind  
14 of changes OPC is suggesting.

15 OPC's next argument is that their position  
16 would simplify prudence audits. Well, even the  
17 staff, who is the entity that conducts those  
18 prudence audits, doesn't agree with that position.  
19 I would frankly be offended as heck by it. Because  
20 what it really amounts to is that OPC is indicating  
21 the staff is incapable of doing their job. And  
22 there's no evidence that that's true. Our witnesses  
23 provide testimony of actual evidence using real  
24 examples of why OPC's recommendations will actually  
25 make prudence reviews more complicated, not less.

1 Because you take those activities outside of the  
2 FAC, and now when you're doing a prudence review,  
3 you've got to consider the utility's motives for the  
4 component that's outside of the FAC. You still have  
5 to look at what's going on in the business, inside  
6 and out, whether it's in the FAC or not. Just  
7 stripping the cost and revenue out doesn't simplify  
8 prudence reviews; it makes it harder. OPC's  
9 position is that its recommendation would make the  
10 FAC tariff sheet simpler. It's ironic that they  
11 take that position because it's Ms. Mantle who  
12 insisted a few years ago -- and it's become the  
13 standard in all of the FACs in Missouri that the  
14 tariff sheets become extremely detailed and highly  
15 prescriptive in certain respects. We didn't  
16 disagree with that. We've been asked in several  
17 forms -- monthly reports and so on to provide more  
18 and more detail. And we've never said no in the  
19 nine years that we've had an FAC -- is it nine?  
20 Maybe it's eight. But the fact that a tariff is  
21 shorter doesn't mean it's more simple. And the fact  
22 that it's longer doesn't mean it's more complex; it  
23 just means it's shorter or it's longer.

24 The next argument OPC makes is that OPC's  
25 proposal should still let KCPL recover a majority of

1 their cost. That misses the point. A fuel  
2 adjustment clause tracks changes in the cost and  
3 revenue components between rate cases. It may be  
4 true that KCPL will recover a majority of their net  
5 energy cost. OPC hasn't proved that one way or the  
6 other, but that completely misses the point. And,  
7 finally, OPC really sort of recycles Argument No. 3  
8 and Argument No. 7 indicating that the proposal that  
9 they make, which is really their 90/10 proposal,  
10 would provide a greater incentive. And, again, the  
11 commission's repeal proved that that is not  
12 necessary. We have two witnesses that have filed  
13 testimony.

14 Lynn Barnes has filed testimony. She's  
15 testified before you on FAC issues on quite a few  
16 occasions over the last several years. She's going  
17 to primarily address the fuel cost component-related  
18 issues in this case. She'll also -- she also  
19 addresses sharing issues in this case, and she also  
20 addresses a couple of other issues. One is -- and  
21 it's something the Commissioner Rupp was sort of  
22 getting at in some of his questions. It's the issue  
23 of the importance of an FAC regulatory consistency  
24 with respect to FACs to the investors that we depend  
25 upon for the capital that we need to operate our

1 businesses and the extreme importance that this  
2 commission not make radical changes to this  
3 mechanism in the absence of a really, really good  
4 reason backed up by evidence for doing so. She  
5 addresses that. She also addressed this change  
6 provision that Mr. Zobrist addressed at the end of  
7 his opening statement. That change provision arose  
8 in Ameren Missouri's 2011, 2012 rate case. I mix up  
9 the cases. And essentially, what it says is, "If  
10 the RTO relabels -- they call them charge types.  
11 They're not all charge types. They're also revenue  
12 types. If the RTO relabels a component of purchase  
13 of power off-system sales between rate cases or  
14 slices the off-system sales or purchase power  
15 components differently, as long as it's similar --  
16 as long as it's in the same nature as something  
17 that's already in the FAC, then the utility can make  
18 a filing, explain why it's similar, same nature, and  
19 any party, OPC included, can challenge that, and the  
20 burdens on the utility to then prove that it is the  
21 same kind of cost or revenue and really ought to be  
22 in there. Or if a new revenue comes along -- and  
23 that has happened a number of times since we've had  
24 this change provision -- OPC, for example, could  
25 make a filing and say, Look, Ameren Missouri didn't

1 include this new charge type. There's revenues  
2 associated with it. It ought be the FAC's so  
3 customers get that. And the way the provision is  
4 written, the burden is still on us to justify it's  
5 excluded. We've utilized that provision six times  
6 since we've had it. It could have gone the other  
7 way, it may go the other way in the future, but  
8 since we've had it, Ms. Barnes can tell you those  
9 charge types that we've added between rate cases  
10 that we would not have been able to add had that  
11 provision not be in our tariff, have met 2 million  
12 of revenue above the expenses that we have added.  
13 So customers have gotten 95 percent of that only  
14 because that provision is in our FAC tariff. It's a  
15 fair provision. It's worked fine. OPC doesn't have  
16 any justification at all for excluding it, other  
17 than, I guess, they just want to.

18           And finally, we have Andrew Meyer, who is  
19 testifying. Andrew took Himay Harrow's job in the  
20 last couple of years. Mr. Harrow had testified in  
21 front of you on FAC issues in a number of in  
22 instances. Mr. Meyer runs the company's energy  
23 procurement and trading operation. He is going  
24 to -- he discusses in his testimony and answers  
25 questions about the interrelationship between the

1 various components of purchase power, both within  
2 the purchase power components themselves and between  
3 those and the various components of off-system  
4 sales. Those interrelationships are by design in  
5 the co-optimized regional transmission organization  
6 markets that both KCPL and Ameren operate in. And  
7 it just doesn't make any sense. And, in fact, it  
8 causes tremendous problems when you try to break  
9 them apart, which is what OPC's recommendation would  
10 do.

11 In closing, I want to thank you for the  
12 opportunity to be here today. And certainly if you  
13 have questions of our witnesses, I encourage you to  
14 ask those. If you have any questions of me, I'd be  
15 happy to try to answer them, as well.

16 JUDGE PRIDGIN: No bench questions.

17 Mr. Lowry, thank you .

18 I believe we are ready for the first FAC  
19 witness. That would be Mr. Crawford.

20 MR. ZOBRIST: Thank you, Judge.

21 BURTON CRAWFORD,  
22 of lawful age, being first duly sworn, testifies as  
23 follows:

24

25



1 EXAMINATION

2 BY MR. ZOBRIST:

3 Q. Please state your name.

4 A. Burton Crawford.

5 Q. Where are you employed?

6 A. Kansas City Power & Light.

7 Q. In what capacity?

8 A. Director of energy resource management.

9 Just means I'm responsible for long-term generation  
10 planning.

11 Q. Crawford, did you prepare direct,  
12 rebuttal, and surrebuttal testimony in this case?

13 A. I did.

14 Q. Okay. And for the record, they have been  
15 marked as Exhibit 116, highly confidential and  
16 public for direct testimony, Exhibit 117 for  
17 rebuttal testimony, and Exhibit 118, both highly  
18 confidential and non-proprietary for surrebuttal  
19 testimony.

20 Do you have any corrections to any of  
21 those pieces of testimony?

22 A. I do have a reference to correct in my  
23 surrebuttal testimony. It's on page 2, line  
24 number 7. It says, "Direct testimony." That should  
25 be "Surrebuttal testimony."

1 Q. All right. Anything else, sir?

2 A. That's it.

3 Q. If I were to ask you questions contained  
4 in these three exhibits, would your answers be the  
5 same?

6 A. It would.

7 Q. And were your answers given under oath?

8 A. I don't know if they were given under oath  
9 or not.

10 Q. Do you have an affidavit attached to  
11 your --

12 A. Yes.

13 Q. All right. Thank you.

14 MR. ZOBRIST: Your Honor, I offer exhibits  
15 116HC/NP and 117, and 118HC and NP at this time.

16 JUDGE PRIDGIN: Thank you. Any  
17 objections?

18 I'm hearing none. 116HC and NP is  
19 admitted, 117 is admitted, 118HC and NP is admitted.

20 MR. ZOBRIST: Thank you. Tender the  
21 witness for cross-examination.

22 JUDGE PRIDGIN: Thank you.  
23 Cross-examination, Ameren Missouri?

24 MR. LOWRY: No questions, Your Honor.

25 JUDGE PRIDGIN: Thank you. Public

1 counsel?

2 MR. OPITZ: Just briefly.

3 CROSS-EXAMINATION

4 BY MR. OPITZ:

5 Q. Just briefly, Judge. Good afternoon,  
6 Mr. Crawford.

7 A. Hello.

8 Q. You understand that public counsel has  
9 asked the commission to direct the company to work  
10 with the parties to develop baseline heat rates. Do  
11 you understand that?

12 A. That's my understanding of the testimony.

13 Q. And in your surrebuttal testimony, you  
14 indicate that you would be willing to do so; is that  
15 right?

16 A. We would be willing to discuss heat rate  
17 issues with OPC. What we have filed in the case, we  
18 believe satisfied the requirements.

19 Q. And so if the commission directed that you  
20 work with public counsel and the staff to develop  
21 baseline heat rates for each generating unit, that's  
22 something that the company would be able to do?

23 A. Yes. If the commission ordered us to  
24 somehow do something different than what's required  
25 by the current filing requirements, yes.

1 MR. OPITZ: Okay. Thank you. That's all  
2 I have, Judge.

3 JUDGE PRIDGIN: Thank you. Cross from  
4 staff?

5 MR. BERLIN: No questions, Judge. Thank  
6 you.

7 JUDGE PRIDGIN: Any bench questions,  
8 Mr. Chairman?

9 CHAIRMAN HALL: No questions. Thank you.

10 JUDGE PRIDGIN: Thank you. Redirect?

11 FURTHER EXAMINATION

12 BY MR. ZOBRIST:

13 Q. Mr. Crawford, just to confirm what you  
14 stated, is it your position that the company has  
15 complied with all of the requirements with regard to  
16 the base level testing?

17 A. Yes.

18 MR. ZOBRIST: Nothing further, Judge.

19 JUDGE PRIDGIN: All right. Thank you.

20 Mr. Crawford, thank you very much. You  
21 may step down.

22 Tucker is the next witness.

23 MR. ZOBRIST: Company calls Jessica  
24 Tucker.

25 JESSICA TUCKER,

1 of lawful age, being first duly sworn, testifies as  
2 follows:

3 EXAMINATION

4 BY MR. ZOBRIST:

5 Q. Please state your name.

6 A. Jessica Tucker.

7 Q. And by whom are you employed?

8 A. Kansas City Power & Light.

9 Q. And what's your position there?

10 A. I am the senior manager of power system  
11 operations.

12 Q. Okay. And is this the first time you've  
13 testified before the commission?

14 A. It is.

15 Q. Did you prepare surrebuttal testimony in  
16 this case that has been marked Exhibit 148?

17 A. I did.

18 Q. Do you have any corrections to your  
19 testimony?

20 A. I do not.

21 Q. And if I were to ask you these questions,  
22 would your answers be as set forth here?

23 A. Yes.

24 Q. Okay. And the testimony was given under  
25 oath with an affidavit attached; correct?

1 A. Correct.

2 Q. Okay.

3 MR. ZOBRIST: Judge, at this time I would  
4 offer into evidence Exhibit 148.

5 JUDGE PRIDGIN: Any objections?

6 Hearing none, Exhibit 148 is admitted.

7 MR. ZOBRIST: Tender Ms. Tucker for  
8 cross-examination.

9 JUDGE PRIDGIN: Cross-exam, Ameren  
10 Missouri?

11 MR. LOWRY: No questions, Your Honor.

12 JUDGE PRIDGIN: Thank you. Public  
13 counsel?

14 MR. OPITZ: Yes, briefly, Judge. May I  
15 cross from my seat?

16 JUDGE PRIDGIN: You may.

17 CROSS-EXAMINATION

18 BY MR. OPITZ

19 Q. Do you have a copy of your testimony with  
20 you?

21 A. I do.

22 Q. At page 3, line 14 of your surrebuttal,  
23 you reference that you were a voting member of the  
24 SPP consolidated balancing authority steering  
25 committee.

1           A.    That's correct.

2           **Q.    Can you tell me what that committee does?**

3           A.    That was a committee that was formed prior  
4   to the implementation of the integrated marketplace,  
5   and it was essentially the Legacy balancing  
6   authority membership that was responsible for  
7   ensuring that the new marketplace, in essence,  
8   covered the balance authority functions.

9           **Q.    Since you indicated that you were a voting**  
10   **member, I guess, what rights or privileges did you**  
11   **have on behalf of KCPL?**

12          A.    I was a representative of KCPL's voting  
13   portion of the meeting. I was a member for KCPL.

14          **Q.    And so can you tell me what kinds of**  
15   **things you would vote on at that meeting?**

16          A.    The various balance authority functions  
17   that SPP would have to implement as part of its  
18   consolidated balance authority function in the  
19   integrated marketplace. So this committee was  
20   responsible for ensuring those types of  
21   considerations were appropriately considered and  
22   implemented. And I was only involved in the last  
23   couple of years, I would say, of the committee prior  
24   to the launch.

25          **Q.    Are you still a voting member of that**

1 **committee?**

2 A. The committee has since transitioned to  
3 the balance and authority operating committee, which  
4 is, I believe, talked about just underneath that  
5 line.

6 **Q. Okay.**

7 A. And, again, this is a committee that meets  
8 periodically just to ensure that the balance and  
9 authority functions are appropriately being  
10 performed.

11 **Q. Can you tell me if there are any voting**  
12 **members that were only there because they were a**  
13 **customer of Kansas City Power & Light?**

14 A. I do not believe so. I believe this --  
15 these committees were for the balancing authorities  
16 prior to the integrated marketplace.

17 **Q. So now that it is -- and I think you**  
18 **answered this. It's now a balancing authority**  
19 **operating committee; correct?**

20 A. That is correct.

21 **Q. And that committee has the same**  
22 **responsibilities and role as the prior named**  
23 **committee?**

24 A. The responsibilities of the committee now  
25 are simply to monitor performance of the SPP



1 balancing authority to ensure that the rules that  
2 are in place, the processing of these types of  
3 things adequately covers the membership's concerns.  
4 Members used to be the balancing authorities  
5 themselves. As I discussed in my testimony, KCPL  
6 used to be a balancing authority. With the launch  
7 of the integrated marketplace, SPP is now the  
8 balancing authority.

