Exhibit No.:	
Issues:	*Crossroads Energy Center & Resource Planning and True-up Direct*
Witness:	*Cary G. Featherstone*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*True-up Direct Surrebuttal Testimony*
Case Nos.:	*ER-2018-0145 & ER-2018-0146*
Date Testimony Prepared:	*September 4, 2018*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY
and
TRUE-UP DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2016-0145

AND

KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2018-0146

Jefferson City, Missouri
September 4, 2018

** Denotes Confidential Information **

TABLE OF CONTENTS OF

SURREBUTTAL TESTIMONY and

TRUE-UP DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2018-0145

KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2016-0156

SURREBUTTAL TESTIMONY and

TRUE-UP DIRECT TESTIMONY

OF

CARY G. FEATHERSTONE

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2018-0145

KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2018-0146

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 ("Commission").

Q. Are you the same Cary G. Featherstone who filed direct and rebuttal testimony for Staff in this proceeding?

A. Yes, I am. I contributed to Staff's Cost of Service Report filed on June 19, 2018, ("COS Report") in regard to Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations Company's ("GMO"), collectively referred to as Company or Companies, 2018 rate increase cases filed on January 30, 2018. I also filed rebuttal testimony on July 27, 2018, on the issue of Crossroads Energy Center.

Q. What is the purpose of your surrebuttal testimony?

A. I address various aspects of the rebuttal testimony of GMO witness Burton L. Crawford, GMO's Director, Energy Resource Management, on the issue of Crossroads Energy Center ("Crossroads"), pages 4 to 8.

I also respond to the rebuttal testimony of GMO witness Tim M. Rush, GMO's Director, Regulatory Affairs, concerning transmission costs relating to Crossroads, pages 12 to 14.

I am also filing True-up Direct testimony concerning areas in which I am responsible for the true-up, specifically, plant in service ("Plant") and accumulated depreciation reserve ("Reserve").

Q. In your rebuttal testimony you referred to GMO by the different names it was known by in the past, will you do that in this testimony too?

A. Yes. When I discuss historical aspects of GMO capacity planning I will use the names GMO was using at the time, UtiliCorp (UtiliCorp United, Inc.) before early 2002 and Aquila (Aquila, Inc.) during the period early 2002 to mid-2008. I will refer to the former operating divisions of Aquila-Aquila Networks-MPS and Aquila Networks-L&P as MPS and L&P, respectively, when discussing GMO during this period when it was named Aquila, i.e., before it was acquired by Great Plains Energy Incorporated ("Great Plains") on July 14, 2008.

EXECUTIVE SUMMARY

Q. Would you please summarize your rebuttal testimony?

A. GMO continues to advocate that Crossroads was the least cost option when Aquila (GMO's predecessor) made the decision to use Crossroads as a generating resource within the regulated operations of MPS. Staff does not agree.

While GMO has accepted the Commission's rate base valuation of Crossroads, GMO is proposing in this case, as it did in the 2016 GMO rate case (Case No. ER-2016-0156), that the amount of increased transmission costs associated with Crossroads in excess of the level disallowed by the Commission in the 2010 rate case be allowed in. However, the Commission made clear its decision in the 2010 and 2012 GMO rate cases that none of these transmission costs were to be included in rates. Staff recommends the Commission maintain that finding in this proceeding.

In addition, KCPL and GMO have had significant plant additions and retirements since December 31, 2017. Of particular note, as explained more fully below, One CIS became in service in May 2018. Plant & Reserve was updated as a result of Staff's True Up Audit.

Finally, KCPL and GMO made the decision to change their method of accounting for asset retirement obligations ("AROs"), with adjustments in May and June 2018. This is a substantial methodological change, resulting in a material increase in rates. This type of change is not appropriate for the true-up. Staff opposes this change, and resulting adjustments are discussed below.

CROSSROADS ENERGY CENTER — BACKGROUND

Staff has maintained over numerous rate proceedings that Aquila had many opportunities to replace the Aries purchased power agreement that ended in May 31, 2005, with "owned" generation, but made deliberate decisions not to do so. While Aquila had many options

to replace the Aries power agreements in 2004 and 2005, it was aware of a specific response to a request for proposal ("RFP") from a 2005 self-build option internally developed by Aquila itself for generating capacity installed in 2007. The cost associated with the self-build option was lower than the installed costs of Crossroads. One of the most significant advantages of the self-build option was that there would have been no transmission costs associated with it as the generating facility would have been installed in Aquila's service area, and within the regional transmission organization ("RTO")— the Southwest Power Pool ("SPP") – of which KCPL and GMO are members.

