Exhibit No.:	
Issues:	*Overview*
	Revenue Requirement at Update
	True-up Allowance for Changes
	Additional Amortizations
Witness:	*Cary G. Featherstone*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2014-0370*
Date Testimony Prepared:	*April 2, 2015*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.
CASE NO. ER-2014-0370

Jefferson City, Missouri
April 2015

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CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Q. Please state your name and business address.

A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission.

SHORT FORMS

Q. What short forms will Staff use?

A. Staff will use the following short forms:

- "Commission" for the Missouri Public Service Commission;
- "Staff" for the Staff of the Missouri Public Service Commission;
- "Public Counsel" or "OPC" for the Office of the Public Counsel;
- "KCPL" or "Company" for Kansas City Power & Light Company;
- "Regulatory Plan" for KCPL's experimental alternative regulatory plan the Commission approved in Case No. EO-2005-0329;
- "GMO" for KCP&L Greater Missouri Operations Company;
- "Great Plains" or "GPE" for Great Plains Energy, Inc.;
- "GMO's MPS rate district." for GMO's service territory formerly served by Aquila's Missouri Public Service division (areas in and about Kansas City and Sedalia, Missouri);
- "GMO's L&P rate district" for GMO's service territory formerly served by St. Joseph Light & Power Company (in and about St. Joseph, Missouri).

CREDENTIALS

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work included study in the field of Accounting and Auditing.

Q. What job duties have you had during your employment with the Commission?

A. I have assisted, conducted, and supervised audits and examinations of the books and records of investor-owned, public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations, and complaint cases, as well as cases relating to mergers and acquisitions, and certifications.

Q. Have you previously testified before this Commission?

A. Yes. Schedule CGF-d1 attached to this testimony contains a list of rate cases in which I testified, in writing or orally. In addition, I also identify in Schedule CGF-d1 other cases where I directly supervised and assisted Staff in audits of public utilities, but where I did not testify.

Q. With reference to Case No. ER-2014-0370, have you examined and studied the books and records of KCPL regarding its electric operations?

A. Yes, with the assistance other members of Staff.

Q. What knowledge, skill, experience, training and education do you have with regard to KCPL's general rate increase tariff filing that is the subject of this case, Case No. ER-2014-0370?

A. I have acquired knowledge of the ratemaking and regulatory process through my employment with the Commission. I have participated in numerous rate cases, complaint cases, merger cases and certificate cases, and filed testimony on a variety of topics. I have also acquired knowledge of these topics through review of Staff work papers from prior rate cases filed before this Commission (including Staff work papers specifically relating to KCPL). I have previously examined generation and generation-related topics; conducted and participated in several construction audits involving plant and construction records, specifically the costs of construction projects relating to power plants. I have also been directly involved in the fuel and fuel-related areas for power plant production, purchased power and off-system sales on numerous occasions.

In particular, I have been involved in many KCPL general electric rate cases, most recently Case No. ER-2012-0174, three under its Regulatory Plan, and others in the early 1980s, in particular the rate case concerning the in-service of the Wolf Creek Nuclear Generating Station ("Wolf Creek"). All of these rate cases are identified in Schedule CGF-d1 attached to this testimony. I was also involved in KCPL's steam rate cases in the early 1980's when KCPL had steam operations in downtown Kansas City before it sold them to Trigen-Kansas City Energy Corporation (now known as Veolia Energy Kansas City) in 1990.

I also have participated in many electric and steam rate cases involving KCPL's affiliate GMO, previously named Aquila, Inc. ("Aquila"). KCPL's parent, Great Plains, acquired GMO in July 2008 after the Commission approved the acquisition in Case No. EM-2007-0374. GMO has two rate districts—L&P (in and about St. Joseph, Missouri) and MPS (the remainder of its service territory which includes areas in and about Kansas City and Sedalia, Missouri). Prior to Great Plains' acquisition of GMO, I was involved in many Aquila rate cases and acquisition reviews for GMO's L&P and MPS rate districts. GMO provides steam service in its L&P rate district that uses some of the same facilities it uses for providing electric service in its L&P rate district. Until 2002 Aquila went by the name of UtiliCorp United, Inc.

Since GMO became an affiliate of KCPL, they have consolidated their operations; operationally, KCPL runs GMO. Therefore, for this rate case, I reviewed testimony, work papers and responses to data requests from both KCPL and GMO, along with documents such as data request responses and work papers in prior cases involving rates, electric and steam, for what are now referred to as GMO's MPS and L&P rate districts. I conducted and participated in interviews of KCPL personnel relating to this rate case, and I performed extensive discovery concerning aspects of the construction and operation of KCPL's electric operations. Over the years I have had many discussions with KCPL personnel regarding a variety of regulatory topics, including KCPL's rate case & regulatory activities, earnings reviews, regulatory plans, depreciation, de-commissioning trust funds for Wolf Creek, and merger, acquisition and sale transactions.

I participated in the Staff's review of the 1996 merger application of KCPL and GMO (then doing business as UtiliCorp United, Inc.) in Case No. EM-96-248, where they applied for Commission authority to consolidate their operations. After that merger did not close because KCPL's shareholders did not approve it, I participated in acquisition cases in 1998 and 1999, involving KCPL and GMO. In Case No. EM-97-515, KCPL and Westar Energy (then called Western Resources) sought authority to merge. I participated in Case No. EM-2000-292, where St. Joseph Light & Power Company and UtiliCorp sought

Commission authority to merge. That merger closed December 2000. I also participated in Case No. EM-2000-0369, where UtiliCorp and The Empire District Electric Company sought Commission authority to merge. That merger did not close.

In addition to the foregoing cases, during my employment at the Commission I have been involved in many other reviews and investigations that were initiated by applications KCPL or GMO filed.