9 Q. So under the committee that's now  
10 organized as a balancing authority operating  
11 committee, in that committee are you aware of any  
12 voting members that are only there because they're a  
13 customer of KCPL?

14 A. I am not. I believe they are still the  
15 memberships associated with the Legacy balancing  
16 authorities.

17 Q. Okay. At page 6, line 16 of your  
18 testimony you state that, "As part of the IM, SPP  
19 conducts a marketplace procurement for energy and  
20 three types of ancillary services, regulation,  
21 regulation up and regulation down, spinning  
22 reserves, and supplemental nonspinning reserves."

23 Did I read that correctly?

24 A. I'm sorry. The three types were meant to  
25 be indicative of regulation, supplemental, and

1 spinning. Regulation up and regulation down are  
2 both regulation services. They're just in different  
3 directions.

4 **Q. So the parentheticals are within**  
5 **regulation?**

6 A. That's correct.

7 **Q. Okay. And then there's another pathological**  
8 **within supplemental --**

9 A. Correct.

10 **Q. Is there a separate SPP charge for each of**  
11 **these?**

12 A. There are charge types that relate to the  
13 various ancillary services or operating reserves.

14 **Q. So there's a different charge type for**  
15 **each one of those listed, or is that -- am I**  
16 **misunderstanding?**

17 A. I believe each charge type is associated  
18 with a different ancillary service. And  
19 Beth Herrington can better speak to the various  
20 charge types associated with these types of  
21 products.

22 **Q. Would -- are these charges incurred**  
23 **because there is purchase power the company has --**  
24 **the company incurs purchase power?**

25 A. These ancillary services or operating

1 reserves -- excuse me -- are required to be carried  
2 for the sake of ensuring that load is served. And  
3 so particularly, I use the example of regulation.  
4 Regulation is system balance from moment to moment.  
5 And so to the degree that load varies or there's  
6 some system contingency, the regulation steps in and  
7 fills the gap to ensure that that purchased power is  
8 able to get to the load.

9 **Q. So even if there was no purchased power by**  
10 **KCPL, the company would still have to -- would still**  
11 **incur these charges; is that right?**

12 **A.** The SPP tariff requires that these  
13 ancillary services be accounted for. So I don't  
14 know that I'm understanding your question correctly,  
15 but we are required and SPP is required to account  
16 for these ancillary services.

17 **Q. Okay. So if you look at page 7 of your**  
18 **testimony at line 3, there is a sentence beginning,**  
19 **"The negotiated transaction."**

20 **A.** Yes.

21 **Q. Are you there?**

22 **A.** Uh-huh.

23 **Q. You testified that the negotiated**  
24 **transaction included consideration for whatever**  
25 **ancillary services were required.**

1                   **Were charges for ancillary services**  
2                   **typically identified separately in these negotiated**  
3                   **transactions?**

4           A.     So at the time that these transactions  
5           were negotiated, we were under the -- what I'll call  
6           the old format, which was prior to the integrated  
7           marketplace, and where Kansas City Power & Light was  
8           its own balancing authority. We were, as a  
9           balancing authority, required to carry these  
10          operating reserves, the spinning, the supplemental,  
11          and the regulation, as a balancing authority to  
12          ensure that the system stayed balanced and load was  
13          served. In negotiating whatever transactions were  
14          negotiated, we had to ensure that those transactions  
15          did not prevent us from carrying those types of  
16          reserves and that they were within the bounds of  
17          what we were allowed to transact while still  
18          maintaining those operating reserves.

19          **Q.     So am I correct to say -- to understand**  
20          **from that they were separately identified within**  
21          **those past transactions -- negotiations for the**  
22          **reasons that you indicated?**

23          A.     In a purchase and sale of energy, there  
24          was not a component -- if I sold energy to Ameren,  
25          there was not a breakout of X amount of dollars for

1 this ancillary service and that ancillary service.  
2 It was either a -- what we'll call a deliver price  
3 or bus price, if they were buying at Kansas City and  
4 taking care of the transmission or if they were  
5 delivering it to them. So there was no breakout in  
6 the sense that I believe you're asking.

7 **Q. So that seemed to be focused on the past**  
8 **tense --**

9 A. Correct.

10 **Q. -- for some of those. What about in the**  
11 **present?**

12 A. In the present tense, the market does  
13 account for the ancillary services in the separate  
14 charge types that we briefly mentioned earlier.

15 **Q. Okay. Did the negotiated transactions**  
16 **that you're referring to consider administrative**  
17 **costs of developing contracts or monitoring services**  
18 **provided by -- or billing or labor to produce the**  
19 **energy?**

20 A. So the negotiated transactions at that  
21 time had to encompass everything that we felt were  
22 the trigger -- at the time felt was necessary to  
23 cover. So the cost of energy plus, you know,  
24 whatever expectation of profit they had or anything  
25 like that. They're -- again, there was no breakout

1 of the certain components of why they priced the  
2 energy the way they priced it.

3 Q. At page 9 of your testimony, line 3, you  
4 mentioned that -- as part of this sentence talking  
5 about co-optimization, you say that the cost of  
6 energy, which explicitly includes the cost of  
7 transmission congestion and losses, is inextricably  
8 joined with the cost of providing operating reserve  
9 products.

10 Does SPP have separate charges for  
11 operating reserve products?

12 A. As I briefly addressed earlier, those  
13 operating reserve products are -- they are accounted  
14 for or they do come through at various charge types.

15 Q. So can you help me understand what you  
16 mean, then, by saying that they are inextricably  
17 joined at the cost of providing those products?

18 A. Certainly. So the way the SPP integrated  
19 marketplace works is that generators make offers to  
20 the market for the various ancillary service, that  
21 each generator is capable of providing, and then the  
22 energy component as well. SPP uses a  
23 co-optimization algorithm -- or several algorithms  
24 to determine what permutation or what is the  
25 solution to provide the footprints, energy needs,

1 and operating reserve needs with the least total  
2 production cost.

3 And so through this co-optimization  
4 process, the solution interrelates the energy and  
5 operating reserve of awards. The solution to  
6 achieve the lowest possible production cost.  
7 Sometimes an operating -- excuse me -- sometimes a  
8 generator may be assigned operating reserves, other  
9 times it will be assigned energy, depending on the  
10 solution for that particular interval and time.

11 **Q. So doesn't that -- I guess I'm struggling**  
12 **to understand if they are -- these costs of**  
13 **transmission congestion losses is inextricably**  
14 **joined with the operating reserve products. Can you**  
15 **explain to me how these charge types are determined?**  
16 **I mean, if they're inextricably tied, how is it that**  
17 **they come up with a separate charge type amount?**

18 **A.** So the LPM consists of three components.  
19 The LMP is the price of energy at a particular node.  
20 So it consists of the marginal energy component, it  
21 consists of the marginal loss component -- which is  
22 the loss that I referred to -- and it refers to --  
23 or includes the marginal congestion component. And  
24 that's basically your marginal re-dispatch that's  
25 required to allow energy to flow onto the system to

1 where it needs to go.

2 And so the LPM for energy comprises those  
3 three components. And then, of course, the energy  
4 piece and the operating reserve piece are  
5 interrelated through the co-optimization process  
6 that I just spoke of.

7 **Q. At page 9, line 13, you discuss a little**  
8 **bit about spinning reserves. Can you tell me what**  
9 **costs are incurred for a spinning reserve?**

10 A. So spinning reserves are one of the  
11 operating reserves, and it's those reserves that  
12 are -- if you're a generator, that are online,  
13 synchronized, and unloaded, ready to respond to a  
14 system contingency. So, essentially, SPP, now that  
15 they're the balancing authority, we all have to hold  
16 back capacity that's unloaded to respond to a system  
17 contingency. So there's opportunity costs  
18 associated with that because power can't be sold if  
19 they have to hold it back or there's fuel or  
20 something along those lines, but it's essentially  
21 unsynchronized generation that can't be used. It  
22 has to be held back in the event of an emergency or  
23 a system contingency.

24 MR. OPITZ: That's all the cross I have.  
25 Thank you, Judge.



1 JUDGE PRIDGIN: Thank you. Mr. Opitz,  
2 thank you.

3 Cross from staff?

4 MR. BERLIN: No questions, Judge. Thank  
5 you.

6 JUDGE PRIDGIN: Bench questions?

7 Thank you. Any redirect?

8 MR. ZOBRIST: Just a couple.

9 FURTHER EXAMINATION

10 BY MR. ZOBRIST

11 Q. The committee that Mr. Opitz asked you  
12 about, that's a technical committee; is that  
13 correct?

14 A. I believe that's a fair statement.

15 Q. Does that make policies with regard to  
16 Southwest Power Pool tariffs or other orders or  
17 filings that they make?

18 A. So they consolidated a balancing authority  
19 steering committee that was performed prior to the  
20 launch. I believe it's fair to state they were part  
21 of the policymaking process. At this point, it's  
22 the balancing authority operating committee, which  
23 just provides input to the SPP on behalf of its  
24 members relative to the balancing authority  
25 functions.

1 Q. Is there a stakeholder process at  
2 Southwest Power Pool?

3 A. There is.

4 Q. And are there representatives of consumers  
5 and other interest groups, environmentalists, and so  
6 forth that are involved in that stakeholder process?

7 A. Yes. There are a number of different  
8 groups that employ different folks that attend based  
9 on their interested, and based on the  
10 appropriateness of them attending.

11 Q. And are you familiar with the regional  
12 state committee that operates as part of the SPP?

13 A. I am vaguely familiar with it.

14 Q. Do you recognize that the regional state  
15 committee is members of this commission and other  
16 state regulatory commissions and other regulatory  
17 authorities as part of that stakeholder process?

18 A. That is my understanding.

19 Q. Are these meetings open to the public  
20 where these consumer and environmentalist and other  
21 governmental officials can be present?

22 A. Could you clarify which meetings you're  
23 referring to?

24 Q. The meetings where these representatives  
25 of the stakeholder groups form. Are they opened to

1     **the public?**

2           A.     Some of them are and some of them are  
3     closed.

4           **Q.     And the closed ones deal with technical**  
5     **cyber security, SIPS-type information?**

6           A.     I believe they also address some nonpublic  
7     transmission-type information, which, of course,  
8     they have to protect.

9           **Q.     Mr. Opitz asked you about purchase power.**  
10    **How often -- how frequently does KCPL purchase power**  
11    **from the SPP integrated marketplace?**

12          A.     24 hours a day, seven days a week.

13           MR. ZOBRIST:   That's all I have, Judge.  
14     Thank you.

15           JUDGE PRIDGIN:   Mr. Zobrist, thank you.

16           Ms. Tucker, thank you very much.   You may  
17     step down.

18           I believe the next witness is Mr. Blunk.

19           MR. ZOBRIST:   That is correct, Judge.

20           JUDGE PRIDGIN:   Come forward, sir.

21                               EDWARD BLUNK,

22     of lawful age, being first duly sworn, testifies as  
23     follows:

24           MR. ZOBRIST:   Thank you, Judge.

25                               EXAMINATION

1 BY MR. ZOBRIST

2 Q. Please state your name.

3 A. My name is William Edward Blunk.

4 Q. And where do you work, Mr. Blunk?

5 A. Kansas City Power & Light.

6 Q. What's your position there?

7 A. Generation planning manager.

8 Q. Have you prepared direct testimony,  
9 rebuttal testimony, and surrebuttal testimony in  
10 this case?

11 A. Yes.

12 MR. ZOBRIST: And for the record, the  
13 direct testimony, which is marked as Exhibit 103,  
14 consists of both highly confidential and  
15 nonproprietary versions. The rebuttal testimony is  
16 marked as Exhibit 104, and the surrebuttal testimony  
17 is marked as Exhibit 105.

18 Q. (By Mr. Zobrist) Mr. Blunk, did you  
19 prepare these pieces of testimony?

20 A. Yes.

21 Q. Okay. And if I were to ask you these  
22 questions, would your answers be as set forth in  
23 these exhibits?

24 A. Yes.

25 Q. Do you have any corrections to any of

1     **these pieces of testimony?**

2             A.    No.

3             **Q.    Okay.  And did you affirm the truthfulness**  
4     **of the testimony contained in these three exhibits?**

5             A.    Yes.

6             **Q.    Okay.**

7             MR. ZOBRIST:  Judge, I offer Exhibits 103  
8     HC/NP, Exhibit 104, and Exhibit 105 into evidence.

9             JUDGE PRIDGIN:  Mr. Zobrist, thank you.  
10    Any objections?

11            Hearing none.  103HC and NP is admitted,  
12    104 is admitted, and 105 is admitted.

13            MR. ZOBRIST:  Thank you, Judge.  And I  
14    tender Mr. Blunk for cross-examination.

15            JUDGE PRIDGIN:  Thank you.

16            Cross-examination, Ameren Missouri?

17            MR. LOWRY:  No questions, Your Honor.

18            JUDGE PRIDGIN:  Public counsel?

19            MR. OPITZ:  Yes, Judge.  Thank you.

20                                CROSS-EXAMINATION

21    BY MR. OPITZ:

22            **Q.    Mr. Blunk, since it's fresh on my mind**  
23     **because the last witness mentioned it, how do you**  
24     **define "purchase power"?**

25            A.    I define purchase power as all power that

1 is purchased, which would basically include buying  
2 power from SPP -- all the timings of our load.

3 Q. And is that how purchase power is defined  
4 in the company's current FAC?

5 A. Purchase power in the FAC is defined a  
6 little differently because of the commission order.

7 Q. When you reference or use the term  
8 purchase power, are you using it as the commission  
9 defines it, or are you using it how the company  
10 defines it outside of the FAC?

11 A. Probably depends on the context.

12 Q. Okay. That's fair. Thank you.

13 Mr. Blunk, public counsel provided a  
14 number of data requests to the company, and you  
15 provided some answers; is that correct?