In every rate case where ratemaking treatment of Crossroads was an issue — Case Nos. ER-2010-0356 (the "2010 rate case") and ER-2012-0175 (the "2012 rate case") — the Commission has excluded all of GMO's transmission costs relating to Crossroads. The Commission also treated the rate base value of Crossroads at fair market value, or the value Great Plains Energy would have purchased the generating facility.

Q. Why does Crossroads continue to be an issue in this case?

A. GMO incurs substantial transmission costs that the Commission has not allowed recovery from ratepayers. GMO continues to propose recovery of a portion of the transmission costs, because it represents a financial hardship. Staff takes exception with this recovery.

From Staff's perspective, this matter, although an issue in this current rate case, stems from decisions made in the past regarding GMO's (then called Aquila) corporate policy not to build regulated generating units. Had Aquila added necessary generating capacity when its regulated MPS needed to replace a 500 megawatt purchased power agreement, GMO would not be experiencing the transmission costs it does and it has since 2008.

Q. How are the past Aquila issues relevant to the current rate case?

A. GMO incurs significant transmission costs for a generating facility located in another RTO, over 500 miles from GMO's service area. GMO is asking for the majority of the transmission costs incurred today in this rate case. Staff opposes the recovery of the transmission costs in this case and the Commission made clear in its decision in the 2010 and 2012 GMO rate cases that none of these transmission costs were to be included in rates.

Had GMO made prudent decisions on adding needed capacity when a low cost turbine market provided the opportunity, GMO would not be in the position it finds itself today, and in each year since the Aquila acquisition, where it incurs substantial transmission costs by virtue of the location of this generating facility.

In 2003, 2004, and 2005, the turbine market was a buyers' market and this was exactly at the same time Aquila needed to replace the Aries purchased power agreement. In 2005, it only replaced 315 megawatts of this capacity. The failure of Aquila to fully replace the 500 megawatt Aries capacity in 2005 directly results in GMO's high transmission costs today. Had Aquila adequately planned to replace needed capacity with generating facilities within its RTO, Crossroads would not be needed to meet the capacity needs of customers today and, therefore, would not be incurring the high transmission costs it is.

CROSSROADS ENERGY CENTER — GMO'S POSITION'S

Q. What is GMO's position regarding its Crossroads Energy Center in this rate proceeding as presented in the rebuttal testimony of GMO witness Crawford and GMO witness Rush?

A. Mr. Crawford presents in his rebuttal testimony at pages 4 through 8, his contention that the Crossroads Energy Center ("Crossroads") was the least cost option in 2007 for GMO generation needs compared to various other resource options including self-build options. At page 5 of his rebuttal, Mr. Crawford indicates the Crossroads installed value was $383 per kilowatt, which was the lowest cost option in 2007. At pages 12 to 14 of his rebuttal testimony, Mr. Rush argues that any increase in transmission costs above the level initially disallowed by the Commission should be included in rates in this case. Specifically at page 12 of his rebuttal testimony, Mr. Rush states:

> While I agree that MECG states that it supports prior decisions, I believe that the position the Company is presenting is consistent with prior Commission rulings. As indicated in my direct testimony, the Company is not asking the Commission to reverse its prior decisions on rate base or transmission costs. However, GMO proposes to include in rates the increase in transmission cost above the $4.9 million which was disallowed in the prior two cases, ER-2010-0356 and ER-2012-0175.

At page 14 of his rebuttal, Mr. Rush further claims "…the Company has lost over $100 million in rate recovery while customers have paid approximately $40 million. If the Company had selected the second lowest cost option when it initially evaluated the Crossroads plant, customers would have paid over $140 million over the same period (e.g. the sum of the $100 million shareholder loss and $40 million customer paid)."

Staff does not agree with the GMO witnesses that Crossroads represented the lowest cost option for generating capacity during relevant time periods and does not agree with recovery of Crossroads transmission costs. Staff disagrees with Mr. Crawford's calculation using the installed value of Crossroads in 2007. Mr. Crawford testifies "the [Commission's] decision to include Crossroads in the generation fleet at an appropriate value was prudent with

the exception of the additional transmission expense, when other low-cost options were available." Even though the Commission determined Crossroads should be included in rate base, the key distinction in the both the 2010 and 2012 rate cases was the inclusion in rate base would be at the "appropriate value" with no recovery of the transmission costs. To that end, GMO's position to seek recovery of majority of the transmission costs in this case is inconsistent with the basis for the Crossroads decisions by the Commission in either of 2010 or 2012 rate cases.