Q. What is the purpose of your direct testimony?

A. I present an overview of the results of Staff's review of KCPL's annual revenue requirement in response to KCPL's general rate increase request made on October 30, 2014. I provide an overview of Staff's work on each component of the revenue requirement calculation Staff used for determining an appropriate annual revenue requirement for KCPL in this case. Several members of Staff had specific assignments relating to different components of Staff's revenue requirement calculation for KCPL. The members of Staff who contributed to the Staff's Cost of Service Report are identified in the report to the sections for which they are responsible and verify, and their credentials are included in an appendix to the report. Results for the different revenue requirement calculation components are contained in Staff's Accounting Schedules. Using historic financial information from KCPL's actual operations through the update period ending December 31, 2014 to develop a comprehensive annual revenue requirement, Staff applies annualization and normalization ratemaking techniques to make adjustments to reflect the costs of KCPL's ongoing operations in the future.

Staff refers to the revenue requirement model it uses as "Exhibit Modeling System" or "EMS," and refers to its EMS modeling results based on various inputs as "EMS runs."

Staff estimates a utility's annual revenue requirement based on the work product of members of the Regulatory Review Division of the Commission. Staff's EMS run results that support its revenue requirement for KCPL are the Accounting Schedules that are separately filed as an exhibit in the case. My direct testimony and the Staff's Cost of Service Report present and support Staff's revenue requirement for KCPL found in the Accounting Schedules.

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. I sponsor Staff's Cost of Service Report and Accounting Schedules in this rate proceeding that are being filed concurrently with this testimony. Staff's Cost of Service Report supports Staff's recommendation of the amount of the rate revenue increase for KCPL's Missouri jurisdictional operations based on actual historical information through the update period ending December 31, 2014. In addition, Staff has added an estimate of the projected rate revenue increase for true-up items as an allowance to its December 31, 2014, result to reflect what Staff currently expects when the true-up based on the ending date of May 31, 2015 is completed. Staff will revise its recommendation of the amount of the revenue requirement increase for KCPL based actual results for the true-up period ending May 31, 2015, when that information becomes available. Staff's rate revenue requirement recommendation for KCPL being filed based on the test year updated through December 31, 2014, is found in Staff's separately filed Accounting Schedules.

I present an overview of the results of Staff's review of KCPL's revenue requirement started in response to KCPL's general rate increase request made on October 30, 2014. Several members of Staff participated in Staff's examination of KCPL's books and records for all the relevant and material components that make up the revenue requirement calculation. These components can be broadly defined as (1) capital structure and return on investment, (2) rate base investment and (3) income statement results, including revenues, operating and maintenance expenses, depreciation and amortization expense, and the taxes related to revenues and these expenses, including income taxes. I provide an overview of the Staff's work on each of these broadly defined components.

Q. Based on its review of the test year ending March 31, 2014, updated through December 31, 2014, what is Staff's recommendation concerning KCPL's revenue requirement?

A. Staff recommends a return on equity ("ROE") range of 9.00% to 9.50%, with a mid-point of 9.25%, which yields the rate of return range of 7.28% to 7.53%. Staff recommendation for rate of return appears as:

Staff's Recommended Cost of Capital

Type of Capital	**Ratio**	**Embedded Cost**	**Weighted Cost of Capital Using Common Equity of 9.00%**	**Weighted Cost of Capital Using Common Equity of 9.25%**	**Weighted Cost of Capital Using Common Equity of 9.50%**
Common Equity	50.31%	-----	4.53%	4. 65%	4.72%
Preferred Common Stock	0.55%	4.29%	0.02%	0.02%	0.02%
Long-Term Debt	49.14%	5.55%	2.73%	2.73%	2.73%
Total	100%		7.28%	7.41%	7.53%

Staff's revenue requirement calculation, which is based on KCPL's actual costs through December 31, 2014, and its current rates, indicates KCPL has an annual revenue shortfall of between $17.4 million to $26.3 million. KCPL's current rates generate approximately $762.6 million annually for the test year ending March 31, 2014. With the increase of between $17.4 to $26.3 million (2.28% to 3.4%), Staff's recommendation for total KCPL revenues are approximately $780 to $788.9 million annually. Because of cost increases related to generating plant environmental upgrades at La Cygne Units 1 and 2, upgrades to Wolf Creek and other plant additions occurring after the December 31, 2014, update period, as well as other changes in revenues and costs expected to occur through the true-up period through May 31, 2015 that are not known and measurable at this time, Staff's calculated annual revenue requirement for KCPL will change when it completes its true-up in this case. After it completes its audit of selected actual historical information from December 31, 2014, through May 31, 2015, Staff will make its true-up annual revenue requirement recommendation for KCPL in its true-up direct filing in this case, currently due July 7, 2015. Staff has included its current estimate of the revenue requirement impacts it expects during the true-up in the Allowance for Known and Measurable Changes/ True-up Estimate found on Schedule 1 of Staff's Accounting Schedules. With this estimate, Staff is anticipating KCPL's total revenue increase to be between $82.4 and $91.3 million as shown:

	Weighted Cost of Capital Using Common Equity of 9.00%	**Weighted Cost of Capital Using Common Equity of 9.25%**	**Weighted Cost of Capital Using Common Equity of 9.50%**
Revenue Requirement at December 31, 2014	$17,383,073	$21,851,199	$26,283,864
Allowance for Known Changes at May 31, 2015	65,000,000	65,000,000	65,000,000
Total Revenue Requirement	$82,383,073	$86,851,199	$91,283,864

Q. What are the major factors impacting Staff's estimate of KCPL's annual revenue requirement increase in this case?

A. The following is a non-exhaustive list:

- Rate of Return;
- KCPL's ownership share of costs for new environmental equipment installed at La Cygne Units 1 and 2 expected to be completed in the 2nd quarter 2015, and included in the May 31, 2015 true-up;
- KCPL's ownership share of costs for upgrades at Wolf Creek relating to the essential water supply expected to be completed in 2nd quarter 2015, and included in the May 31, 2015 true-up;
- KCPL's customer meter replacement program for its Missouri jurisdiction;
- KCPL's fuel costs, including freight rate changes and purchased power costs;
- KCPL's transmission costs;
- KCPL's pension and other post-employment benefits (OPEBs) costs; and
- KCPL's depreciation costs for different rates and new plant additions.