16 A. Yes.

17 MR. OPITZ: Judge, may I approach?

18 JUDGE PRIDGIN: You may.

19 MR. OPITZ: I'd like this to be marked as  
20 Exhibit 320.

21 ( Exhibit No. 320 was marked for  
22 identification.)

23 JUDGE PRIDGIN: 320 is being marked.

24 Q. (By Mr. Opitz) Mr. Blunk, do you  
25 recognize -- I've handed you a document. Can you

1 tell me what that is?

2 A. The company's response to OPC's  
3 Data Request No. 8004.

4 Q. And can you look at -- below the  
5 responses, there is a line "answered by," and you  
6 provided the answer to this request; is that  
7 correct?

8 A. Yes.

9 Q. In this request, public counsel asked for  
10 an explanation of non-internal labor and how it  
11 differs from internal labor, and why KCPL believes  
12 non-internal labor costs should be included in its  
13 FAC and internal labor costs should not.

14 Part of the response is that the phrase  
15 "non-internal labor" does not refer to labor, per  
16 se. Can you explain to me what you mean by that?  
17 What is -- I guess, what is included in non-internal  
18 labor?

19 A. Non-internal labor would be a variety of  
20 things. The context of this -- do you have the  
21 complete context of this that came out? At the time  
22 I completed the -- I don't have the tariff.

23 Q. I don't believe I have it with me.  
24 It's -- the response continues. You have a Q&A  
25 listed in there.

1           A.    Basically, I'm reiterating Mr. Rush's  
2    direct testimony on the Q&A where he was asked what  
3    was non-internal labor fuel handling expenses, and  
4    he goes on to explain -- and I add the emphasis to  
5    say it's excluding internal labor -- but there were  
6    a variety of other costs. This was in the context  
7    of the fuel handling expenses. And so we were  
8    describing that it was the fuel handling expenses  
9    excluding KCPL's labor.

10           **Q.    So -- but it also appears to include**  
11    **things that aren't even labor at all; is that**  
12    **correct?**

13           A.    Correct. Fuel handling has things that  
14    are not labor. That's what we were trying to  
15    distinguish.

16           **Q.    Okay. And those are requested by KCPL to**  
17    **be recovered through the FAC?**

18           A.    Yes.

19           MR. OPITZ: Judge, I'd ask that  
20    Exhibit 320 be admitted into evidence.

21           JUDGE PRIDGIN: 320 has been offered. Any  
22    objections?

23           Hearing none, 320 is admitted.

24           MR. OPITZ: May I approach again, Your  
25    Honor? I'd like to have this marked as 321.



1           ( Exhibit No. 321 was marked for  
2     identification.)

3           **Q. (By Mr. Opitz) Mr. Blunk, I've handed you**  
4     **a document. Can you tell me what this document is?**

5           A. This is the company's response to OPC's  
6     Data Request No. 8013.

7           **Q. And this response was provided by you; is**  
8     **that correct?**

9           A. Yes.

10          **Q. So in this, public counsel was inquiring**  
11     **about why sodium bicarbonate and Trona were added to**  
12     **the FAC cost included in Subaccount 501300. Within**  
13     **your answer -- in the last sentence you say, "They**  
14     **are included in FAC costs because we do not want the**  
15     **FAC to limit our ability to manage the emission of**  
16     **regulated pollutants."**

17                 **Is it -- am I understanding from that**  
18     **response that by including -- by not including these**  
19     **in the FAC, it's your position that it would limit**  
20     **the company's ability to manage its emission?**

21          A. I think one needs to put this in context.  
22     And there's a lot of context as we deal with  
23     particular items, whether they're in or out of the  
24     FAC. And I have another data request, which I  
25     presume you're going to ask me about. We might as

1 well talk about both at the same time as 8015.

2 Q. I've got two more, and I'll just get them  
3 over with here.

4 A. I can respond to your question by dealing  
5 with 8015, if that would be best.

6 Q. Certainly.

7 (Exhibit Nos. 322 and 323 were marked for  
8 identification.)

9 Q. (By Mr. Opitz) Mr. Blunk, I handed you  
10 what I have had marked as 322 and 323. Can you tell  
11 me if you recognize those documents.

12 MR. ZOBRIST: Counsel, could you identify  
13 each of those for the record for us, please?

14 MR. OPITZ: 322 is DR8013, I believe --

15 MR. ZOBRIST: That's what I --

16 MR. OPITZ: That may be duplicative.

17 THE WITNESS: Exhibit 322 is OPC  
18 Data Request 8013.1.

19 MR. OPITZ: 8013.1.

20 MR. ZOBRIST: I don't have a copy of that.

21 MR. BERLIN: I don't have that either.

22 MR. ZOBRIST: Oh, I see below.

23 MR. OPITZ: I think that's referenced on  
24 the bottom where it says "attachment."

25 MR. ZOBRIST: That's 322?

1           MR. OPITZ: Yes, sir. And 323 is  
2 Question 8015.

3           Q. (By Mr. Opitz) And, Mr. Blunk, for  
4 Exhibit 322, you provided the answer?

5           A. Yes.

6           Q. And you also provided the answer for 323;  
7 is that correct?

8           A. Yes.

9           Q. So I had asked you whether including or  
10 not including -- whether if you did not include a  
11 cost in the FAC, it would impact the company's  
12 ability to manage that cost. And I believe you  
13 asked that there would be additional context that  
14 you would like to have before you answer.

15          A. Yes. And thank you for letting me speak  
16 to all three at once.

17                   This series of data requests essentially  
18 came out of a meeting that we had with the Office of  
19 Public Counsel, and even that meeting needed to have  
20 some measure of context. If you'll back up, when  
21 the fuel clause was first implemented in the State  
22 of Missouri -- and Aquila was the first one to have  
23 a fuel clause in that case, ER-2007-0004 I think it  
24 was, you had a very simple definition of fuel. You  
25 had essentially three simple statements for what was

1 included in the fuel clause. It said all variable  
2 costs in Account 501 and 547, you had all purchase  
3 power in Account 555, and all emissions costs in  
4 Account 509. And that's where we started.

5 From that point in time, we've gone now  
6 where the company's tariff is basically taking four  
7 pages to reiterate those three sentences. And those  
8 four pages delineate in great detail each individual  
9 item that goes through those accounts. And with  
10 that, the context of this is, if we had a fuel  
11 clause and if one of those items was excluded from  
12 the fuel clause, the company is left with  
13 interpreting and understanding what a hypothetical  
14 order would say. So, again, it's a hypothetical  
15 order. We get an order that says, Take your --  
16 Trona. It's not allowed in the fuel clause. What  
17 do we do?

18 Well, one, we don't include it in the fuel  
19 clause, that's for sure. But between reading  
20 between the lines of the order, unless it says  
21 something else, we're left with the question of, is  
22 there a policy position where the commission in its  
23 hypothetical scenario is saying that Trona is bad,  
24 and, therefore, we shouldn't use it? So we're  
25 trying to look at what do we do and how do we

1 interpret that? So it's in that context of where  
2 this fuel clause is morphed from three nice, simple  
3 sentences into an exhausted list of excruciating  
4 detail.

5 Q. So do you agree with me that there are a  
6 multitude of costs that are -- that the company  
7 incurs that are not included in the FACs?

8 A. Yes.

9 Q. And simply because those costs are not  
10 included in the FAC, that doesn't mean that the  
11 commission has a policy that those costs shouldn't  
12 be incurred. Would you agree with that?

13 A. That's true, too.

14 Q. But for fuel handling costs -- let's go to  
15 your example. How would you characterize Trona?

16 A. Trona would be a fuel additive. It's --  
17 it would be used as a -- to help control -- well,  
18 primarily, it would be helpful to use to control  
19 mercury emissions.

20 Q. So even though you agreed that there are a  
21 number of costs that aren't included in the FAC that  
22 you don't view as a commission policy, that you  
23 shouldn't incur those costs. If there's a fuel  
24 additive that's not included in the FAC, you do  
25 believe that that's a commission statement of policy

1 **that it's an appropriate cost to incur?**

2 A. Well, currently, our tariff says we  
3 include all of those fuel additives. And it even  
4 has in there the -- I don't have the tariff in front  
5 of me, but, in essence, it has the language. It  
6 says, Anything that performs a similar function.

7 And so now we're looking at the scenario  
8 of "Hold it. I had one of these in the fuel clause  
9 and it's now being ordered out." And if there's no  
10 explanation in that hypothetical order, I've got to  
11 figure out what has the commission really told me.

12 **Q. Would you agree that the fuel adjustment**  
13 **clause permits the company to recover cost faster if**  
14 **there's changes in it?**

15 A. Yes.

16 **Q. Have you considered that by excluding a**  
17 **particular component, maybe the policy is that those**  
18 **costs shouldn't necessarily require special**  
19 **treatment for cost recovery?**

20 A. Well, this is a component that's already  
21 in the fuel cost. So we're taking something out,  
22 and it is required for burning coal. It's basically  
23 an additive, if you will. It's something we have to  
24 mix -- we don't mix it with it, but it's part of the  
25 combustion process, so ...

1           Q.    So you wouldn't -- do you believe that the  
2   commission could say that is an appropriate cost to  
3   use because we don't want mercury emissions, but we  
4   don't think that it should be recovered through  
5   the -- changes in that cost should be recovered  
6   through the FAC?

7           A.    In that context, yes, they could say that.  
8   But the scenario I was working with was, I didn't  
9   have that in my hypothetical order, that additional  
10   information to say it's not in the FAC, but it is in  
11   the revenue requirement. Because they do not -- in  
12   the revenue requirement, what's left over, you don't  
13   have this long list of five gazillion items.

14          Q.    So it sounds like when you look at what's  
15   included in the FAC, you're looking for direction on  
16   how to purchase, cost, or manage certain fuel  
17   additive practices?

18          A.    To say I'm looking for direction, I think,  
19   is going beyond what I'm trying to say. What I'm  
20   trying to say is that if there's a change, then we  
21   need to understand why there's a change. And so  
22   this is a cost that we recognize as required to  
23   support burning coal. And if that particular item  
24   is taken out -- and if my hypothetical order said  
25   that was taken out, and it was explicitly stated

1 it's not in the fuel clause -- but it is in the  
2 revenue requirement -- if it's an explicit like  
3 that, we're not into double recovery. We're looking  
4 at -- in this hypothetical order, it's taken out and  
5 there's no extra language to say it was important to  
6 the revenue requirement. It disappears.

7 **Q. Is there any reason that you believe that**  
8 **those are things that the commission has to**  
9 **explicitly state?**

10 A. No.

11 MR. OPITZ: Judge, can I offer those last  
12 two exhibits I put forward, 322 and 323?

13 JUDGE PRIDGIN: 322 and 323 are offered.  
14 Any objections?

15 322 and 323 are admitted.

16 **Q. (By Mr. Opitz) Mr. Blunk, you have your**  
17 **testimony with you; is that correct?**

18 A. Yes.

19 **Q. Can you look at your surrebuttal,**  
20 **please -- or your rebuttal, I should say, at page**  
21 **16. And on that page, you suggest that Ms. Mantle's**  
22 **recommendations are micromanaging the company's**  
23 **operations, correct?**

24 A. Yes. And again, it's in this context I  
25 was describing.



1 Q. So is it your testimony that if a party  
2 besides the company offers a recommendation about  
3 the cost to include an FAC, that constitutes  
4 micromanaging?

5 A. The particular example Ms. Mantle gave was  
6 related to a specific item inside the FAC. So  
7 micromanaging by a design change into a clause, no,  
8 that's not micromanaging, but taking a specific item  
9 out of the fuel -- I see that as micromanaging.

10 Q. So -- and please correct me if I'm wrong.  
11 I think the specific item you're referring to would  
12 be a fuel additive; right?

13 A. Yes.

14 Q. And so when you say "specific item would  
15 be micromanaging," is it micromanaging to recommend  
16 removing a particular additive?

17 A. That's what I was referring to.

18 Q. So you -- would you agree that it's not  
19 micromanaging to say all fuel additives should be  
20 removed?

21 A. No. It would not be micromanaging to  
22 remove all fuel additives.

23 Q. Thank you.

24 On the same page, page 16, down on  
25 line 19, you include in your testimony the

1 statement, "That given the very clear incentive to  
2 minimize all costs retained in fixed rates," and  
3 that's part of the sentence.

4 Am I correct to understand that you agree  
5 that including costs and fixed rates is the best  
6 incentive to minimize costs?

7 A. I did not say that was the best incentive.

8 Q. Do you agree that including costs in fixed  
9 rates is a very clear incentive for the utility to  
10 minimize costs?

11 A. Yes.

12 Q. Is it your understanding that when a cost  
13 is included in the FAC, it's not included in fixed  
14 rates?

15 A. If it's spelled out in the FAC, it is not  
16 in the fixed rates.

17 Q. Would it be included in the base factor  
18 determination for the FAC?

19 A. Yes.

20 Q. And can you explain to me what you believe  
21 the difference is between the base factor of the FAC  
22 and rates -- regular rates for the company?

23 A. Sometimes I get these terms just a little  
24 bit mixed up on base rates. I think Ms. Mantle is  
25 better at using the revenue requirement than I am,

1 but I see that as the major differences in the  
2 revenue requirement present to the fuel clause. In  
3 the fuel clause you have the two aspects of the base  
4 fuel factor, and then the change above that.

5 Q. In -- back to page 16. In that same  
6 sentence you continue after saying, "Given the very  
7 clear incentive to minimize all costs retained in  
8 fixed rates, if the utility were to follow  
9 Ms. Mantle's incentive to the next logical step, it  
10 could avoid using PAC or Trona by using a more  
11 expensive fuel, such as natural gas or purchasing  
12 higher priced power, neither of which would require  
13 additives, such as PAC, to control for mercury  
14 emitted from coal combustion."

15 Is it your testimony that the company  
16 would -- in order to avoid using a higher cost -- in  
17 order to avoid using a lower cost component  
18 additive, decide to use a more expensive fuel?