VALUE OF CROSSROADS

Q. What is GMO's position regarding its Crossroads Energy Center in this rate proceeding as presented in the rebuttal testimony of GMO witness Crawford?

A. Mr. Crawford presents in his rebuttal testimony, at pages 6 through 8, his contention that Crossroads was, in fact, the least cost option in 2007 for GMO generation needs compared to various other available resource options, including self-build options. At page 6 of his rebuttal, Mr. Crawford contends that the Crossroads installed value in 2007 was $383 per kilowatt.[1] Mr. Crawford further explains at page 7 of his rebuttal testimony:

> In the GMO rate case where the Crossroads asset was first allowed into rates in May 2011, Case No. ER-2010-0356, the Commission found "the decision to include Crossroads in the generation fleet at an appropriate value was prudent with the exception of the additional transmission expense, when other low-cost options were available." (Report and Order, p. 91). The Commission continued to allow Crossroads to be included in rate base in Case No. ER-2012-0175, decided in January 2013.

Q. Does Staff agree that the 2007 Study shows that Crossroads was the lowest cost option for GMO?

[1] Aquila's IRP Update October 31, 2007 attached to Crawford rebuttal Schedule BLC-9, page 18.

A. No. As explained in Staff's Cost of Service Report and my rebuttal testimony, the 2007 GMO study cannot be relied on because it is based on a decision to add capacity in late 2007,[2] not when Aquila actually needed to add generating capacity for MPS due to the expiration of the Aries purchased power agreement on May 31, 2005.

Q. Does Staff agree with Mr. Crawford's rebuttal testimony on pages 5 and 6 that Crossroads' installed cost is $383 per kilowatt?

A. No. Staff is of the opinion that Crossroads has a significantly higher cost than the 2007 Study result of $383 per kilowatt. At the time of the Aquila 2007 Study Crossroads had a true cost of $466 per kilowatt[3] including associated transmission capital costs, using a capacity rating of 300 megawatts. Even excluding associated Crossroads transmission investment, the installed cost—$396 per kilowatt[4]—is greater than GMO's asserted $383 per kilowatt asserted value.

For full detailed calculations of the above amounts, see Surrebuttal Schedule CGF-s2.

While GMO contends the Crossroads plant value is $383 per kilowatt, when the cost of transmission plant upgrades and a lesser assumed station capacity value is appropriately considered this facility had a higher cost of $466 per kilowatt.[5]

[2] The analysis by Aquila concerning Crossroads was conducted in late mid 2007.
[3] Including transmission upgrades of $21.9 million [$118.8 + 21.9 million = $140.7 million divided by 300 MWs = $469 per kilowatt]. Source—Accounting Schedule 3, pages 1 & 3 and Schedule 6, pages 1 & 2 in Case No. ER-2009-0090.
[4] Crossroads had a $118.8 million value at September 30, 2008 (approximate value at time of the July 2008 closing of Aquila acquisition – time period used by the Commission to assign valuation for Crossroads in Case No. ER-2010-0356) [$118.8 million divided by 300 MWs = $396 per kilowatt]. Including the Intangible Transmission Plant of $21.2 million at September 30, 2008, results in a value of $140.7 million divided by 300 MWs = $466 per kilowatt.
[5] Source: Accounting Schedule 3, page 1, line 4 & page 3, line 78 and Schedule 6, page 1, line 4 & page 2, line 78 in Case No. ER-2009-0090 EFIS #79.

Q. Why is Staff's calculated value of the cost of Crossroads at $466 per kilowatt more appropriate than GMO's calculated value of $383 per kilowatt?

A. There are two reasons, which will be explained in greater detail below:

1) Staff's calculation appropriately includes the cost of certain transmission upgrades made by Aquila Merchant in 2002 that were necessary to actually deliver power from Crossroads; and

2) Crossroads has generating units installed that typically are rated different than was used in the 2007 Aquila Study.

Q. Why is it appropriate to include the cost of upgraded transmission plant as part of the overall cost associated with Crossroads?

A. Since Aquila Merchant built Crossroads in a region of the country with transmission constraints, and because it was a non-regulated merchant plant built well outside MPS' service territory, Crossroads had no Aquila transmission interconnection to the electric network. Crossroads was a completely isolated power plant.