Q. Did you review any specific components of the revenue requirement calculation Staff used for determining KCPL's revenue requirement in this case?

A. Yes. I examined the additional amortizations KCPL received in prior rate cases (Case Nos. ER-2006-0314, ER-2007-0291 and ER-2009-0089) based on KCPL's Regulatory Plan the Commission approved in Case No. EO-2005-0329 to ensure that the amortizations are treated as agreed to in the Commission-approved *Non-Unanimous Stipulation and Agreement Regarding Depreciation and Accumulated Additional Amortizations* ("2010 Amortizations Stipulation") filed February 2, 2011, in Case No. ER-2010-0355. As agreed, KCPL transferred the accumulated additional amortizations to Accumulated Depreciation Reserve.

Staff witness Alan J. Bax and I examined the jurisdictional assignment and allocation of KCPL's costs, i.e., the assignment and allocation of costs between the Missouri retail, the

Kansas retail and the wholesale markets, in order to identify the rate base investment and income statement expenses to include in developing KCPL's revenue requirement for serving its Missouri retail customers—the Missouri retail jurisdiction.

I also sponsor the non-firm off-system sales levels in this case— Adjustments to the Accounting Schedule Rev-11.1 and Rev-12.1. The off-system sales levels were included in Staff's fuel run and generation costs were reflected in the fuel and purchased power costs included in Staff's recommendation.

OVERVIEW OF KANSAS CITY POWER & LIGHT COMPANY'S FILING

Q. Why did Staff review KCPL's books and records and calculate an annual revenue requirement for KCPL in this case?

A. On October 30, 2014, KCPL filed tariff sheets designed to implement an increase in its electric retail rate revenues in Missouri, exclusive of gross receipts, sales, franchise and occupational fees or taxes, of $120.9 million per year. The Commission assigned the filing the docket number of Case No. ER-2014-0370. If implemented on an equal percentage basis, KCPL's rate request would result in a 15.75% increase in existing KCPL rates. KCPL's rate request is based, in part, on a proposed rate of return on equity of 10.3% applied to a 50.36% equity capital structure. This capital structure, in turn, is based on the projected capital structure of KCPL's parent holding company Great Plains. [Source: paragraphs 7 and 8 KCPL's Application- Minimum Filing Requirements page 3].

Staff reviewed KCPL's books and records, and calculated an annual revenue requirement for KCPL, to independently evaluate KCPL's rate increase request.

Q. Earlier you testified that KCPL and GMO have consolidated their operations. Did GMO also seek a general increase its electric rates?

A. No. Unlike the previous three KCPL rate cases since Great Plains acquired GMO in July 2008, GMO did not file for a rate increase at the same time as KCPL.

Q. Has KCPL filed a similar rate case in Kansas?

A. Yes. On January 2, 2015, KCPL filed a rate case in Kansas seeking to increase its electric rates in that state. The Kansas Corporation Commission designated that case Docket No. 15-KCPE-116-RTS. In Kansas, KCPL requested a $67.3 million per year increase based on a test year ended June 30, 2014, adjusted for known and measurable changes. This $67.3 million per year represents a 12.53% increase over its current Kansas revenues of $536.7 million. KCPL's Kansas request is based on a ROE of 10.3% and a 50.48% equity capital structure (also based on the capital structure of its parent Great Plains). It would result in a 7.94% total return on KCPL's investment in Kansas. [Source: paragraphs 3 and 11 KCPL's Kansas Application pages 2 and 5].

BRIEF HISTORY OF GREAT PLAINS ENERGY AND KANSAS CITY POWER & LIGHT COMPANY

Q. Would you provide a brief overview of KCPL?

A. KCPL is an integrated, regulated electric utility that provides generation, transmission, distribution service as part of its sale of electricity to retail customers in Missouri and Kansas. Its employees also operate GMO under an operating agreement between KCPL and GMO. KCPL, under the jurisdiction of the Federal Energy Regulatory Commission (FERC), also sells electricity at wholesale to municipalities in Kansas and Missouri. KCPL is a Missouri corporation incorporated in 1922. Through consolidations involving a series of mergers and acquisitions, KCPL, and its predecessors, began providing electric service to the public in the late 19th century. In 2001, KCPL reorganized its corporate structure creating Great Plains as the holding company parent and KCPL surviving as a wholly-owned subsidiary of Great Plains.

Q. Would you provide a brief overview of KCPL's parent, Great Plains?

A. Great Plains is a holding company incorporated in Missouri in 2001. It has two wholly-owned subsidiaries—KCPL and GMO—that provide regulated retail utility services in Missouri. It also owns KLT Inc., which has very small non-regulated operations that presently are not active. Great Plains also wholly owns Great Plains Energy Services Incorporated (GPES). GPES provided corporate services at cost to Great Plains Energy and its subsidiaries, including KCPL and GMO until December 16, 2008, when, in a restructuring, all employees of Great Plains and GPES were transferred to KCPL. Following that restructuring, KCPL employees perform all the work for Great Plains and its subsidiaries.

Q. Would you provide a brief overview of GMO?

A. GMO is also an integrated, regulated electric utility that provides generation, transmission, distribution and sells electricity to retail customers in the northwestern, central western and southern part state of Missouri. GMO is also a wholly-owned subsidiary of Great Plains. As described earlier, it has two rate districts—MPS and L&P. GMO provides electric retail service only in Missouri. In addition to serving retail customers, MPS, under the jurisdiction of the FERC, sells electricity at wholesale to several municipalities in Missouri. L&P does not. GMO is a Missouri corporation incorporated in 1987 and most recently renamed in 2008. GMO's most recent prior name was Aquila, Inc., named in 2002, and from 1985 to 2002 was called UtiliCorp United Inc. The predecessor company to UtiliCorp United was Missouri Public Service Company which was formed from a merger in

1927 with Green Light & Power Company, which was incorporated in 1917 [Aquila 2005 Shareholder Report, page 5].