19 A. My testimony, again, was -- and sometimes  
20 getting context in testimony might be a little  
21 difficult, but it, again, comes out of the context I  
22 was describing before of where we've gotten into a  
23 point of where each individual item is deleted. And  
24 so we're talking about an example of where a  
25 specific item was taken out, and that specific item

1 required to support coal combustion. And now I'm  
2 told I can't recover this cost because that's not in  
3 my FAC, and it's in this hypothetical order. It's  
4 not spelled out that it's a requirement. What has  
5 the commission told me? Have they told me that it's  
6 simply bad for the State of Missouri to have Trona  
7 being consumed. That's the assumption I'm working  
8 on. And if that's the case, then the next step is  
9 you roll up to whatever the next fuel is.

10 **Q. Do you believe doing that would be a**  
11 **prudent decision by the company?**

12 A. I -- setting this in the context of trying  
13 to understand a commission order, and I think it's  
14 all prudent for the company to always follow the  
15 order of the commission.

16 **Q. So help me understand that. If the**  
17 **commission issued an order removing a cost from the**  
18 **FAC, instead putting that cost into the revenue**  
19 **requirement to be recovered in regular rates, is it**  
20 **your testimony that it wouldn't be improper for the**  
21 **company to use a more expensive fuel for the purpose**  
22 **of recovering it through the FAC?**

23 A. Your hypothetical order is a little  
24 different than mine, in that your hypothetical is  
25 that they put in the revenue requirement. I assume

1 that means the word -- whatever that item was that  
2 came out of the fuel clause is now showing up  
3 somewhere in the order saying this is a component of  
4 the revenue requirement. As such, I now know I have  
5 recovery of that, and I don't have some other  
6 expression of intent to not use that material.

7 **Q. So would you agree that your hypothetical**  
8 **presumes that the FAC is about managing the cost of**  
9 **fuel and purchase power, rather than to recover**  
10 **those costs?**

11 A. I'm not sure I'm tracking your question.  
12 I'll give you an answer.

13 I look at the FAC as a mechanism to help  
14 the company and the customer find the lowest cost  
15 arrangement for fuel cost being passed to the  
16 customer. And the most efficient way to do that --  
17 and there are lots of moving pieces that go into  
18 that equation. And the more of those moving pieces  
19 that are really part of that that we can include in  
20 that equation, at the end of the day, they lower the  
21 total cost to the customer.

22 **Q. So I think I understand your hypothetical**  
23 **a little better. Is it your contention that cost**  
24 **recovery only occurs if you recover items in the**  
25 **FAC?**

1 A. No.

2 Q. And is it your understanding that costs,  
3 which are included in the FAC, are not included in  
4 the revenue requirement?

5 A. Correct.

6 Q. There was some testimony -- not  
7 testimony -- some discussion during the opening  
8 statements about prudence audits. Are you aware  
9 that prudence audits are conducted related to the  
10 FAC?

11 A. Yes.

12 Q. Do you agree with the proposition that  
13 prudence audits are of a limited value?

14 A. I'm not an auditor. I'm not an  
15 accountant.

16 Q. Do you believe that prudence audits -- let  
17 me step back. You've never conducted a prudence  
18 audit on the FAC?

19 A. I have been on the receiving -- or the --  
20 I've been audited, but I've never personally  
21 conducted audits.

22 Q. Now, Kansas City Power & Light has a  
23 relationship with KCPL Greater Missouri Operations;  
24 is that correct?

25 A. Yes.

1           Q.    And GMO, I'll call them, they also have an  
2   **FAC.**

3           A.    Yes.

4           Q.    Are you aware of that?

5           A.    Yes.

6           Q.    And are you involved with managing that  
7   **FAC?**

8           A.    To the same extent that I work with the  
9   KCPL one, yes.

10          Q.    Well, can you tell me what the extent is  
11   **you work with the KCPL FAC?**

12          A.    My role in this is more of developing  
13   strategy and risk management.  And risk management  
14   is a part of fuel procurement and management  
15   strategy.  The FAC requirements require that when we  
16   asked for an FAC, we have to describe our risk  
17   mitigation.  And so I get brought in that way.  I  
18   also get brought in because I have a general  
19   understanding of the various fuel costs.

20          Q.    Have you ever been on the receiving end of  
21   **an FAC prudence audit where the staff or public**  
22   **counsel has identified an item of imprudence?**

23          A.    I have been on the receiving end of  
24   defending prudence multiple times.  We have been  
25   successful in defending the prudence in those cases.

1 Q. Were those in litigated cases?

2 A. We had -- well, not long ago we had a  
3 prudence challenge with regards to our hedging  
4 program.

5 Q. Okay. Do you know if the -- how long have  
6 you been working for KCPL?

7 A. Thirty-five years.

8 Q. So -- and you've appeared before the  
9 commission on numerous occasions?

10 A. Yes.

11 Q. Do you follow the orders of the commission  
12 for KCPL and GMO pretty closely?

13 A. Well, I wouldn't say closely. I follow  
14 the parts that are related to the things I'm  
15 interested in.

16 Q. By "follow," I don't mean to imply that  
17 you're not adhering to them; I mean reading them and  
18 keeping up with them.

19 A. Yes.

20 Q. Okay. Did you participate or read any  
21 commission orders where crossroad costs were  
22 prohibited from being passed through the FAC?

23 A. Yes.

24 Q. And you agree that the commission had  
25 issued orders prohibiting crossroads transmission



1 costs from being passed through the FAC?

2 A. Yes.

3 Q. And after that order, are you aware of any  
4 prudence audits that were conducted of GMO's FAC?

5 A. There would have been. I just don't  
6 remember.

7 Q. And in any of those cases were you made  
8 aware of a problem related to the crossroads  
9 transmission as a result of the prudence audit?

10 A. That part of the prudence audit, I'm not  
11 very close to. I learned about it afterwards.

12 Q. When you say you learned about it, what do  
13 you mean "it"?

14 A. I learned about the -- the crossroads  
15 transmission, the company properly accounted for  
16 crossroads transmission by putting it in -- probably  
17 Account 565. I'm not sure, but was it properly  
18 accounted for. And the "it" is referring to --  
19 there was an exception to our regular accounting  
20 requirements, meaning the crossroads transmission  
21 was an unusual situation, so it had to be treated  
22 differently, and it was treated different.

23 And that was the "it," was that there was  
24 a mistake -- that's my understanding -- a mistake in  
25 making that exception in pulling that cost out of

1 our transmission account.

2 Q. And so as a result, there was a mistake  
3 that passed the crossroads transmission charges  
4 through GMO's FAC?

5 A. That's my understanding, but ...

6 Q. And that mistake was not revealed in a  
7 prudence audit, was it?

8 A. I don't think so.

9 Q. In fact, that mistake was of an ongoing  
10 nature that occurred over a number of months, if not  
11 years; is that correct?

12 A. That, I don't know how long.

13 JUDGE PRIDGIN: We've been going well over  
14 two hours. I'm looking for a natural break, and I'm  
15 losing hope.

16 MR. OPITZ: I apologize.

17 JUDGE PRIDGIN: You don't need to  
18 apologize; I just don't want to run my court  
19 reporter to the ground.

20 MR. OPITZ: I think two or three more  
21 questions.

22 JUDGE PRIDGIN: Very good. Thank you.

23 Q. (By Mr. Opitz) And so do you have any  
24 dollar value for that mistake, as you referred to  
25 it?

1           A.    No, I don't.

2           **Q.    Would you agree that that is a significant**  
3 **error?**

4           A.    By "significant," what do you mean?

5           **Q.    An error that should have been discovered.**

6           A.    Well, like I said, to my understanding, it  
7 was properly accounted for. It was recorded in the  
8 correct accounts, which is where we would normally  
9 catch anything out of whack. It's just this was a  
10 deviation from our normal accounting. I don't work  
11 with that close enough to know how easy it would  
12 have been to spot that or not. I do not know.

13          **Q.    And so you would agree that there are**  
14 **deviations or mistakes that go undiscovered in the**  
15 **course of a prudence audit?**

16          A.    I do not know.

17               MR. OPITZ: That's all of the questions I  
18 have, Judge.

19               JUDGE PRIDGIN: All right. Thank you.  
20 Let's take a break. It's roughly 3:15. We will be  
21 back on the record at 3:30. Thank you very much.  
22 We are off the record.

23                               (A recess was taken.)

24               JUDGE PRIDGIN: All right. Thank you. We  
25 are back on record. Mr. Blunk is still on the

1 stand. I think as we broke, we left it with  
2 public counsel's finished cross, and we are now at  
3 cross for staff.

4 Mr. Berlin, any cross?

5 MR. BERLIN: I have no questions. Thank  
6 you, Judge.

7 JUDGE PRIDGIN: Thank you. Any bench  
8 questions?

9 CHAIRMAN HALL: Yeah.

10 JUDGE PRIDGIN: Mr. Chairman, when you're  
11 ready.

12 CHAIRMAN HALL: Good afternoon.

13 THE WITNESS: Good afternoon.

14 CHAIRMAN HALL: I'm looking at your direct  
15 testimony where you're describing your  
16 responsibilities, and I'm trying to understand. Are  
17 you the individual who makes the decision to procure  
18 fuel, or are you the one who is providing direction  
19 to the individual who is purchasing the fuel?

20 THE WITNESS: I provide more in the form  
21 of direction. I focus on developing strategy.

22 CHAIRMAN HALL: So what is your  
23 direction -- well, scratch that.

24 Who is the individual who is responsible  
25 for procuring the fuel?

1 THE WITNESS: Well, the manager of fuel  
2 would be Abby Herl, and then the director over that  
3 is Eric Peterson.

4 CHAIRMAN HALL: So what direction do you  
5 give to Mr. Peterson as to procuring fuel at the  
6 lowest possible price?

7 THE WITNESS: My form of direction would  
8 be developing strategy in how we approach the  
9 market, and then how we manage risks related to the  
10 market.

11 CHAIRMAN HALL: That was a horrible  
12 question because I think it begged the question.

13 I assume that Kansas City Power & Light,  
14 when it is procuring fuel, is trying to do so at the  
15 lowest possible price; is that accurate?

16 THE WITNESS: It is extended just a little  
17 bit because sometimes there's cost beyond the price  
18 of the coal, so we're pursuing the lowest total  
19 effective cost. There might be things in there --  
20 for example, if we buy one quality of fuel, like an  
21 8800-btu coal versus and 8400, the 88 price might be  
22 higher, but when you get it delivered, the delivered  
23 cost be would lower.

24 CHAIRMAN HALL: So what is your motivation  
25 to seek the lowest possible costs?

1 THE WITNESS: At the end of the day it's  
2 what is best for our customer, because --

3 CHAIRMAN HALL: I understand that in the  
4 abstract, and there may not be a better answer than  
5 that, but is there -- is there some other mechanism  
6 that provides an incentive for you or for the  
7 company to procure fuel at the lowest possible  
8 price?

9 THE WITNESS: Well, for me personally,  
10 I've had many years where I've been able to explain  
11 to friends and neighbors that I have pursued the  
12 lowest cost for them and I've helped them get the  
13 lowest cost.

14 CHAIRMAN HALL: Beyond that?

15 THE WITNESS: Beyond that, the value of  
16 the company being able to have a lowest cost  
17 product, and then the -- you have the 5 percent  
18 sharing mechanism.

19 CHAIRMAN HALL: So the 5 percent sharing  
20 mechanism does provide an incentive to purchase fuel  
21 at the lowest possible price?

22 THE WITNESS: We are pursuing the lowest  
23 possible fuel cost we can, and it does give some  
24 incentive back to that.

25 CHAIRMAN HALL: So would there be more of

1 an incentive if it was 10 percent?

2 THE WITNESS: Well, mathematically, yes.

3 CHAIRMAN HALL: Is there any kind of  
4 salary incentive in place for you or anyone in the  
5 company in terms of purchasing fuel at the lowest  
6 possible price?

7 THE WITNESS: As a direct incentive, there  
8 is not a defined program. Over the course of the  
9 time that I've worked for the company, when we have  
10 done things that have achieved a significant  
11 contract that resulted in the big price decrease, I  
12 have personally received several ad hoc bonuses.

13 CHAIRMAN HALL: And that -- those ad hoc  
14 bonuses serve to further incentivize you to seek the  
15 lowest possible price for the fuel needed?

16 THE WITNESS: Yes.

17 CHAIRMAN HALL: Okay. I understand how --  
18 well, I understand the arguments as to why hedging  
19 could lower the ultimate price paid for fuel.  
20 Beyond hedging, what do you do to try to get to the  
21 lowest possible price?

22 THE WITNESS: Well, there are a couple of  
23 things involved. One of it is preparation, and it's  
24 got to be opportunity. We don't control what  
25 happens in the market, but I'll give you an example.

1 Right now we have started plans for a rail contract  
2 that expires in December 2018. And I know it sounds  
3 like it's a long ways away, but as we're doing that,  
4 we have changed the quantity of coal we have on hand  
5 so we have greater flexibility when we approach the  
6 end of that contract to try and create some leverage  
7 with the railroads -- try and create an opportunity  
8 where maybe we can set something up where they have  
9 greater incentive to lower the price for us.

10 Other things we do is we look at what do  
11 we think is going to happen in the market.  
12 Sometimes you can identify that maybe there is a  
13 trend in a market or certain cycles in a market. I  
14 hate to say we time the market. We're looking at  
15 more of the fundamentals and saying we recognize  
16 that the producers have a lot of surplus capacity.  
17 So somewhere they've got to come up -- that's what  
18 we're trying to do.

19 CHAIRMAN HALL: From my perspective, the  
20 FAC should not play a role in your -- in the  
21 company's procurement decisions. The company should  
22 be purchasing the fuel it needs at the lowest  
23 possible price with or without an FAC. Would you  
24 agree to that?

25 THE WITNESS: Yes.



1 CHAIRMAN HALL: And so day-to-day  
2 procurement decisions, are they influenced by the  
3 existence of an FAC or the lack thereof?