Aquila Merchant had to build upgrades to Entergy's transmission facilities to be able to connect Crossroads to Entergy's transmission system. Because the upgrades were connected to non-Aquila plant facilities, Aquila treated those investment costs as intangible plant instead of as traditional transmission plant. Had Crossroads been built as a regulated plant in MPS's service territory, the transmission connections would have been part of the substation and transmission plant, and not part of the Crossroads' plant costs. However, since Crossroads was completely isolated from Aquila's network, the cost of these transmission upgrades should be considered part of the Crossroads plant costs when performing any economic analysis of Crossroads comparing it to other generating capacity options; these transmission upgrades are exclusive to

Crossroads generation and the ability to transmit power from Crossroads to other regions, including to Missouri.

When total Crossroads plant value includes the intangible plant for the transmission upgrade investment, and a 300 megawatt capacity is assumed for this facility, Staff quantifies Crossroads' installed costs to be $469 per kilowatt using September 2008 Crossroads values at the time of the 2009 rate case.

Q. Does Staff have any other support for why these transmission upgrade costs should be considered as part of the valuation of Crossroads?

A. Yes. In the supply-side analysis for integrated resource planning I have reviewed, capital costs for transmission plant to connect the generation side of the power plant to the transmission system are included in those studies. Crossroads had to have significant upgrades at non-Aquila property (a third party- Entergy) to be able connect to the transmission network.

Q. How is the value of these Crossroads-related transmission upgrades recorded by GMO?

A. The transmission investment plant made for Crossroads is recorded as intangible plant property (FERC Account 303.01-- Miscellaneous Intangible– Substation), and is included in rate base as plant-in-service.[6]

Q. Why is it appropriate for Staff to assume a different capacity level for Crossroads turbines in the 2007 Study than the one assumed by Aquila?

A. When the 2007 Study was developed, Aquila used an assumed 308 megawatt capacity level for Crossroads' four units. The General Electric model 7 EAs were typically rated

[6] Case No. ER-2018-0146 EFIS #73-- Accounting Schedule 3, page 5, line 225 and Schedule 6, page 5, line 225.

at 300 megawatts for four turbines (75 megawatts each). Using the 308 megawatts for the total station gave a lower cost per kilowatt resulting in GMO's $383 per kilowatt amount. However, if the typical output for this General Electric model of generating unit of 75 megawatts each unit, Crossroads would have 300 megawatts of total station generation. Assuming 300 megawatts of station generation, Crossroads installed cost per kilowatt is $393 instead of the $383 per kilowatt amount referenced by Mr. Crawford.

Q. Did the 2007 Study referenced in Mr. Crawford's rebuttal identify the General Electric turbines as 300 megawatts?

A. Yes. The 2007 Study contained several options Aquila evaluated including Crossroads for generating capacity. In the Aquila self-build option presented in 2007 Study, Aquila assumed 300 megawatts for the four General Electric model 7 EA.[7] Staff agrees with this assumption.

Q. Please provide a summary of your discussion on the 2007 Study.

A. In his rebuttal testimony, Mr. Crawford presents an estimated cost of Crossroads in the 2007 timeframe of $383/kilowatt. However, this estimate should be modified to incorporate two corrections. First, the cost of certain transmission upgrades needs to be included in the Crossroads overall cost calculation. This correction increases the cost of Crossroads by $73 per kilowatt. Second, a correct station capacity value should be used (300 megawatts total). This correction increases the cost of Crossroads by a further $10 per kilowatt. After these two corrections are made, Staff's calculation of the appropriate value to assume for the cost of Crossroads in 2007 is $466 per kilowatt.

[7] See Crawford rebuttal Schedule BLC-9, page 16, line 1, identified as "GE 7EAs", under the column "Net Cap."

The following table identifies Crossroads plant costs based on the 2007 Study results cited by Mr. Crawford in his rebuttal testimony and schedule attached to his rebuttal testimony as Schedule BLC-9, page 18.

Importantly, these values were challenged in previous GMO rate cases and the Commission valued Crossroads using an alternative approach based upon the costs of two Illinois natural gas-fired facilities, not those shown below:

2007 Aquila Study Crossroads value $117.9 million	**2007 Aquila Cost Study 308 MW**	**2007 Aquila Cost Study 300 MW**
Crossroads <u>without</u> transmission investment	$382.79 kW[8]	$393 kW[9]
Crossroads <u>with</u> transmission investment at $21.9 million	$453.90 kW[10]	**$466 kW[11]**

<u>CROSSROADS WAS NOT THE LOWEST COST OPTION AVAILABLE TO AQUILA —</u>

<u>Aquila Self-Build Options Proposed To Replace Aries Capacity</u>

Q. How does Aquila support its claim that Crossroads was the lowest cost option it had in 2007 to add generating capacity to the MPS system?