STAFF FINDINGS AND RECOMMENDATIONS FOUND IN STAFF'S COST OF SERVICE REPORT AND STAFF'S ACCOUNTING SCHEDULES

Q. Did Staff only review KCPL's books and records in order to calculate a revenue requirement for KCPL?

A. No. Staff also interviewed KCPL personnel. Staff reviewed KCPL's responses to data requests issued in this and other cases. Staff reviewed the minutes of meetings of the Boards of Directors of Great Plains, KCPL and GMO. In addition to the books and records of KCPL, Staff reviewed the books and records of GMO for the last several years, as well as the affiliates of KCPL and GMO. Those books and records included: the general ledger, plant ledgers and various other documents, including FERC Form 1s. In previous KCPL and GMO rate cases Staff toured most of KCPL's and GMO's plant facilities, including the Iatan Energy Center (jointly owned by KCPL, GMO, and others) where it saw the Iatan Unit 1 Air Quality Control System and the construction of Iatan Unit 2, the Wolf Creek Nuclear Generating Station (47% owned by KCPL), Sibley Generating Unit (GMO), Jeffrey Energy Center (GMO owns an 8% share of the units), Lake Road Generating Station (GMO), as well as other KCPL generating units.

Q. Which members of Staff were assigned to work on this case?

A. Several Staff experts from the Regulatory Review Division were assigned to work on this case. Their names follow with a brief description of their contribution to the Staff's Cost of Service Report:

<u>Utility Services Department</u>

Financial Analysis Unit--

- Zephania Marevangepo -- Rate of Return and Capital Structure.

Engineering and Management Services Unit--

Derick A Miles, PE -- Depreciation Rates.

Auditing Unit--

- Cary G. Featherstone-- Overall Revenue Requirement Results, Jurisdictional Allocations and Additional Amortization relating to the Regulatory Plan;
- V. William Harris—Lease Expenses; Operation and Maintenance Expense Non-wage, Off-system Sales, Cash Working Capital;
- Charles R. Hyneman—Construction Audit of La Cygne Environmental Equipment, Affiliated Transactions;
- Karen Lyons-- Fuel and Purchased Power Costs, Fuel Inventories, Warranty Payments;
- Keith Majors— Pensions and Other Post-Retirement Employment Benefits, Electric Revenues and Uncollectible Revenues (Bad Debts), Acquisition Savings, Construction Accounting, Income Taxes, Deferred Income Taxes, and Deferred Income Tax Reserve;
- Joel A. Molina-- Plant in Service, Accumulated Depreciation Reserve, Depreciation Expense, Material and Supplies, Prepayments, PSC Assessments, and Advertising Expenses; and
- Matthew R. Young—Payroll, Payroll Related Benefits, Payroll Taxes, and Incentive Compensation.

<u>Utility Operations Department</u>.

- Alan J. Bax—Losses and Jurisdictional Allocations;
- Kory Boustead – Pre-MEEIA Income Eligible Weatherization (previously referred to as Low-Income Weatherization Program), and Economic Relief Pilot Program;
- Natelle Dietrich – Fuel Adjustment Clause - Policy;
- Dana E. Eaves– Fuel Adjustment Clause - Structure;
- Claire M. Eubanks, PE – Renewable Energy Standard;

- Randy S. Gross – KCPL Smart Grid Update, and Heat Rate and Efficiency Testing;
- Jason Huffman– MEEIA Summary – Pre-MEEIA DSM Programs and Cost Recovery Mechanism, and LED Street Lighting Pilot Tariff;
- Thomas M. Imhoff – Pre-MEEIA Income Eligible Weatherization (previously referred to as Low-Income Weatherization Program);
- Robin Kliethermes - Electric Retail Rate Revenues;
- Shawn E. Lange – Fuel Model Results, Capacity Contract Prices and Energy, Planned and Forced Outages, and La Cygne AQCS In-Service/Construction Audit-Engineering review;
- Erin L. Maloney – Purchased Power Prices;
- Byron M. Murray – Tariff Issues, and Electric Vehicle Charging Stations;
- Michael L. Stahlman – Electric Vehicle Charging Stations, Economic Considerations, and Pre-MEEIA Opt outs and costs; and
- Seoung Joun Won, PhD – Weather Normalization, 365-Days Adjustment Weather variables, and Large Customer Adjustments/ Annualizations.

The work product of each of these Staff experts was used as a direct input to the various adjustments contained in Staff's Accounting Schedules and revenue requirement recommendation.

Q. Would you provide an overview of how the Staff assigned to this case worked together to arrive at Staff's revenue requirement recommendation and true-up estimate?

A. All of the Staff members assigned to this case are, by education, training and experience, experts at performing their regulatory responsibilities as members of Staff. These regulatory experts rely on the work of each other to develop Staff revenue requirement recommendations regarding filings public utilities make before the Commission. The work of each Staff member is an integral part of the Staff's Cost of Service Report, including Staff's Accounting Schedules, which contain the results of their collective efforts in Staff's findings and recommendations. I relied on these findings and recommendations to develop

Staff's ultimate recommendations in this direct filing. Many of the individual sections presented include references indicating reliance on the work of other contributing experts.