4 THE WITNESS: No.

5 CHAIRMAN HALL: So from your perspective,  
6 if the sharing mechanism was the current 95.5 going  
7 forward, or if it was changed to 90/10 or 100/0; it  
8 wouldn't change what you do or what the company  
9 would do?

10 THE WITNESS: That is correct.

11 CHAIRMAN HALL: I have no further  
12 questions. Thank you.

13 JUDGE PRIDGIN: Mr. Chairman, thank you.  
14 Any further bench questions?

15 Thank you. Any recross based on the  
16 questions? Mr. Lowry?

17 MR. LOWRY: No questions.

18 JUDGE PRIDGIN: Mr. Optiz?

19 MR. OPITZ: No, thank you, Judge.

20 JUDGE PRIDGIN: Mr. Berlin?

21 MR. BERLIN: No questions.

22 JUDGE PRIDGIN: Any redirect?

23 MR. ZOBRIST: I just have one or two.

24

25

1 FURTHER EXAMINATION

2 BY MR. ZOBRIST:

3 Q. Mr. Optiz asked you about fuel additives.  
4 Do you remember that?

5 A. Yes.

6 Q. Are fuel additives currently included in  
7 the fuel adjustment clause?

8 A. Yes.

9 Q. So they flow through and can be recovered  
10 in the fuel adjustment clause as it currently  
11 stands?

12 A. Yes.

13 Q. With regard to the discovery of the  
14 crossroads transmission costs that were not  
15 appropriately -- or that were inappropriately  
16 charged to customers, did a refund occur of that  
17 amount?

18 A. That is my understanding, but  
19 Beth Herrington was very much involved in all of  
20 that process.

21 Q. Was there a complaint filed by any party  
22 with regard to that error?

23 A. Not that I know of.

24 MR. ZOBRIST: Nothing further, Judge.

25 JUDGE PRIDGIN: All right. Thank you.

1           Mr. Blunk, thank you very much. You may  
2 step down.

3           The next witness is Ms. Herrington?

4           MR. ZOBRIST: Ms. Herrington.

5           CHAIRMAN HALL: I have just have a quick  
6 question. If I wanted -- and this is to counsel,  
7 not -- if I wanted to see line item by line item  
8 what is included in the FAC, would it be an FAC  
9 prudence audit that would be the best source for  
10 that, or is it some other document?

11           MR. ZOBRIST: I can't answer that  
12 question, but perhaps Mr. Rush or one of my  
13 witnesses can. I think Ms. Herrington can, so ...

14           MR. LOWRY: I can answer it for Ameren,  
15 Your Honor, but --

16           MR. OPITZ: Mr. Chairman, if I understand  
17 the question you're inquiring is, if there's  
18 anywhere in the record so far that can point you to  
19 what's in KCPL's current FAC? I believe that is --  
20 well, she hasn't testified, but I believe that's in  
21 a schedule to Ms. Mantle's direct testimony.

22           CHAIRMAN HALL: Okay. And is that a  
23 prudence audit? It's a different document?

24           MR. OPITZ: It's my understanding it was  
25 developed for purposes of this case.

1           CHAIRMAN HALL: In terms of anything that  
2 is filed routinely with the commission, is there  
3 such a document that would contain all of the  
4 line items in an FAC? If the answer is no, that's  
5 fine.

6           MR. OPITZ: Not that I'm aware of.

7           MR. BERLIN: I would only add that what is  
8 allowable is spelled out in the tariff.

9           CHAIRMAN HALL: I'm sorry?

10          MR. BERLIN: What is allowable --

11          CHAIRMAN HALL: I was interested in dollar  
12 amounts.

13          MR. ZOBRIST: I think Ms. Herrington may  
14 be able to respond in more detail because she is an  
15 accountant and can elaborate further, so ...

16          CHAIRMAN HALL: Okay. Thank you.

17          JUDGE PRIDGIN: And before Ms. Herrington  
18 is sworn in, I had a couple of people ask me -- I do  
19 plan on trying to break this evening around five  
20 o'clock. Again, I'm going to look for a natural  
21 break. I'm not going to cut somebody off at five  
22 o'clock in the middle of a syllable. I'm going to  
23 look for a natural break and hopefully finish a  
24 witness. I kind of hate to leave a witness hanging,  
25 you know, right at the end of the day, but we'll

1 kind of see how things are going around 4:30 and go  
2 from there.

3 MR. ZOBRIST: Judge, in terms of planning,  
4 Ms. Herrington is my next witness. The next witness  
5 will be Mr. Frerking who missed being listed, I  
6 think, on one of the lists as far as today, but I've  
7 consulted with counsel. He's -- they're fine with  
8 Mr. Frerking following Ms. Herrington, and then  
9 Mr. Rush. And then that's the end of the company's  
10 witnesses.

11 JUDGE PRIDGIN: All right. Thank you.

12 ELIZABETH HERRINGTON,  
13 of lawful age, being first duly sworn, testifies as  
14 follows:

15 EXAMINATION

16 BY MR. ZOBRIST:

17 Q. Please state your name.

18 A. Elizabeth Herrington.

19 Q. And where are you employed?

20 A. Kansas City Power & Light.

21 Q. And what's your position there?

22 A. I am the director of the energy and  
23 revenue accounting.

24 Q. Okay. And did you prepare surrebuttal  
25 testimony in this case?

1 A. Yes.

2 Q. Okay. And if I were -- do you have any  
3 corrections to your testimony?

4 A. Yes. I have one correction.

5 Q. Okay. And if you could give us page and  
6 line of that, please.

7 A. On page 10, line 14 at the very last is a  
8 bracket, and then line 15 "where question mark"  
9 should have been removed.

10 Q. Anything else?

11 A. That's all.

12 Q. And if I were to ask you these questions,  
13 would your answers be as set forth in your  
14 surrebuttal testimony, which has been marked  
15 Exhibit 126?

16 A. Yes.

17 Q. And were your answers given under oath?

18 A. Yes.

19 MR. ZOBRIST: Judge, I move the admission  
20 of Exhibit 126 and tender the witness for  
21 cross-examination.

22 JUDGE PRIDGIN: 126 is offered. Any  
23 objections?

24 Hearing none, 126 is admitted.  
25 Cross-examination, Ameren Missouri?

1 MR. BERLIN: No questions.

2 JUDGE PRIDGIN: Thank you. Public  
3 counsel?

4 MR. OPITZ: Briefly, Judge.

5 CROSS-EXAMINATION

6 BY MR. OPITZ:

7 Q. Good afternoon, Ms. Herrington.

8 A. Hello.

9 Q. You have been in the hearing room this  
10 afternoon; correct?

11 A. Yes.

12 Q. And were you here when there were  
13 questions regarding the crossroads inclusion in an  
14 FAC?

15 A. Yes.

16 Q. And can you tell me if -- and I believe I  
17 was pointed that you might know the answer. Can you  
18 tell me if you're aware of the length of that  
19 occurrence?

20 A. The error occurred from I believe January  
21 of 2014 through November of 2015.

22 Q. And during that time are you aware if  
23 there were any prudence audits that occurred?

24 A. It's my understanding that there was.

25 Q. And was this inclusion of the crossroads

1 transmission costs discovered in that prudence  
2 audit?

3 A. I did not see the actual order of the  
4 prudence audit, but it's my understanding it was  
5 not.

6 Q. Is it your understanding that it was, for  
7 lack of a better word, discovered in the context of  
8 a rate case?

9 A. Yes.

10 MR. OPITZ: That's all of the questions I  
11 have. Thank you.

12 JUDGE PRIDGIN: Mr. Opitz, thank you.

13 Mr. Berlin?

14 MR. BERLIN: No questions, Judge.

15 JUDGE PRIDGIN: Okay. Thank you.

16 Mr. Chairman?

17 CHAIRMAN HALL: Good afternoon.

18 THE WITNESS: Hello.

19 CHAIRMAN HALL: So if I wanted to see all  
20 of the components of the company's FAC with a dollar  
21 amount, is there a document that the company either  
22 files with the commission or keeps for its own  
23 records that would answer that question?

24 THE WITNESS: I believe we -- I believe  
25 that when those -- those questions get asked of us,



1 that they generally come in the form of a data  
2 request from either staff or OPC, which is -- I  
3 think -- I'm assuming how Ms. Mantle would have had  
4 her information as being replied to the data  
5 request, and that's how she was able to ascertain  
6 the list that she has in her testimony. So we would  
7 have supplied that to either staff or OPC. We have  
8 that of our own. And it could be supplied as a data  
9 request, it could be supplied as a reporting  
10 requirement.

11 CHAIRMAN HALL: So there's nothing in the  
12 FAC prudence audit process that would contain all of  
13 those line items and associated costs?

14 THE WITNESS: That would be up to the  
15 auditor themselves. I'm not a prudence auditor, and  
16 while I have been at the company during a prudence  
17 audit, I have not personally been involved with the  
18 prudence audit.

19 CHAIRMAN HALL: Okay. Thank you.

20 JUDGE PRIDGIN: Further bench questions?  
21 Recross, Mr. Lowry?

22 MR. LOWRY: No questions.

23 JUDGE PRIDGIN: Mr. Opitz?

24 FURTHER EXAMINATION

25 BY MR. OPITZ:

1           **Q. Ms. Herrington, the Chairman asked about**  
2 **some of the -- I guess, reporting processes for**  
3 **certain information. Do you know if that**  
4 **information would be provided if -- I believe it's**  
5 **staff and public counsel's requests in this case**  
6 **were granted?**

7           A. I don't know if that's the case or not.

8           **Q. Okay. Thank you.**

9           A. I guess I should rephrase. I don't know  
10 enough about staff and public counsel's reporting  
11 request to know if that would happen or not.

12           MR. OPITZ: That's all. Thank you.

13           THE WITNESS: Thank you.

14           JUDGE PRIDGIN: Mr. Berlin?

15           MR. BERLIN: No questions.

16           JUDGE PRIDGIN: Redirect?

17           MR. ZOBRIST: Just briefly, Judge.

18                               FURTHER EXAMINATION

19           BY MR. ZOBRIST

20           **Q. After the crossroads error was discovered,**  
21 **what steps did the company take?**

22           A. After the error was discovered, the  
23 company notified staff and OPC and took steps to  
24 immediately calculate how much the error was, as  
25 well as interest related to the error, and that was

1 refunded to the customers in the next FAC filing.

2 Q. And to your knowledge, has any party  
3 brought a complaint with regard to the final  
4 resolution of that issue?

5 A. Not to my knowledge.

6 MR. ZOBRIST: Nothing further, Judge.

7 JUDGE PRIDGIN: Thank you.

8 Ms. Herrington, thank you very much. You  
9 may step down.

10 And then you wanted to do Mr. Frerking  
11 before Mr. Rush; is that correct?

12 MR. ZOBRIST: That's correct. Just on his  
13 issues with regard to the fuel adjustment clause.

14 DON FRERKING,  
15 of lawful age, being first duly sworn, testifies as  
16 follows:

17 EXAMINATION

18 BY MR. ZOBRIST:

19 Q. Please state your name.

20 A. Don Frerking.

21 Q. And where are you employed?

22 A. Kansas City Power & Light.

23 Q. And what's your position there?

24 A. I'm a regulatory analyst.

25 Q. And did you prepare rebuttal testimony and

1 surrebuttal testimony in this case, which has been  
2 marked respectively as Exhibit 121 and 122?

3 A. I did.

4 Q. Okay. Do you have any corrections to any  
5 of those pieces of testimony?

6 A. I have a couple of minor corrections.

7 Q. Okay.

8 A. Both of these are in my rebuttal  
9 testimony. The first one in the question on line 1  
10 of page 28. The question reads, "Would that make  
11 it -- " the second "that" should be stricken. The  
12 second correction is in the answer on line 6 of  
13 page 40, also in my rebuttal. It says on that line  
14 "are not taking NITS -- or N-I-T-S, PTP. There  
15 should be an "or" between NITS and PTP.

16 Q. Any further questions?

17 A. That will be it.

18 Q. If we were to ask you these questions,  
19 would your answers be as set forth here?

20 A. Yes.

21 Q. Were your answers given under oath?

22 A. Yes.

23 MR. ZOBRIST: Judge, I move the admission  
24 of Exhibits 121 and 122 and tender Mr. Frerking for  
25 cross-examination.

1 JUDGE PRIDGIN: Any objection?  
2 Exhibits 121 and 122 are admitted into  
3 evidence.

4 Cross-examination, Mr. Lowry?

5 MR. LOWRY: No questions, Your Honor.  
6 Thank you.

7 JUDGE PRIDGIN: Mr. Opitz?

8 MR. OPITZ: Briefly, Your Honor.

9 CROSS-EXAMINATION

10 BY MR. OPITZ:

11 Q. Good afternoon, Mr. Frerking.

12 A. Good afternoon.

13 Q. In your testimony, do you recommend that  
14 FERC's Schedule 12 fees be included in the FAC?

15 A. In my rebuttal, I believe I suggested that  
16 that would be appropriate. The -- that's -- as far  
17 as policy issue, that's probably more of a Mr. Rush  
18 question.

19 Q. But you did recommend that it be included?

20 A. Yes, I did.

21 Q. Are you aware that a Mr. John Carlson  
22 filed testimony in this case on behalf of the  
23 company?

24 A. Yes, I'm aware of that.

25 Q. And have you had a chance to review his

1 **direct testimony?**

2 A. I probably have reviewed it. I can't say  
3 that I've looked at it in depth, but ...

4 Q. In his testimony he makes -- he discussed  
5 FERC Schedule 12 fees, and he says the question to  
6 himself, How are FERC Schedule 12 fees expected to  
7 change? He then says, "The company does not expect  
8 to see much variability with the FERC Schedule 12  
9 fees in the years to come. Cost for FERC  
10 administration have remained relatively constant  
11 from year to year."

12 And so my question is, do you agree with  
13 the statement that you don't expect to see much  
14 variability with the FERC Schedule 12 fees in the  
15 years to come?