A. Mr. Crawford describes this process in his rebuttal testimony at pages 4 through 8. Aquila issued a request for proposal ("RFP") in 2007 for generating capacity to meet

[8] 2007 Aquila Cost Study [$117.9 million / 308,000 kilowatts= $382.79 per kW] identified in Crawford rebuttal BLC -9, page 18.
[9] 2007 Aquila Cost Study [$117.9 million / 300,000 kilowatts= $393 per kW].
[10] 2007 Aquila Cost Study [$117.9 million plus $21.9 million / 308,000 kilowatts= $453.90 per kW].
[11] 2007 Aquila Cost Study [$117.9 million plus $21.9 million / 300,000 kilowatts= $466 per kW].

future system load requirements. It received several responses, including a self-build option from Aquila itself, developed internally by Aquila personnel in its Engineering Group.

Q. Please elaborate on the option for Aquila to build a generating facility in 2007 that GMO witness Mr. Crawford refers to on at page 6 of his rebuttal testimony?

A. Mr. Crawford's reference to the 2007 Study included an option to build a generating facility to serve Aquila's retail customers in Missouri. To justify the use of Crossroads in regulated operations after Great Plains announced its acquisition of Aquila, Aquila internally developed a self-build proposal in 2007 to build four General Electric 7 EAs combustion turbines (the "GE turbines") for $637 per kilowatt installed cost.[12] GMO compares this cost to the asserted Crossroads installed cost of $383 per kilowatt. However, the $637 per kW installed cost for the four GE turbines was determined in 2007, when the turbine market had rebounded from the "buyers' market" conditions of 2003 through 2005. According to the publication *Turbine World*, turbine prices increased 30 percent from 2004-2005 to 2007.[13] The costs of the type of turbines installed at Crossroads were much higher than those turbines that could have been purchased in 2004 and 2005 time frames. The Crossroads turbines were purchased in 2001 at a price of ** __ ** million per turbine. There were significant changes in prices of combustion turbines throughout the time Aquila was considering how to add capacity to its electric system.

Q. What evidence is there that the turbine market has changed over time?

[12] Mr. Crawford rebuttal testimony, page 6, line 16 and BLC-9, page 16 and 18.
[13] KCPL provided for review *Turbine World*.
GE model 7 EA 75 MW turbine per unit price at 2006 $19.2 million compared to 2004-2005 $14.8 million, 30% increase.

A. Comparisons of the 2001 price to later valuations of the turbine model installed at Crossroads over several years appear in the following table:

Year of Gas Turbine World	General Electric Model 7EA (new MS7001EA old PG7121EA)	
2013	$24.1 million	
2012	$25.2 million	
2010	$22.7 million	
2009	$25.9 million	GMO's 2009 Study per Stipulation in ER-2009-0090
2007-2008	$19.5 million	Pricewaterhouse Study & 2007 Aquila Study
2006	$19.2 million	
2004-2005	$14.8 million	End of the Aries contract May 31, 2005
2003	$16.6 million	
2000-2001	$21 million	Crossroads Purchased in 2001

Source: Gas Turbine World Handbook—turbine costs only—does not include labor and other installation costs, or transmission equipment upgrades, or natural gas pipeline facilities, etc.

The costs of the self-build cost options Aquila used to compare to Crossroads were considerably higher in its 2007 Study than in 2004-2005 when Aquila actually needed new generating capacity to replace the 500 megawatt Aries agreement. In fact, the turbine market was considerably higher in 2007 when the internal self-build option was presented to Aquila. The cost of each of the four turbines used in the 2007 self-build option was 32 percent higher in 2007 than in 2004 [$19.5 million compared to the $14.8 million amounts in 2004]. This represented a difference in cost of almost $19 million [$19.5 million less $14.8 million times four turbines].