I relied on the work product of every Staff expert assigned to this case. Each Staff expert provided the results of their review and analysis as inputs to the revenue requirement calculation, and is identified in the sections of the report submitted by that expert. An affidavit, credentials, and the qualifications of each Staff expert are included in the Report as attachments. Each Staff expert assigned to this rate case will provide work papers of their review and analysis to KCPL and to other parties as the Commission has ordered in setting the procedural schedule in this case. Finally, each Staff expert assigned to this rate case will be available to answer Commissioner questions and to be cross-examined by any party who wishes to conduct cross-examination regarding information on how Staff's findings and recommendations were developed and presented in Staff's Cost of Service Report, including Staff's Accounting Schedules.

Q. What is your overall responsibility in this case?

A. I am one of two project coordinators assigned to identify the work scope for the case, make Staff assignments, and supervise and oversee all work product development. I specifically supervised all areas of the audit work assigned to and the responsibility of the Auditing Unit. I worked closely with other Staff experts assigned to this rate case. I worked with the depreciation and rate of return experts as well as the Utility Operations experts assigned to revenues and fuel costs as well as the demand side management, low income weatherization and Missouri Energy Efficiency Investment Act of 2009 ("MEEIA") costs.

I have overall responsibility to ensure the revenue requirement calculation using the Staff's computer model (EMS) is timely completed. This involves all aspects of the elements making up the revenue requirement recommendation. To this end, I, along with those under my direct supervision, either developed directly, or was provided with, the information used to support the Staff's revenue requirement recommendations for KCPL.

Q. Would you please provide examples of how information from Staff experts was used to develop Staff's revenue requirement recommendation for KCPL?

A. Yes. Staff expert Zephania Marevangepo's recommendations from his capital structure and rate of return analyses were provided as inputs to the revenue requirement calculation and appear as part of Accounting Schedule 12. His findings are also in Staff's Cost of Service Report, along with his schedules.

Staff expert Derick A. Miles provided the results of his depreciation analysis, which also are reflected in Staff's Cost of Service Report, and in a schedule to the report.

Staff experts Keith A. Majors, Robin Kliethermes and Seoung Joun Won worked closely together and are sponsoring the revenue adjustment results.

Staff experts Shawn E. Lange, Erin L. Maloney and Karen Lyons worked together in developing the Staff's fuel costs for KCPL in this case.

Staff expert Alan J. Bax developed the energy and demand jurisdictional allocators used to allocate total company operations to KCPL's Missouri jurisdictional retail operations.

Q. Did Staff develop its revenue requirement recommendation for KCPL in this rate case any differently than it has done so in the past for KCPL rate cases and for the rate cases of other utilities?

A. No. Based on my extensive experience as a regulatory auditor, my many years of experience as a project coordinator in numerous rate cases, the effect of the inputs provided by the various Staff experts assigned to these rate cases, Staff's overall revenue requirements for KCPL as presented in this testimony and the Staff's Cost of Service Report, including the Accounting Schedules, are all reasonable. Staff developed its revenue requirement for KCPL consistently with how Staff has developed revenue requirements for other utilities, and the inputs provided by the various Staff experts assigned to the KCPL rate case are reasonable.

Q. Does this April 2, 2015, filing by Staff present all of Staff's direct case?

A. No. Staff is scheduled to file its rate design recommendation for KCPL on April 16, 2015.

Test Year and Known & Measurable Period

Q. What is a test year?

A. A test year is an historical year from which actual information is used as the starting point for determining an annual revenue requirement for a utility to see if any shortfall or excess of earnings exists. Adjustments are made to that information so that, as adjusted, it reflects the normal annual revenues and operating costs of the cost-of-service, rate-regulated utility. Those normal annual revenue and operating costs to provide utility service in the future form the basis for determining what the utility's rates need to be to give it the opportunity to collect in the future sufficient revenues both to pay for those ongoing costs and to earn a reasonable profit. In determining ongoing revenues and costs to develop the utility's annual revenue requirement, the first step is to identify the levels of the test year costs, which serve as the starting point for making all the adjustments to arrive at the revenue requirement recommendation. The Commission concisely stated the purpose of using a test year in its Order in KCPL's 1983 general rate case, Case No. ER-83-49:

> The purpose of using a test year is to create or construct a reasonable expected level of earnings, expenses and

> investments during the future period in which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items, or include unusual items, by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's operations. The Commission has generally attempted to establish those levels at a time as close as possible to the period when the rates in question will be in effect.

Q. Is the test year important?

A. Yes. It is important to synchronize and capture—"match"—all revenues and costs in the test year, and more importantly the update period, in order to develop a relationship between the various components used in the ratemaking process and keep those relationships properly aligned. To determine the proper level of utility rates, Staff examines the major elements of the utility's operations. These include rate base items such as plant-in-service, accumulated depreciation, deferred income tax reserves, fuel stocks, material and supplies, and other investment items. Also essential in this process is a review of the utility's revenues and expenses, making adjustments through the annualization and normalization processes. These items include: payroll; payroll-related benefits; payroll taxes; fuel and purchased power costs, including the updating of current fuel prices; operation and maintenance costs for non-payroll-related costs such as material and equipment costs, small tool costs, and outside vendor costs for equipment repairs needed for the maintenance and upkeep of the electric system. Depreciation and amortization expenses and taxes, including federal, state, local and property taxes, are all considered in setting rates.

It is important to maintain a representative relationship between rate base, revenues and expenses at a point in time near to when new prospective rates become effective in order for a public utility to have an opportunity to earn a fair and reasonable return. An attempt is made in the regulatory process to set rates to properly reflect the levels of investment and expenses necessary to serve the retail customers who provide revenues to the utility.

Q. What is the test year in this case?

A. The ordered test year is the twelve months ended March 31, 2014. The Commission approved and ordered the test year in its December 12, 2014, *Order Setting Procedural Schedule and Establishing Test Year and Other Procedural Requirements*. Staff made annualization, normalization and disallowance adjustments to the test year results when the unadjusted results did not fairly represent KCPL's most current ongoing annual level of revenues and operating costs.