16 A. Again, that would probably be a  
17 Mr. Carlson question. He would be reviewing what  
18 the projections for that would be. My rebuttal --  
19 and I don't believe I filed surrebuttal on this, but  
20 it was related to the fact that whatever  
21 transmission service that we take, whatever energy  
22 that we would use would get -- would have a direct  
23 Schedule 12 fee associated with it.

24 Q. So if I'm understanding correctly, you  
25 didn't look at variability when you recommend to

1 include Schedule 12 fees?

2 A. I did not.

3 Q. Do you agree with the statement that costs  
4 for FERC administration have remained relatively  
5 constant from year to year?

6 A. The cost for the SPP administration charge  
7 Schedule 1A have -- are changed based off of what  
8 the SPP board approved rate is. Those have gone up  
9 sometimes considerably in the past. For 2016, that  
10 SPP board approved rate was reduced. For 2017, that  
11 SPP board approved rate has increased.

12 Q. So do you understand that there's a -- can  
13 you tell me if you know if there's a difference  
14 between a FERC administration fee and a SPP fee --  
15 administration fee?

16 A. Yes, there is a difference. The FERC  
17 admin fee -- or the FERC assessment is a fee that's  
18 charged under Schedule 12 of the SPP tariff.

19 Q. And so you disagree that that has remained  
20 relatively constant from year to year?

21 A. Can you -- which one is?

22 Q. The FERC administration fee -- the FERC  
23 administration assessment, I should say.

24 A. I don't -- I don't know whether that has  
25 remained relatively stable or not. I'm saying that

1 the -- the Schedule 12 fees are charged based off of  
2 KWH sales.

3 Q. So when you recommended to include the  
4 Schedule 12 fees in the FAC, you didn't consider  
5 variability and you didn't look at whether those  
6 costs had remained constant from year to year?

7 A. I did not. The Schedule 12 fees are based  
8 off -- are based off an actual KWH sales. It's a  
9 rate times the KWH sales.

10 MR. OPITZ: Thank you. That's all I have,  
11 Judge.

12 JUDGE PRIDGIN: Mr. Optiz, thank you.  
13 Mr. Berlin?

14 MR. BERLIN: No questions, Judge.

15 JUDGE PRIDGIN: All right. Thank you.  
16 Any bench questions? Mr. Chairman?

17 CHAIRMAN HALL: Good afternoon.

18 THE WITNESS: Good afternoon.

19 CHAIRMAN HALL: I want to ask you a couple  
20 questions about FERC Account 456 and FERC  
21 Account 565.

22 THE WITNESS: Okay.

23 CHAIRMAN HALL: So on 456, my  
24 understanding is that that account would have all of  
25 the transmission revenues received by the company.



1 THE WITNESS: That's correct.

2 CHAIRMAN HALL: And 565 would have all of  
3 the transmission expenses incurred by the company.

4 THE WITNESS: The transmission of  
5 electricity by others, yes.

6 CHAIRMAN HALL: Okay.

7 THE WITNESS: So there's lots of  
8 transmission expenses that we would have for the  
9 operation of our own transmission assets.

10 CHAIRMAN HALL: Which account would those  
11 fall under?

12 THE WITNESS: Those would be in the 500  
13 series of accounts. Those are operation and  
14 maintenance of our transmission of the transmission  
15 facilities that we own.

16 CHAIRMAN HALL: What about fees paid to  
17 SPP related to transmission? Would that be within  
18 the 500?

19 THE WITNESS: The fees -- when you say  
20 "fees," you're talking about the transmission  
21 service fees?

22 CHAIRMAN HALL: All -- any -- any --

23 THE WITNESS: There's several charges that  
24 we get from SPP. Transmission service charges,  
25 which would be for transmission service for NITS,

1 which is Network Integration Transmission Service,  
2 or point charges. Those are charged under  
3 Schedules 7, 8, 9, or 11. Those are for  
4 transmission service. There are also charges that  
5 we get for -- that are paid for SPP's administration  
6 of the tariff. Those are charged under Schedule 1-A  
7 of the tariff.

8 CHAIRMAN HALL: Let me -- so -- let me ask  
9 first, then, about Account 456, which is the  
10 transmission revenues received by the company. If I  
11 wanted to see what those amounts were year to year,  
12 is there a document that you're aware of that would  
13 contain that information?

14 THE WITNESS: The transmission revenues  
15 that we get that are booked to Account 456 are  
16 available -- publically available in FERC Form 1.

17 CHAIRMAN HALL: I guess I'll just look at  
18 counsel for a second. Is there something in the  
19 record that would contain the year-to-year amounts  
20 in 456 -- for Account 456?

21 MR. ZOBRIST: We don't have those attached  
22 to schedules, but we obviously can provide you with  
23 a FERC Form 1.

24 THE WITNESS: I guess to answer your  
25 question, I believe that staff witness, Karen Lyons,

1 may have had some -- and it's probably in the  
2 staff's direct -- their cost to service report. I  
3 believe they would have had at least several years'  
4 worth of accountings in Account 4056 transmission  
5 service for others revenues, as well as transmission  
6 of electricity by others in Account 565.

7 CHAIRMAN HALL: I would be interested in  
8 seeing what has happened to transmission revenue in  
9 Account 456 year-to-year for the last five to ten  
10 years, and I'll just leave it at that.

11 What about transmission expenses incurred  
12 by the company to serve native load, which was one  
13 of the items -- one of the main items that was  
14 excluded from the FAC in the last rate case? And  
15 it's obviously an issue in this rate case.

16 Is there a document available that would  
17 show for the last five to ten -- well, couldn't be  
18 ten years -- for the last three to five years what  
19 the -- what those expenses are?

20 THE WITNESS: Well, the amount that would  
21 be booked to Account 565, which is the amount that  
22 we would be paying for transmission of electricity  
23 by others, is publicly available. It's in FERC Form  
24 1. To -- I think your specific question is the --

25 CHAIRMAN HALL: It's a subset of that.

1 THE WITNESS: The subset of that -- I'm --  
2 I guess, to anticipate what you're getting at the --  
3 the percentage that you're -- that is being called  
4 by parties in this case, I guess the true purchase  
5 power. Is that --

6 CHAIRMAN HALL: Yes.

7 THE WITNESS: Okay. That -- I would have  
8 to defer to another witness. I'm not sure exactly  
9 how that percentage is -- it's done through fuel run  
10 fuel modeling, I believe. Something to check.

11 CHAIRMAN HALL: Okay. Because I mean, to  
12 me, it seems logical that as transmission expenses  
13 are going up, transmissions revenues are going up,  
14 and maybe not one for one, but ...

15 THE WITNESS: Let me try to answer.

16 CHAIRMAN HALL: Okay.

17 THE WITNESS: The transmission revenues  
18 that we received -- transmission for other revenues  
19 are for the use of the transmission assets that we  
20 own and operate. So to the extent that we -- we're  
21 not -- if we don't have much in the way of -- if we  
22 don't have any new transmission assets being added  
23 to a large extent, our revenues are going to stay  
24 relatively the same. It's a transmission revenue  
25 requirement for what we have in -- for

1 transmission -- it's basically the same thing as a  
2 retail revenue requirement, but it's for our  
3 transmission assets, our transmission OMN expenses  
4 associated with our transmission assets, not for  
5 what -- not for 565, which is what we paid to  
6 others. That's not a -- that's not an expense that  
7 we have for operating our transmission system.

8           So those expenses develop a revenue  
9 requirement, which is commonly referred to as ATRR,  
10 Annual Transmission Revenue Requirement. So the  
11 revenues that we get are large -- are based off of  
12 our -- of the revenue requirement for our assets.  
13 Our revenues have gone up in the last year or so for  
14 a couple of reasons, primarily because IPL was  
15 placed into the KCPL transmission zone, which now  
16 then -- which -- I'm going to simplify this --  
17 resulted in kind of, for pricing, a co-mingling of  
18 the independence transmission assets and the KCPL  
19 transmission assets for pricing purposes, which  
20 means that we now pay Schedule 9, which is the  
21 network -- the NITS charge for Legacy's zone and  
22 transmission assets. We now pay SPP for the use of  
23 IPL's transmissions assets. We previously had  
24 not -- we don't pay ourselves -- in SPP, you can opt  
25 out of paying Schedule 9 charges, which is the -- is

1 the transmission service for the use of the  
2 Legacy Zone transmission assets. You don't have to  
3 pay yourself. So we don't -- I'm just going to --  
4 it's a rough number. The KCPL Legacy zonal revenue  
5 requirement is about \$40 million. We don't get  
6 anywhere near \$40 million in revenue because we're  
7 not paying ourselves. And all we were getting from  
8 transmission revenue prior to Independence being  
9 placed in the KCPL zone was some Schedule 9 revenues  
10 from some load that was in our zone -- KMEA had some  
11 customers in the KCPL zone, so we were getting some  
12 NITS revenue from them. But the only other revenue  
13 we were getting was point-to-point revenue from  
14 anybody who purchased point-to-point that was using  
15 the KCPL zonal transmission assets.

16 So we have relatively little actual  
17 revenues in comparison to what a revenues  
18 requirement was because we weren't paying ourselves.  
19 That's all being captured in the context of a -- in  
20 the context of a -- a retail case in our situation.  
21 But with IPL being placed in the -- IPL joining SPP  
22 as a transmission owner and being placed in a KCPL  
23 zone, it requires that now we pay network  
24 integration transmission service Schedule 9 charges  
25 for the use of IPL's transmission system. They

1 also -- the loads are also co-mingled, as well. So  
2 IPL has paid KCPL, as well -- or IPL is paying KCPL  
3 and KCPL is paying IPL in that scenario. But those  
4 revenues are based off of our revenue requirement  
5 and their revenue requirement.

6 CHAIRMAN HALL: Okay. Thank you.

7 JUDGE PRIDGIN: Thank you. Recross based  
8 on bench questions? Mr. Lowry?

9 MR. LOWRY: No, thank you, Your Honor.

10 JUDGE PRIDGIN: Mr. Optiz?

11 MR. OPITZ: No, thank you, Judge.

12 JUDGE PRIDGIN: Mr. Berlin?

13 MR. BERLIN: No, thank you, Judge.

14 JUDGE PRIDGIN: Redirect, Mr. Zobrist?

15 MR. ZOBRIST: No questions, Judge.

16 JUDGE PRIDGIN: Mr. Frerking, thank you  
17 very much. You may step down.

18 And the last KCPL's witness on this topic  
19 would be Mr. Rush; is that correct?

20 MR. ZOBRIST: That's correct.

21 JUDGE PRIDGIN: All right. Mr. Rush.

22 MR. ZOBRIST: And, Judge, I believe  
23 Mr. Rush has been previously sworn and his testimony  
24 admitted into evidence.

25 JUDGE PRIDGIN: Thank you. Mr. Rush,

1 you're still under oath. And he is being tendered  
2 for cross now; is that correct?

3 MR. ZOBRIST: That's correct.

4 JUDGE PRIDGIN: Okay. Any cross,  
5 Mr. Lowry?

6 MR. LOWRY: No, thank you.

7 JUDGE PRIDGIN: Mr. Opitz?

8 MR. OPITZ: Yes, Judge.

9 CROSS-EXAMINATION

10 BY MR. OPITZ:

11 Q. Good afternoon.

12 A. Good afternoon.

13 Q. I'm going start off -- I think you were  
14 referred to as someone who would know -- or have a  
15 little more information on some questions that I  
16 just asked.

17 A. Maybe.

18 Q. So is KCPL recommending that FERC  
19 Schedule 12 fees be included in the FAC?

20 A. To clarify, Schedule 12 is the admin fees  
21 that you're talking about? I'm not a schedule  
22 person; I know more about the details.

23 Q. Yes.

24 A. Yes, we are?

25 Q. So when I say "FERC Schedule 12 fees," I'm



1 referring to the -- well, I'll just say it. So is  
2 it KCPL's recommendation that the FERC assessment be  
3 included in its FAC?

4 A. Is -- what account are you talking about?  
5 Does it go through --

6 Q. FERC Account No. 928, Subaccount --

7 A. Yes. One?

8 Q. Yes.

9 A. Yes.

10 Q. Do you agree with the statement that you  
11 don't expect to see much variability with FERC  
12 Schedule 12 fees in the years to come?

13 A. Mr. Carlson, I believe, was the witness on  
14 that. Mr. Carlson talked about the changes that  
15 have occurred. In 2017 we have had an increase. I  
16 believe the price is, like, 43 cents per megawatt  
17 hour -- I'm not sure of the -- per -- the unit  
18 price, but it has gone up.

19 Q. So do you disagree with the statement that  
20 you don't expect to see much variability in the FERC  
21 Schedule 12 fees?

22 A. I didn't say either way. I said the  
23 pricing in 2017 has gone up. Mr. Carlson is the  
24 expert on that piece.

25 Q. Do you have a copy of your -- I think

1     **it's -- your direct testimony with you?**

2           A.     I do.

3           **Q.     Would you please look at Schedule TMR-4**  
4     **FAC base -- I guess this is HC.**

5           MR. OPITZ:   Your Honor, may I ask if we go  
6     in HC briefly?

7           JUDGE PRIDGIN:   We could go in camera, or  
8     could I ask counsel to verify if there's anybody in  
9     the room that isn't supposed to be.

10          THE WITNESS:   What schedule are you --  
11     it's TMR-4, what page of that?

12          JUDGE PRIDGIN:   You may -- are we safe to  
13     go in camera?

14          MR. OPITZ:   Yes.

15          JUDGE PRIDGIN:   All right.   Just a moment,  
16     please.

17          (Reporters' Note:   At this point an  
18     in-camera session was held, which is contained in  
19     Volume 9, pages 507 through 509 of the transcript.)

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21

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1 JUDGE PRIDGIN: We are back in the public  
2 forum.

3 BY MR. OPITZ:

4 Q. Mr. Rush, can you tell me what your  
5 definition of "purchase power" is?

6 A. With regard to the electric utility  
7 industry and with regard to how it's related to the  
8 company purchasing power?