Q. Did Aquila perform any other self-build generation analyses between 2004 and 2007?

A. Yes. In responding to a January 17, 2006 Request for Proposal for Capacity issued by Aquila Networks, on February 22, 2006, attached as Confidential surrebuttal Schedule CGF-s3, Aquila's Regulated Generation Services Group proposed to build 300 megawatts of natural gas-fired combustion turbines planned for installation by June 2008.[14] One of the proposed self-build options had an installed cost in early 2006 of ** _____ _____ ** per kilowatt.[15] While the cost of this 2006 self-build option was higher than the $383 per kilowatt installed amount Mr. Crawford supports in his rebuttal testimony (page 6), it is lower than the actual cost of Crossroads after appropriate corrections are made to Mr. Crawford's value ($466 per kilowatt). This shows that even using a time period as late as 2006, Aquila had available lower cost options than Crossroads to meet its generating capacity needs. Also, Aquila's February 2006 self-build option would have been built in a location within Aquila's service territory with the exact turbines that were considered in the 2007 Study referenced in Mr. Crawford's rebuttal. Because of its location, Aquila would not have incurred transmission costs with this self-build proposal, unlike the case with Crossroads' extremely high transmission costs. Thus, the 2006 Aquila self-build option cost of ** _____ ** per kilowatt is less than the Crossroads cost of $466 per kilowatt (installed cost plus transmission upgrades

[14] Aquila's 2007 rate case-- Case No. ER-2007-0004- Data Request No. 0206. Confidential surrebuttal Schedule CGF-s3.
[15] Aquila's 2007 rate case Case No. ER-2007-0004- Data Request No. 0206 Aquila Regulated Generation February 22, 2006 (page 2) response to Aquila RFP dated January 17, 2006. Surrebuttal Schedule CGF-s3.

investment cost). There were several options presented in the February 2006 Study ranging in pricing from ** _____ ** per kilowatt.[16]

The difference in costs shown between the 2007 Study identified in Mr. Crawford's direct and rebuttal testimony and the February 2006 Study reflected that the turbine prices had been increasing since the 2006 time period.

Q. Did Aquila have available other lower cost options than either the 2006 Study or the 2007 Study that Mr. Crawford is relying on?

A. Yes. The 2007 Study would have reflected those higher turbine costs. However, if Aquila would have purchased the turbines when it needed the capacity in 2005 to replace the Aries power agreement, those turbine costs would have been significantly lower because 2003 and 2004 featured the lowest turbine pricing over the last 18 years. Aquila also had several other buying opportunities for turbines owned by Aquila in 2003 to 2006 time frame that would have been much less costly than Crossroads.

Q. Are you aware of other examples of turbine costs lower than Crossroads during this general time period?

A. Yes. In 2002, Aquila Merchant offered KCPL new General Electric turbines or new Siemens Westinghouse turbines at steep discount, which would have resulted in a lower cost than Crossroads. However, those generating units were not sold to KCPL and, eventually, the Siemens turbines were installed at South Harper. The General Electric turbines ultimately sold to Colorado and Nebraska utilities would have also resulted in much less cost than Crossroads.[17]

[16] Data Request 206 in Case No. ER-2007-0004, Confidential surrebuttal CGF-s3.
[17] See Surrebuttal Schedule CGF-s1 for discussion of the turbine opportunities available to GMO in the early and mid 2000s.

These turbines were referenced by the Commission at page 80 in its Order in the 2010 rate case. For more information on these sales, see Surrebuttal Schedule CGF-s1.

Q. Did Aquila have other options besides Crossroads to meet its 2005 load requirements after the Aries purchased power agreement ended?

A. Yes. On November 22, 2004, Aquila received a self-build internal response to a RFP that provided combustion turbines to meet system load requirements with an expected in-service date in 2007 that was less costly than Crossroads. The response to the 2005 RFP is attached as Confidential surrebuttal Schedule CGF-s4.

The estimated installed cost range for this self-build facility using discounted turbine equipment was ** _____ ** per kilowatt using turbines purchased at the then market discounted prices in 2005. When additional cost for interconnections such as transmission, natural gas and water are considered, those prices produced ** _____ ** This compares to the $383 installed cost in the 2007 Study identified in Mr. Crawford's rebuttal.[18] For comparison purposes, when transmission capital cost upgrades are appropriately considered with the installed cost of Crossroads at the time of the August 2007, the Aquila acquisition value is $466 per kilowatt. Additionally, when the almost $13 million of annual transmission costs are considered for Crossroads' operating costs, there is no question this alternative self-build option using discounted turbines in 2005 was far less costly than Crossroads.

Q. Please summarize the costs of the various options available to Aquila to add capacity to its electric system.

[18] Mr. Crawford rebuttal testimony, pages 5, line 22 and page 6, line 16.