Q. What update period did the Commission order in this case?

A. The period ending December 31, 2014.

Q. What true-up cutoff date did the Commission order in this case?

A. May 31, 2015.

Q. Has Staff projected the change in KCPL's revenue requirement it expects after the May 31, 2015 true-up?

A. Yes. Staff has included a projection in the allowance for known and measurable changes that likely will cause Staff to change its revenue requirement recommendation for KCPL after it completes its true-up review. The "Allowance" can be seen on Accounting Schedule 1.

Q. Why are the update and true-up cutoff dates important?

A. The update period is critical to the development of new rates. New rates from general rate cases such as this one normally take about eleven months from the time the case is filed until the new rates take effect. A utility's revenue requirement based on the historical test year may change significantly while its case is being processed. To better match new rates with the utility's ongoing revenue requirement, the Commission may order update and true-up periods. Test year information is updated to reflect changes through the update cut-off date—in this case December 31, 2014—and major changes through the true-up date—in this case May 31, 2015.

Selecting a "known and measurable date" or "known and measurable period" is even more important than the test year to synchronize and capture—"match"—all revenues and expenses, as this updated information, along with the results of the true-up, will form the basis for changing rates. Just as with the test year, a proper determination of revenue requirement is dependent upon a consideration of all material components of the rate base, return on investment, current level of revenues, along with operating costs, ***at the same point in time,*** as stated by the Commission. This ratemaking principle is common to all rate cases and common to how the Commission has established rates using all material and relevant cost components in the revenue requirement calculation. The December 31, 2014, date for the known and measurable period was chosen to enable the parties and Staff an update period that provides sufficient time to obtain actual information from KCPL upon which to perform analyses and make calculations regarding various components to the revenue requirement and still base Staff's revenue requirement recommendation on very recent information.

In Case No. ER-83-49, regarding the need for a true-up, the Commission stated that it would not "consider a true-up of isolated adjustments, but will examine only a package of adjustments designed to maintain the proper revenue-expense-rate base match at a proper point in time." [26 Mo P.S.C. (N.S.) 104, 110 (1983)] This concept of developing a revenue requirement calculation based on a consideration of all relevant factors has been a long-standing approach to ratemaking in this state, and is the approach Staff is following in this case.

The update cutoff date of December 31, 2014, is as close to the Staff's direct filing date of April 2, 2015, as possible, but still allow the parties and Staff reasonable time to prepare and file a direct case based on available historical information as near to the direct filing date as possible.

Revenue Requirement Ratemaking Adjustments

Q. Does Staff make any adjustments to the utility's actual historical accounting information to determine the annual revenue requirement it recommends the Commission use for setting that utility's rates?

A. Yes. The ratemaking process includes making adjustments to actual historical accounting information so that it reflects the normal, on-going operations of the utility. This process generally uses four approaches to reflect changes determined to be reasonable and appropriate. They are annualization, normalization, disallowances, and *pro forma* adjustments.

Q. What is an annualization adjustment?

A. An annualization adjustment is made to a cost or revenue shown on the utility's books to reflect a full year's impact of that cost or revenue. Examples are employee pay raises during the test year and employees starting employment during the updated test year. Both of these events require annualization adjustments so that the full annual salaries of all employees are reflected in the updated test year. If not annualized, the utility's payroll would be understated, since the increased payroll cost to the utility due to such employees will continue into the future. Another example is where new customers start taking service during or at the end of the updated or trued-up test year. Their usage needs to be annualized to reflect a full 12-months of revenues from them. If the utility's revenues from these customers are not normalized, then the utility's revenues will be understated, causing its revenue requirement to be overstated and its new rates to be too high.

In this case Staff annualized revenues, payroll costs, fuel costs and other accounting information.

Q. What is a normalization adjustment?

A. A normalization adjustment is made to revise an actual cost to reflect the cost at a normal, on-going level. Utility revenues and costs that were incurred in the test year that are determined not to be typical, are unusual, or relate to abnormal events generally are adjusted to remove the revenue or cost effects of those atypical, abnormal or unusual events. For example, some utility revenues and costs vary with changing weather temperatures; therefore, adjustments are made to normalize them. Unusually hot or cold weather significantly impacts utility revenues from those customers whose utility service usage is weather sensitive as well as the utility's cost to serve those customers, both of which may impact revenues and costs, and may distort how representative of the future the actual levels of test year revenues and costs are. Because utility rates are set using normalized inputs, adjustments to actual historical test-year input levels must be made when unusual or abnormal events cause the actual historical customer usage to be higher or lower than normal. To adjust them, temperatures during the test year are compared to normal annual daily temperatures that are based on actual temperature measurements taken over a substantial period of time, many times a 30-year time horizon. Weather-sensitive revenues are adjusted in the test year to reflect normal weather temperatures. The resulting weather-normalized sales volumes are also used as the basis for the utility's fuel and purchased power costs, so that they too reflect normal weather temperatures.

Maintenance and operation costs relating to production equipment, such as coal-fired generating units may also be normalized. If unusual events like major maintenance on turbines have occurred during the test year, then accounts where the costs associated with them may be adjusted to reflect a normal level. If normalization adjustments are not made, the utility's revenues and costs, which both directly impact earnings, would be either too high or too low to properly reflect the utility's future ongoing revenues and costs. For example, cooler-than-normal weather in the summer will negatively impact an electric utility's revenues, since the demand for electricity for air conditioning is decreased relative to a "normal" year. Staff proposes adjustments to normalize the costs and revenues of events that are expected to vary from the "normal" year.

In this case, Staff, based on an examination of actual historical events, has made both a weather adjustment for revenues, and normalized non-payroll operation and maintenance expenses.

Q. What is a disallowance?

A. A disallowance is an adjustment to remove an item from the utility's revenue requirement. Typically a disallowance is made to remove a cost because the cost is not expected to recur, it was not necessary for providing utility service, it provided no benefit to ratepayers, or it was imprudent. One example of costs that are disallowed are certain advertising costs. While some advertising costs benefit ratepayers and should be included in rates, others do not, and should be disallowed. In this case Staff disallowed certain of KCPL's advertising costs.