9 Q. Let's split that. So when you use the  
10 words "purchase power," what are you referring to?

11 A. There are a number of bases for how I  
12 would term it. If I were talking about how we  
13 purchase from SPP, we purchase 100 percent of our  
14 energy requirements to meet our retail load from SPP  
15 or through SPP. If I were talking about the fuel  
16 adjustment clause and the purchase power included in  
17 the FAC, I would talk in a different fashion. I  
18 would talk about meeting the off-system sales of  
19 meeting the selling generation, and then I would  
20 talk about how the commission has defined purchasing  
21 the needs of our utility indifferent to our  
22 generation loading. So there would be several  
23 different definitions that would occur.

24 Q. So in your current FAC, purchase power is  
25 defined how?

1           A.    As it's described in the tariff.  I mean,  
2   it's described there, but it is termed meaning -- I  
3   can go to the tariff -- and it defines it in the  
4   tariff -- I believe -- I don't -- it'll take me a  
5   minute to find it.  It's for that which we sell and  
6   that which we buy in net of what our generation is.

7           **Q.    And is that how the company is requesting**  
8   **to define it in its proposal?**

9           A.    No, it is not.

10          **Q.    How is the company proposing to define**  
11   **purchase power in its current proposal?**

12          A.    We are proposing to recover to include all  
13   transmission -- let me back up.

14                    When you say "purchase power," you're  
15   talking about just purchase power component, but  
16   what you're -- we're talking -- you're talking about  
17   typically -- I think what you are leading to is the  
18   transmission cost associated with that purchase  
19   power.  Let me clarify.  Is that a correct  
20   statement?

21          **Q.    I think if I could ask you to limit it to**  
22   **purchase power.**

23          A.    If I were limiting it to purchase power,  
24   the company is requesting -- and the company has  
25   defined purchase power in the total of all

1 requirements through SPP.

2 Q. Is it accurate to say that your statement  
3 just now should include the caveat that it's not how  
4 the commission ordered in your last case it be  
5 defined?

6 A. I don't think the commission defined  
7 purchase power. I think they defined the recovery  
8 of transmission costs as a component of the fuel  
9 adjustment clause through a portion of the purchase  
10 power. So I think the commission recognized that we  
11 purchased everything, but they defined what's  
12 recovered in our FAC associated with what we need in  
13 transport for our own needs and what we sell net of  
14 our own generation.

15 Q. Do you have a -- copies of your testimony  
16 with you, Mr. Rush?

17 A. I do.

18 Q. Specifically your -- I believe it's the  
19 rebuttal.

20 A. Okay.

21 Q. Page 23.

22 A. I'm there.

23 Q. Line 10. Your testimony is that  
24 Ms. Mantle's recommendations will increase KCPL's  
25 risk of not recovering proper fuel and purchase

1 power expenses, not reduce it.

2 A. All right.

3 Q. Would your -- would you agree that OPC's  
4 recommended FAC would reduce the risk of KCPL  
5 recovering these costs, as opposed to the scenario  
6 of no FAC?

7 A. Yes.

8 Q. If you'd refer to page 24, line 5, you  
9 testify that, "The important question, then, is  
10 whether KCPL will be able to recover increases (or  
11 whether customers can benefit from decreases) in the  
12 net cost of certain volatile components of fuel,  
13 purchase power, and transportation that OPC seeks to  
14 exclude from the FAC."

15 In that statement, does your phrase  
16 "purchase power" refer to KCPL's definition of  
17 purchase power?

18 A. Yes, but I don't think there's a  
19 difference between what -- I mean, I'm not following  
20 what you're trying to ask. I mean, I think it  
21 does -- it is my definition of purchase power.

22 Q. And your definition of purchase power  
23 is --

24 A. Purchase power.

25 Q. All power purchased from SPP?

1           A.    I'm still unclear of what you're trying to  
2    get at.  We purchase all of our power from SPP, but  
3    how it's -- the transmission associated with how  
4    that is recovered is different.  I mean, we only  
5    recover a portion of that.  So I'm not sure what  
6    you're trying to ask.

7           **Q.    So for your FAC request, you're not**  
8    **defining purchase power differently than the Office**  
9    **of Public Counsel is?**

10          A.    As far as the dollars go, I don't think I  
11    am, but I am defining the recovery of other  
12    components different, a portion of which is netted  
13    to our -- the only -- our own generation.

14          **Q.    And what are those component differences?**

15          A.    Particularly transmission.

16          **Q.    And so when you say "purchase power," you**  
17    **mean purchase power including transmission of**  
18    **everything from SPP?**

19          A.    That's what I've asked -- that's what the  
20    company has requested in the recovery of all  
21    transmission costs, as well as netted to the  
22    revenues associated with that from SPP.

23          **Q.    And you would agree that that is**  
24    **different --**

25          A.    That is different.

1 Q. -- from what is in the current FAC?

2 A. That's right.

3 Q. If the commission adopted public counsel's  
4 recommended purchase power and transmission  
5 definition, would that be the same as it's in the  
6 company's current FAC?

7 A. I believe it would be. It would be  
8 applied -- yes, that would be.

9 Q. And that would be the purchase power and  
10 transmission as was approved by the commission in  
11 your last case; correct?

12 A. Yes.

13 Q. If the commission adopted public counsel's  
14 recommendation for purchase power and  
15 transportation -- pardon me -- for purchase power  
16 and transmission, would that mean that KCPL would  
17 not be able to recover the costs that it wanted in  
18 the FAC but that the commission didn't permit in the  
19 FAC?

20 A. It's according to whether it was  
21 escalating or not.

22 Q. Can you explain what you mean by that?

23 A. Well, you just said will I be able to  
24 recover all of the costs, and if we had it in the  
25 fuel adjustment clause the company would be able to



1 address volatility that would occur in those  
2 components.

3 **Q. So only the change would not be recovered.**  
4 **Would you agree with that?**

5 A. If the base were set at a level -- some  
6 level, yes. You know, whatever the base was would  
7 be allowed to be recovered of those costs and the  
8 volatility or the variation of that would not.

9 **Q. So you would -- would you agree that**  
10 **volatility is an important consideration to take**  
11 **into account when including costs in the FAC?**

12 A. I believe so.

13 **Q. So still on that same page in the**  
14 **parenthetical on line 6 --**

15 A. Page 24?

16 **Q. Page 24, line 6, yes, sir.**

17 A. Uh-huh.

18 **Q. There is the phrase "or whether customers**  
19 **can benefit from decreases."**

20 A. That is correct.

21 **Q. For costs that are not included in the**  
22 **FAC, would the company benefit from decreases in**  
23 **cost?**

24 A. That is probably -- yes, that would be  
25 true.

1 Q. And would you agree that that would be  
2 positive regulatory lag?

3 A. Yes.

4 Q. I guess depending on the perspective;  
5 right?

6 So would you agree that if fewer costs  
7 were included in the FAC, that could result in  
8 positive regulatory lag for Kansas City Power &  
9 Light?

10 A. That's a possibility. It's unlikely, but  
11 it's a possibility.

12 Q. So by including more costs, the company is  
13 reducing the possibility of regulatory lag as it  
14 relates -- positive regulatory lag as it relates to  
15 those costs?

16 A. What do you mean by "positive regulatory"?  
17 Is that good for the company or good for the  
18 consumer or -- I'm not sure what you're saying.

19 Q. Let me rephrase. So by including more  
20 costs on the FAC, the company is reducing the  
21 possibility that the company will benefit from  
22 regulatory lag?

23 A. I don't think I would -- I do not agree  
24 with that.

25 Q. So help me understand.

1           A.    Okay.

2           Q.    Because it's -- it seems like you just  
3   agreed that by including fewer costs in the FAC that  
4   it could result in regulatory lag that benefits the  
5   company.

6           A.    If price costs were decreasing, that is  
7   correct.

8           Q.    And so by including more costs in the  
9   event that costs did decrease, the company would  
10   have reduced the possibility that it would benefit  
11   from regulatory lag?

12          A.    That is true.  You did not say the latter  
13   part of the price costs were reducing but, yes, that  
14   would be correct.

15          Q.    I apologize.

16                And I think as to the first question that  
17   I asked about fewer costs being included in the FAC  
18   could result in positive regulatory lag benefiting  
19   KCPL, you suggested that that was possible but  
20   unlikely?

21          A.    I have said that, but I -- I don't know  
22   if -- I could see scenarios where that would be  
23   different.

24          Q.    Can you tell me what those scenarios would  
25   be?

1           A.    Yes.  If some -- if some way somehow the  
2 price of natural gas increased substantially,  
3 there's that possibility that our overall off-system  
4 sales market would, again, be very robust and the  
5 company would see substantial decrease in the cost  
6 of fuel -- the net of all of that.  And so it would  
7 be dependent upon what is included and excluded.

8           **Q.    So would you agree that it's possible but**  
9 **unlikely that customers will see any positive**  
10 **benefits of regulatory lag from the FAC?**

11          A.    I think there's definitely a possibility  
12 that customers will benefit from the FAC down the  
13 road.  I do believe that.

14          **Q.    Would they benefit in the form of a**  
15 **reduced rate?**

16          A.    I think that's a very -- that's possible,  
17 yes.

18          **Q.    What was the other benefit you were**  
19 **thinking of when you responded to that?**

20          A.    I think I was primarily thinking of  
21 reduced price -- I was thinking of reduced price per  
22 kilowatt hour to consumers.  I guess maybe the other  
23 thing is I would be saying that the customer would  
24 actually see what the -- pay for the cost of the  
25 product.  And that's somewhat of a benefit that

1 you're not paying something different than the cost.

2 Q. If you would go to page 25, please, and  
3 beginning at line 8. You testified that all of the  
4 commission-approved FACs in Missouri reflect the  
5 inclusion of far more components of fuel, purchase  
6 power, and transmission cost than are recommended by  
7 OPC.

8 A. That is correct.

9 Q. Did KCPL provide a full explanation of the  
10 cost it is requesting to be included in the FAC in  
11 this case?

12 A. I believe we did. It may be argued that  
13 you could get into more extreme details of all  
14 components, but I believe we did explain that.

15 Q. Have you reviewed the testimony of OPC  
16 witness Ms. Mantle?

17 A. I have.

18 Q. Specifically, her direct testimony?

19 A. It's been -- yes, I have read it.

20 Q. And you probably don't have that with you,  
21 do you?

22 A. I do not.

23 MR. OPITZ: Judge, may I approach?

24 JUDGE PRIDGIN: You may.

25

1 BY MR. OPITZ

2 Q. Ms. Rush, do you agree that that is the  
3 Schedule LMD2 attached to Ms. Mantle's direct  
4 testimony?

5 A. I do.

6 Q. And can you identify what is included on  
7 that schedule?

8 A. Well, the -- if I just look at LMD-2,  
9 page 1 of 2, it appears that it is a number of items  
10 found in Account 501 with several subaccounts  
11 associated with it.

12 Q. Is there a title on the top of that  
13 document?

14 A. "Currently Excluded From KCPL's FAC But  
15 Proposed to be Included by KCPL."

16 Q. Are -- can you tell me if costs at this  
17 detail level are provided anywhere in KCPL's  
18 testimony?

19 A. Not on a line-by-line item, but in a  
20 general sense, yes.

21 MR. OPITZ: Judge, may I approach?

22 JUDGE PRIDGIN: You may.

23 Q. (By Mr. Opitz) Mr. Rush, if the commission  
24 approved KCPL's recommended FAC with only the  
25 definition of cost that is included in your direct

1 testimony, would it know that it is approving the  
2 inclusion of all of the costs that you just looked  
3 at in that testimony?

4 A. Well, if you'll look at Schedule TMR-1  
5 page 3 of 9, you immediately start seeing --

6 Q. May I pause you, Mr. Rush? Is that in  
7 your direct testimony?

8 A. It would be in my direct testimony, yes.  
9 And there are numerous other places that we could  
10 find detail, but this is a reference to FERC  
11 Account 501. And --

12 Q. So by reviewing those schedules attached  
13 to your testimony or anywhere else in your -- in  
14 your testimony, would the commission know if it  
15 approved your request that it is approving the  
16 inclusion of cell phone costs?

17 A. I'm sure the word "cell phone" does not  
18 show up in there, but I assume without going through  
19 every one it will show the support or cost  
20 associated with managing certain items, which may be  
21 that cell phone.

22 Q. Would the commission know that it is  
23 approving inclusion of airline baggage fees in the  
24 FAC?

25 A. If it looked -- you know, what you're

1   referencing is in our coal -- the handling side of  
2   the business, and it does talk about the cost  
3   necessary to manage the handling and procurement  
4   associated with that. So if you go and look at the  
5   details attributable to that, you would find very  
6   quickly that those types of costs would be  
7   reflective of that. I know you found one item that  
8   has a baggage fee or some item, but those are the  
9   costs of managing that procurement item.

10       **Q.   So without a detailed knowledge of what is**  
11   **included in the accounts of KCPL, a Commissioner**  
12   **wouldn't be able to look at your testimony and know**  
13   **what is being included in the FAC?**

14       A.   They would know that. I just -- that's  
15   what I said. They would know that. Now, they  
16   wouldn't know that the cell phone, for example, were  
17   reflected in there, but they'd know that the cost  
18   associated with managing the fuel and procurement  
19   handling would be in there. And that would  
20   customarily include such things as that.

21       **Q.   So --**

22       A.   It's like similar to looking at buying  
23   freight.

24       **Q.   So it's your testimony that the level of**  
25   **detail that is necessary for the commissioners to**



1 understand what they're approving is something as  
2 broad as handling costs of the procurement?

3 A. No. I have in great detail the components  
4 associated with handling reflective of the tariff.  
5 So if you go to the tariff and look at it  
6 specifically, you'll find a fairly lengthy  
7 discussion about what is in handling.

8 Q. Can you direct me to where in the tariff  
9 you're referring to?

10 A. I'll try. I've kind of put my papers out  
11 of kilter here. So -- I would look at Sheet TMR-3,  
12 page 13 of 21.