A. The following table summarizes the various cost studies used over the years to evaluate replacing generating capacity for GMO and its predecessor, Aquila compared to the $383 per kilowatt cited in GMO's rebuttal:

Study Year	**Installed Costs per kilowatt**	**Source Reference**
November 2004	** _____ _____ _____ **	Featherstone Confidential Surrebuttal CGF-4, pages 10 & 11
February 2006	** _____ **	Featherstone Surrebuttal CGF- 3-, page 5 DR 206 Case ER-2007-0004
2007 Study – Crossroads—True Costs	** _____ **	
2007 Study- Crossroads	$383 / kW	Crawford direct & rebuttal page 6 & rebuttal Schedule BLC-9, page 16
2007 Study- Self-Build	$627	Crawford direct & rebuttal page 6 & rebuttal Schedule BLC-9, page 16

Q. Where did Aquila propose to site the self-build generating units?

A. All the self-build options proposed by Aquila's Regulated Generation Service Group for MPS generation (regulated) in 2007 were located at power plant sites within the service territory of MPS. More importantly, all of these self-build options would have been located in the same RTO applicable to GMO's service territory; thus, none would incur any annual transmission costs.

Q. Has the Commission previously addressed GMO's argument that Crossroads was the least cost option in GMO rate cases?

A. Yes. GMO has consistently presented its view Crossroads was the low cost option in each of its previous rate cases starting with the 2009 rate case. However, in both the 2010 and 2012 cases, the Commission the Commission rejected GMO's view that crossroads was the low cost option for GMO customers and valued Crossroads at a lower cost than the $383 per kilowatt Mr. Crawford presents in his rebuttal testimony. The following table is taken out of the Commission's Order in Case No. ER-2010-0356 that identified ". . . the installed cost per kilowatt of 17 of the combustion turbines Aquila Merchant bought and took delivery of, and the price per kilowatt it received when it disposed of them:"

Installed site	No. of Turbines	Date Installation / Sold	Cost	Capacity	Price per kilowatt
Raccoon Creek **Goose Creek**	4 6	2003 installed 2006 sold to Ameren	$175 million	850,000 kW	**$205.88**
South Harper	3	2001 Purchased 2005 installed	At Dec 31, 2010 Plant $120.4 million Reserve $24.4 Net $95.9	315,000 kW	**$382.16**
Crossroads	4	2002 installed 2008 transferred to MPS regulated	At Dec 31, 2010 Plant $119.2 million Reserve 32.1 Net $87.1 million Transmission upgrades (intangibles) Plant $22.5 million Reserve 4.4 Net $18.1 million Total Plant $141.7 million Reserve 36.5 Net $105.2 million	300,000 kW	**$427.46**

Source: Commission's Order in Case No. ER-2010-0356- page 80 [Footnote 286-- In Case No. ER-2010-0356 Ex. GMO 215, p. 51; Ex. GMO 262, Staff MPS Accounting Schedules 3-1, 3-2, 6-1 and 6-2.]

The total installed cost for Crossroads is identified in the Commission's 2010 order as $427.46 per kilowatt. When the investment costs for transmission facilities are appropriately included, the total installed cost is $472.33 per kilowatt, at the time of the 2010 rate case.

Great Plains Had No Definite Plans To Use Crossroads As Regulated Generating Unit

Q. When Great Plains Energy announced the acquisition of Aquila, did it plan on using Crossroads as a regulated generating facility?

A. No. Mr. Crawford claims at pages 4 through 6 of his rebuttal testimony, the October 2007 study showed Crossroads was a low cost option. Yet, during the time of the regulatory approvals for the Aquila acquisition in 2007, Great Plains did not in fact have a plan to use Crossroads as a regulated power plant.

In Form 425, filed with the Securities Exchange Commission ("SEC") on February 8, 2007, Great Plains included a transcript of a joint webcast call by Great Plains Energy, Aquila, and Black Hills Corporation that occurred on February 7, 2007. Mr. Terry Bassham, then Great Plains' Executive Vice-President and Chief Financial Officer, and currently Chief Executive Officer, stated that it was Great Plains' intention to "monetize" or sell Crossroads. The relevant portion of this transcript is reflected below:

> **Mike Chesser:** Operator, we'd like to take one more question if we could because you all might expect we have quite a busy schedule ahead of us today.
>
> **Operator:** Michael Lapides of Goldman Sachs.
>
> **Michael Lapides:** Easy one. Mike, Terry, what are your thoughts on the peaking plant, the gas plant that Aquila owns?
>
> **Mike Chesser:** At this stage as you know it is in litigation. And it has been appealed or it has been ruled on and appealed and it's being re-appealed. We have done quite a bit of due diligence around the potential outcomes on that and we have factored that impact into our purchase price.
>
> **Michael Lapides:** I'm thinking not the regulated one but the merchant one.