Q. What is a *pro forma* adjustment?

A. This type of adjustment is made to reflect increases and decreases to a utility's revenue requirement caused by the implementation of a rate increase or decrease. *Pro forma* adjustments are made because of the need to reflect the impact of items and events that occur subsequent to the test year. These items and events may significantly impact the revenue, expense and the rate base relationship, and should be recognized to address the objective of forward-looking rates. Caution must be taken when making *pro forma* adjustments to ensure that all material items and events subsequent to the test year are examined to avoid failing to recognize offsetting adjustments. In addition, some post-test year items and events may not have occurred yet (be known) and / or may not have been sufficiently measured (be measurable). As a result, quantification of some *pro forma* adjustments may be more difficult than others. A true-up audit that considers a full range of items and events that occur subsequent to the test year and update period attempts to address the maintenance of a proper relationship between revenues, expenses and investment, as well as address the difficulty in making *pro forma* adjustments.

The most common example of a *pro forma* adjustment is the grossing up of a net income deficiency for income tax purposes. This involves calculating the revenue requirement before income taxes. If rates need to be adjusted to increase utility revenues, then those revenues need to be factored up for income taxes. This is necessary because every additional revenue dollar collected in rates is subject to income tax.

Revenue Requirement Calculation

Q. In the context of determining rates for public utilities, what is "revenue requirement"?

A. "Revenue requirement" is the amount of the annual revenues that a utility's rates should be designed to allow it to collect each year. General electric rates in Missouri are based on actual historical information. The revenue requirement is calculated using the key elements decided by the Commission such as rate of return and capital structure on the investment together with the costs to provide a particular utility service. This difference between the revenue requirement from a cost of service calculation and revenues based on existing rates identifies any revenue shortfall (need to increase rates) or excess (need to decrease rates).

Q. How did Staff determine KCPL's revenue requirement?

A. Staff reviewed all the material and relevant components making up the revenue requirement of KCPL, which are: rate of return and capital structure, rate base investment, and revenues and expenses; as well as maintaining the relationship between each of these components through the update period ending December 31, 2014. It will continue to do so through the true-up period ending May 31, 2015.

Q. How do each of these components interrelate?

A. The ratemaking process for regulated utilities is a process whereby the Commission makes rate decisions regarding how utilities charge customers for utility services using a prescribed formula. This interrelationship may be seen through the following formula:

Revenue Requirement = Cost of Providing Utility Service

Or

RR = O + (V-D)R; where,

RR = Revenue Requirement

O = Operating Costs (Payroll, Maintenance, etc.) Depreciation and Taxes

V	=	Gross Valuation of Property Required for Providing Service (including plant and additions or subtractions of other rate base items)
D	=	Accumulated Depreciation Representing Recovery of Gross Depreciable Plant Investment.
V-D	=	Rate Base (Gross Property Investment less Accumulated Depreciation = Net Property Investment)
R	=	Rate of Return Percentage
(V-D)R	=	Return Allowed on Rate Base (Net Property Investment)

This formula is the traditional rate of return calculation this Commission relies on to set just and reasonable rates. The result is the total revenue requirement for a utility. The difference between that total amount and the total revenues the utility would bill an annualized and normalized level of test year customers under existing rates is the incremental change in revenues that rates need to be adjusted to allow the utility the opportunity to earn the revenue requirement the Commission authorizes, including the Commission-authorized return on rate base investment. The revenue requirement calculation allows for the recovery of the proper level of utility costs, including income taxes.

ORGANIZATION OF STAFF'S COST OF SERVICE REPORT

Q. How is Staff's Cost of Service Report organized?

A. It is organized by each major revenue requirement category as follows:

I. Background of Great Plains Energy and Kansas City Power & Light Company

II. Executive Summary

III. Kansas City Power and Light Company's Rate Case Filing

IV. Economic Considerations

V. Kansas City Power & Light Company Electric Rates

VI. Rate of Return

These categories have several subsections which identify in detail the specific elements of Staff's revenue requirement recommendation for KCPL.

OVERVIEW OF STAFF'S FILING, FINDINGS AND RECOMMENDATIONS

Q. Please identify the findings of Staff's review of KCPL's rate increase request.

A. Staff conducted a review of KCPL's October 30, 2014, rate increase filing and has identified the following areas in its findings and recommendations.

Overall Revenue Requirement

Q. How did Staff determine its revenue requirement for KCPL?

A. Staff identified many areas impacting KCPL's revenue requirement. Because of higher expected cost increases for plant additions and other cost increases, the initial revenue requirement developed as of the December 31, 2014, update case will change for the May 31, 2015 true-up.

The May 31, 2015, true-up in this rate case will include various cost increases and decreases. Staff will perform the true-up audit and provide a new recommendation regarding the revenue requirement at that time based on KCPL's actual costs.

There are other costs that will likely change and, therefore, materially affect Staff's current calculation of KCPL's revenue requirement. Those other costs include payroll; payroll-related benefits, such as pensions and medical costs; and fuel costs, including fuel commodity and freight price changes.

Rate of Return

The rate of return Staff used to calculate its revenue requirement recommendation for KCPL in this case is based on Great Plains' capital structure and corporate results. Zephania Marevangepo, of the Commission's Financial Analysis Unit, determined that the appropriate rate of return on equity is a range of 9.25% to 9.75% with a mid-point of 9.50% which results in an overall rate of return on investment of 7.41% to 7.66%. Mr. Marevangepo examined Great Plains' capital structure and KCPL's cost of money and provided Staff's proposed rate of return, which Staff used to calculate its revenue requirement recommendation for KCPL in this case.