13 Q. Okay.

14 A. I'll go to the top of it in  
15 Subaccount 501 -- 500-501509, fuel handling costs  
16 other than internal labor cost, goods or services,  
17 purchases to require fuel, fuel transportation,  
18 including the forecast market analysis or  
19 information strategy development and contractor  
20 issue negotiations to manage fuel purchases,  
21 including contract administration, monitoring,  
22 analyzing, fuel quality, manage fuel inventories,  
23 including measuring and establishing volume levels,  
24 handle or move fuel from shipping facility to first  
25 bunker, hopper, bucket tank or holder, a boiler

1 house structure including scheduling transportation,  
2 moving fuel and storage, and transferring from one  
3 station to another.

4 That's a little bit more, in my mind, and  
5 gives you some of the sense of what the definition  
6 of fuel handling that we're talking about. I think  
7 if somebody looked at that, they would understand  
8 many of the elements that you may have some concern  
9 with.

10 **Q. Is there anywhere in your testimony that**  
11 **describes each of those costs as being volatile?**

12 A. In total, in combination with the fuel  
13 elements of 501 with that, I believe it does.

14 **Q. So in isolation -- let me take a step**  
15 **back.**

16 **So currently those costs are not included**  
17 **in the company's current FAC?**

18 A. These -- the file handling is not  
19 included. That is correct.

20 **Q. Thank you. So the fuel is currently**  
21 **included in the company's FAC; is that correct?**

22 A. Yes.

23 **Q. And so you're asking to include these**  
24 **additional costs?**

25 A. I am.

1           **Q. And is there anywhere in your testimony**  
2           **that these costs isolated from the fuel are**  
3           **volatile?**

4           A. I mean, by example, they are volatile. If  
5 you look at -- for example, when we went through a  
6 rail argument with the railroad and we spent a  
7 lot -- an awful lot of money -- we actually went  
8 through and I believe set up an authority order, and  
9 we received recovery that way, but that would be an  
10 expense that would have gone into there. Where we  
11 were challenging the railroad with associated price.  
12 And that would be a cost that would fit into this  
13 extremely volatile. It would make a multi-year  
14 project -- I mean, those types of things would be,  
15 substantially.

16           **Q. But that's not included anywhere in your**  
17           **prefile testimony, is it?**

18           A. No, it is not. I think it may have been  
19 responded to in some data responses.

20           **Q. Is there anywhere in your testimony that**  
21           **describes those costs in Subaccount 501500 to 501509**  
22           **that describes the magnitude of those costs?**

23           A. I believe it is in my schedule associated  
24 with the reconciliation of the fuel cost, but I'm  
25 not certain if it's defined specifically.

1           **Q.    So on that tariff, it goes up to 501500**  
2 **through 501509; is that correct?**

3           A.    That's what it's describing in that  
4 section.

5           **Q.    Is there -- are you also requesting to**  
6 **include costs in Subaccount 501510?**

7           A.    You know what -- I'm not the accounting --  
8 account number person, so I'm not really sure I can  
9 answer that question.

10          **Q.    Did you prepare the tariffs for this?**

11          A.    I oversaw the preparation of the tariffs  
12 and reviewed them and went through that. But as far  
13 as a knowledge base of the specific account  
14 summarization detail, that would probably be more of  
15 the witness that was just up here, Beth Herrington.

16          **Q.    Is that specific account currently**  
17 **included as recoverable in the company's FAC?**

18          A.    501 -- what did you say it was? 501 what?

19          **Q.    501510.**

20          A.    I'd have to go back to the existing tariff  
21 and look.

22          **Q.    Is there anywhere in your testimony where**  
23 **you specifically reference that subaccount as**  
24 **something that the company is requesting to include**  
25 **in the FAC?**

1 A. 501 -- say it again.

2 Q. 501510.

3 A. I'm not even certain what the account is.  
4 So maybe a description would help me to understand  
5 that.

6 Q. Do you know if the company currently is  
7 recovering costs includable in Account 501505 in its  
8 current FAC?

9 A. I mean, I do not see it in the existing  
10 tariff today.

11 Q. But --

12 A. And I -- again, I'm not the account, but I  
13 can tell you what's in the tariff, and I can  
14 explain -- describe that. 501 -- and that's why you  
15 get into the very detailed component of subaccounts  
16 that we've tried to describe. And I think -- you  
17 know, it's just more the detailed components that  
18 have evolved over time through the FACs.

19 Q. So would you agree that you don't have any  
20 testimony that costs in that account are volatile?

21 A. I did not look at any of those as an  
22 individual component to determine the volatility; I  
23 looked at the aggregate. They're all essential  
24 elements of providing fuel purchase power and  
25 transportation, and that involves system sales.

1 Q. If you'd go to page 33, line 12.

2 A. Of my --

3 Q. Of your rebuttal testimony.

4 A. Rebuttal testimony. Page what, again?

5 Q. Page 31 -- well, 33, line 12.

6 A. All right.

7 Q. You testified that these are not costs  
8 expended by KCPL to bill transmission assets, but  
9 rather are transmission charges that KCPL must pay  
10 for the MWhs it purchases to serve its load?

11 A. Yes.

12 Q. When you use the word "purchase," as in  
13 purchases in that sentence, is it purchase power as  
14 defined by the commission or is it including all of  
15 your purchases from SPP?

16 A. I think we need to go back and define what  
17 you mean by "purchases" as defined by the commission  
18 so that I can understand if it is the transmission  
19 portion of that associated with it by determining  
20 what is sold or purchased net of our load.

21 That's -- that is not purchases. That's just a  
22 definition of how to get to a portion or a fraction.  
23 So if that's what you mean, I can understand that.

24 Q. I think that's fair. So I'll say the  
25 power purchase to meet the requirements of KCPL's

1 customers above the amount of its own generation in  
2 every output.

3 A. Okay. Just the amount purchased, not the  
4 amount sold. That's just a component of that  
5 percentage.

6 Q. Yes.

7 A. Okay.

8 Q. Is that how you are using the word  
9 "purchases" on line 14 of page 33?

10 A. Well, we're not even talking about that.  
11 We're talking about what NITS and the -- we're  
12 talking at what PTP and NITS' costs are. And it all  
13 incur -- we call -- we incur that for everything we  
14 purchase, not this percentage number.

15 Q. And you are requesting to include those in  
16 the FAC?

17 A. That is correct.

18 Q. And you're requesting to include those at  
19 a level associated with everything you purchase, not  
20 just with the power purchase to meet the  
21 requirements of KCPL's customers above the amount of  
22 its own generation in every hour?

23 A. That is correct. I mean, I think what I  
24 was trying to depict -- and if you go to my  
25 rebuttal, when I talk about transmission, the reason

1 I say that is we are -- substantially have lost a  
2 substantial amount of money -- or not recovered a  
3 substantial amount of money because of the  
4 volatility associated with that. And I -- you know,  
5 the Commissioner had a question about it. I was  
6 trying -- I do have information that would give you  
7 some of that volatility that might help you  
8 understand why we were doing that.

9 **Q. So if in your -- you're mentioning this**  
10 **volatility of those costs.**

11 A. Uh-huh.

12 **Q. Do you agree that for the 12 months ending**  
13 **in September 2016 that the company's actual earnings**  
14 **were over its authorized ROE?**

15 A. We provided some information in a -- our  
16 surveillance report to the commission that would  
17 depict that for that period -- which has lots of  
18 caveats behind it. If you start looking at it  
19 whether it was weather or other elements that were  
20 causing that -- but, yes, we did.

21 **Q. And so for that period, the company was**  
22 **able to recover everything and over everything of**  
23 **the -- those increases in the transmission cost?**

24 A. Yes. And just as you talk about, that is  
25 a picture of a point in time, but we would not be



1 here if that were not going to -- if that were going  
2 to continue on, we would not be here before this  
3 commission today.

4 Q. And so the company's request to include  
5 the purchase power -- these fees that are increasing  
6 for transmissions -- transmission costs that you say  
7 are increasing, did the company request that in its  
8 last case?

9 A. It did.

10 Q. And the commission did not approve that;  
11 is that correct?

12 A. That is correct.

13 Q. And had the commission approved that, the  
14 company would have experienced earnings higher.  
15 Would you agree with that?

16 A. Between 2015 and 2016, it appears that the  
17 transmission cost net of all components was  
18 relatively level in comparison to prior years. So I  
19 don't think we would have seen but a very, very  
20 potential slight difference in that for that period  
21 of time. But on a go-forward basis, it would have  
22 helped contribute to the earnings, I'm confident.  
23 And in prior periods it definitely would have, had  
24 that been included.

25 Q. Could you look at your surrebuttal,

1 please.

2 A. I can.

3 Q. Page 7, line 2. I'll give you a moment.

4 Are you there?

5 A. Yes.

6 Q. You testified that Ms. Mantle has  
7 incorrectly calculated fuel costs by excluding SPP  
8 and regulatory costs.

9 Would you give me your definition of fuel  
10 costs.

11 A. I'm just trying to get the context of the  
12 question. Sorry.

13 When I look at the fuel costs, I would  
14 look at all of the components necessary to put fuel  
15 in the burner and create -- or however -- the boiler  
16 or whatever to create electricity, whether it was  
17 gas, nuclear -- but it's the components  
18 associated -- it's the freight to get it there, it  
19 is the cost of the fuel, it's the cost to manage the  
20 procurement and administration of that, and put it  
21 in the boiler.

22 Q. If so, would that definition include the  
23 fuel handling cost?

24 A. That's my definition.

25 Q. That's your definition?

1 A. But it may not be yours. I -- yeah.

2 Q. That's fair. Is -- so you would agree  
3 that the fuel cost is currently a component of the  
4 company's FAC?

5 A. Not all of it.

6 Q. The company's current FAC permits you to  
7 recover certain fuel costs?

8 A. Yes, it does.

9 Q. And so is it fair to say that that is one  
10 definition -- that is fuel cost as defined in the  
11 company's current FAC?

12 A. Yes.

13 Q. And in the company's current proposal you  
14 are proposing to include additional costs that you  
15 characterize as fuel costs; is that correct?

16 A. Yes.

17 Q. And so if the commission were to approve  
18 your requested FAC, it would have approved a change  
19 in the definition of fuel costs for your FAC?

20 A. No. It would have changed the definition  
21 of what's included in the fuel adjustment clause.

22 Q. Now, hold on a minute here.

23 A. Just like it would have if you accepted  
24 Ms. Mantle's proposal. It would have changed it,  
25 also, because it would have excluded certain costs

1 that are certainly included.

2 Q. So I thought you had just agreed with me  
3 that the current FAC could be characterized as  
4 having a definition of fuel costs.

5 A. Of what is included in the fuel cost  
6 adjustment.

7 Q. And the company's proposal would change  
8 the definition of fuel costs that are included?

9 A. Of the components that are included in the  
10 fuel cost adjustment.

11 Q. So in your mind, that doesn't change the  
12 definition of fuel costs?

13 A. No.

14 Q. But it does change the fuel costs that are  
15 included in the FAC?

16 A. That's correct.

17 Q. Mr. Rush, you're aware that public counsel  
18 has submitted some DRs to the company?

19 A. I am -- many DRs, yes.

20 Q. And I'm going to ask you some questions  
21 about them, but I'd like to distribute them all  
22 first.

23 JUDGE PRIDGIN: May I inquire about how  
24 much longer you have to cross of Mr. Rush?

25 MR. OPITZ: I have four documents that I'd

1 like to ask him about. I don't know. It shouldn't  
2 take much more than 20 minutes, 30 minutes.

3 JUDGE PRIDGIN: I kind of hate to break in  
4 the middle of a witness, but I think I'm going to.  
5 And we'll resume with Mr. Rush back on the stand.

6 And let me inquire of counsel -- I think  
7 we have -- I have Mr. Rush to finish, and then I'm  
8 counting seven more witnesses after that for fuel  
9 adjustment clause. And that's all that's on the  
10 schedule for tomorrow. Is that --

11 MR. STEINER: That's right, Judge.

12 JUDGE PRIDGIN: If we are able to get  
13 through all of the FAC witnesses tomorrow, do the  
14 parties have a plan either to proceed with other  
15 evidence or to use that time to talk to try to  
16 figure out how to resolve some issues?

17 MR. STEINER: We've made good progress on  
18 resolving other issues. We would like to use that  
19 time left over from tomorrow to hopefully finish  
20 those up and get the documents submitted to resolve  
21 those issues.

22 JUDGE PRIDGIN: So if -- of course, the  
23 parties may -- the parties may resolve some issues,  
24 and I understand that, and I'll certainly be  
25 flexible with whatever you have. I'm just looking

1 for a road map. As it stands now, we would simply  
2 try to finish FAC tomorrow, and then pending  
3 whatever your negotiations reveal, we can go back to  
4 the schedule with credit card fees on Friday.

5 MR. STEINER: Right.

6 JUDGE PRIDGIN: That may or may not  
7 change.

8 MR. STEINER: Right. And those issues are  
9 in the -- what we're talking about trying to get  
10 scheduled, the ones that start on Friday.

11 JUDGE PRIDGIN: I am trying to give a road  
12 map for myself and for the commissioners to try to  
13 be prepared for what testimony may be on the way.

14 We would resume at 8:30 in the morning,  
15 and Mr. Opitz is still cross-examining Mr. Rush.  
16 And is there anything further from counsel before we  
17 adjourn for the evening?

18 All right. If there's nothing further, we  
19 will go off the record, and we will resume at 8:30  
20 in the morning.

21 Thank you. We are off the record.

22 (The hearing adjourned at 5:05 p.m., with  
23 the time and location of the continuation to be  
24 agreed upon by all parties.)

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C E R T I F I C A T E

I, Lisa D. Ballalatak, a Certified Court Reporter for the State of Missouri, do hereby certify that I appeared at the time and place first hereinbefore set forth, that I took down in shorthand the entire proceedings had at said time and place, and that the foregoing constitutes a true, correct, and complete transcript of my said shorthand notes.

Witness my hand and seal this 11th day of February 2017



Lisa D. Ballalatak  
Certified Court Reporter  
State of Missouri

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