Rate Base

Plant in Service and Accumulated Depreciation Reserve are reflected in KCPL's rate base as of December 31, 2014. All plant additions and retirements were included in the revenue requirement calculation as of December 31, 2014. Staff will add plant additions and retirements through the end of the true-up period, May 31, 2015.

Cash Working Capital has been included in rate base using a lead-lag study developed by KCPL and Staff over the last several rate cases. This has been updated to reflect changes in this case.

Fuel Stock (Coal, Oil and Nuclear) Inventories, Material & Supplies and Prepayments were included as of the December 31, 2014. These items will be re-examined in the true-up.

Prepaid Pension Asset relates to previous Stipulations and Agreements from KCPL's Regulatory Plan the Commission adopted in Case No. EO-2005-0329 and KCPL's 2006 rate case (Case No. ER-2006-0314), KCPL's 2007 rate case (Case No. ER-2007-0291), KCPL's 2009 rate case (Case No. ER-2009-0089), KCPL's 2010 rate case (Case No. ER-2010-0355) and KCPL's 2012 rate case (Case No. ER-2012-0174).

Accumulated Deferred Income Taxes Reserves were included as an offset to rate base as of December 31, 2014. Deferred tax reserves will be updated for the true-up.

"Regulatory Plan Amortization Case ER-2006-0314" reflects the additional amortization amounts that accumulated since the date the 2006 rate case rates went into effect on January 1, 2007, as a result of the Commission's Order in Case No. ER-2006-0314.

"Regulatory Plan Amortization Case No. ER-2007-0291" reflects the additional amortization amounts that accumulated since the date the 2007 rate case rates went into effect on January 1, 2008, as a result of the Commission's Order in Case No. ER-2007-0291.

"Regulatory Plan Amortization Case No. ER-2009-0089" reflects the additional amortization amounts that accumulated since the date the 2009 rate case rates went into effect on September 1, 2009, as a result of the Commission's Order in Case No. ER-2009-0089.

All the additional amortizations accumulated from the date the Commission authorized them in each of the cases referenced above through the effective date of rates in Case No. ER-2010-0355, May 4, 2011. Staff verified that the three regulatory plan amortizations were included in the accumulated depreciation reserve, which is the treatment agreed to in a Stipulation and Agreement the Commission approved in Case No. ER-2010-0355.

Other rate base components for customer deposits, customer advances for construction, deferred SO_2 allowances, and other regulatory liability for emission allowance sales are included through end of the update period of December 31, 2014.

INCOME STATEMENT

Revenues

Staff annualized and normalized revenues through December 31, 2014, to reflect an annual ongoing level of weather normalized revenues on a Missouri jurisdictional basis. Staff applied a weather normalization adjustment to the test year level of revenues (April 2013 through March 2014). Revenues will be trued-up through May 31, 2015.

Expenses

Fuel costs in this case are based on coal and natural gas prices as of December 31, 2014, or January 1, 2015, essentially the same date. Purchased power costs were also included through December 31, 2014. Other inputs, such as fuel mix, and station outages and transmission and distribution line losses, were determined using historical information. Fuel and purchased power costs will be trued-up through May 31, 2015.

Payroll, payroll related benefits, and payroll taxes were annualized through December 31, 2014. Payroll will be updated in the true-up as of May 31, 2015.

Operations and maintenance costs, other than payroll costs, were included in the case based on calendar year 2014 levels.

Depreciation expense was annualized based on Commission-ordered depreciation rates. The depreciation rates were applied to Staff's recommended adjusted plant-in-service jurisdictional amounts, resulting in total annualized Missouri jurisdictional depreciation expense. Depreciation expense will be updated for May 31, 2015, based on plant levels included in the true-up.

Staff calculated income taxes based on the results of the revenue requirement calculation as of December 31, 2014. The income tax expense amount will be trued-up as of May 31, 2015. The deferred income tax reserve will also be trued-up as of May 31, 2015, from the level reflected as of December 31, 2014.

ALLOWANCE TO THE REVENUE REQUIREMENT

Q. Has Staff included a true-up allowance in its direct filing?

A. Yes. Staff is including its current best estimate of the revenue requirement change it expects its true-up review (through May 31, 2015) to be. Staff obtained this estimate from KCPL. It is designed to include the revenue requirement impacts pf plant additions that are expected to be complete by the true-up ending period of May 31, 2015, and other projected cost increases beyond the update period. The Commission has authorized the use of updating the case through end of May 31, 2015, primarily to address KCPL's significant increases for plant additions and also expected increases for transmission and pension costs.

Q. Why is this true-up estimate so high?

A. Primarily because KCPL is in process of completing construction of two major environmental plant additions to La Cygne Units 1 and 2, and upgrades at Wolf Creek to replace the essential water system. KCPL is also in the process of systematically replacing customer meters in Missouri. None of these costs are included in Staff's determination of KCPL's revenue requirement based on the updated period (December 31, 2014.) It expected this meter replacement program will result in an increase in plant and corresponding increase to revenue requirement increase. An estimate for these plant additions is included in the allowance for the true-up. There will be other typical plant additions that will occur during the five months between the update period of December 31, and the true-up period of May 31, 2015 that will be included in the true-up.

Other cost increases for transmission, pension and depreciation are expected to cause an increase to rate revenues during the true-up period.

Staff will examine fuel and purchased power costs as part of its true-up audit. Staff anticipates additional costs for payroll, payroll- related benefits through the end of the December 31, 2010, true-up period. There may be some offsetting (reduction) benefits reflected in the true-up relating to deferred income tax reserves and some potential fuel cost reductions.

The purpose of a true-up audit is to capture all cost increases and decreases for rate base and expenses along with all revenues changes for customer growth and any related fuel impacts for revenue changes. Income taxes are also considered to complete the true-up.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 33 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Cary G. Featherstone

Subscribed and sworn to before me this 2nd day of April, 2015.

D. Suzie Mankin
Notary Public

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070