> **Terry Bassham:** Crossroads.
>
> **Michael Lapides** My apologies for not being –
>
> **Terry Bassham:** That is okay, Michael. As Mike said we looked at (indiscernible) from a Crossroads perspective. We looked at the ability to utilize that or sell it. **Our preference would be probably to get value through monetizing it.** But if not we've looked at other options as well.
>
> [Emphasis added.]

Q. What is the significance of the fact that Great Plains' preference was to sell Crossroads after acquiring Aquila?

A. Great Plains intended to sell Crossroads, and identified the amount that it expected to receive from that sale. This indicates Crossroads was not intended at that time to be used to meet customers' electric needs.

Q. Was there continued uncertainty surrounding the disposition of Crossroads during the regulatory proceedings for approval of the acquisition of Aquila by Great Plains?

A. Yes. As late as April 2008, during the hearings in Case No. EM-2007-0374, the case regarding the acquisition of Aquila by Great Plains Energy, one of KCPL's vice presidents indicated he did not know how Crossroads was going to be used or if it would ever be used in the regulated rate base. Under cross examination, Mr. Chris B. Giles, then KCPL's Vice President-Regulatory Affairs, testified in an In-Camera portion of the hearings:

> ** _____
>
> _____
>
> _____
>
> _____
>
> _____ __ _____
>
> _____
>
> _____
>
> _____

[redacted]

[redacted]

[EFIS #351-- Case No. EM-2007-0374, Evidentiary Hearing In-Camera Proceedings April 22, 2008 Volume 12 Transcript 1474-1477; Emphasis added.]

At the time of the April 22, 2008 hearings, Mr. William Riggins was Great Plains Energy and KCPL's General Counsel and Chief Legal Officer.

Q. Was additional testimony given by Great Plains during the hearings on Aquila acquisition concerning Crossroads?

A. Yes. In the same hearing, just six days later, Mr. Terry Bassham, who was Great Plains' Vice President and Chief Financial Officer at the time, testified during a confidential portion of the hearings regarding Crossroads:

** _____
_____

_____
_____
_____
_____
_____
_____

_____
_____ **

[EFIS #378-- Case No. EM-2007-0374, Evidentiary Hearing Confidential In-Camera Proceedings April 28, 2008 Volume 18 Transcript 2338; Emphasis added.]

The testimony given to the Commission in the Aquila acquisition case cited above, by two different Great Plains' officers and its General Counsel, demonstrates the continued uncertainty

surrounding the use of Crossroads as late as April 2008, just three months before the July 2008 close of the acquisition. This uncertainty relating to Crossroads is in contrast to GMO's position in this proceeding that Great Plains had already made the decision for GMO to use this facility in its regulated operations in October 2007.

In GMO's first rate case after the acquisition, filed in September 2008, GMO proposed that Crossroads be included in its rate base. GMO prepared a memorandum to justify the decision and provide the history of this generating facility. This memorandum is attached as Surrebuttal Schedule CGF-s5.

GMO's Position on Crossroads Transmission Costs

Q. GMO witness Rush presents in his rebuttal testimony at pages 12 to 14 that any incurred transmission costs above those levels allowed in the Company's 2010 and 2012 rate cases be allowed recovery in this case. Does Staff agree with GMO's recommendation?

A. No. Staff addressed this in my rebuttal testimony starting on page 6. The Commission said nothing in its orders in either GMO's 2010 and 2012 rate cases about placing a limit or ceiling on the transmission cost disallowance relating to Crossroads. The Commission disallowed all of Crossroads transmission costs, not just a "portion" as Mr. Rush suggests.[19] In every case where recovery of Crossroads transmission costs was disputed— both of the 2010 and 2012 rate cases - the Commission did not allow recovery of any transmission costs GMO incurred for the Crossroads generating facility. The Commission stated at page 59 of its 2012 Order:

> Therefore, the Commission concludes that including the Crossroads transmission costs does not support safe and

[19] Mr. Rush rebuttal testimony at pages 12 through 14.

> adequate service at just and reasonable rates, and the Commission will deny those costs.

The Commission also considered if Crossroads transmission costs should be included in the fuel adjustment clause in its 2012 Order at page 64:

> Crossroads Transmission.
>
> …Insofar as the Commission has determined that no transmission costs from Crossroads will enter GMO's MPS rates, there is no further dispute, and no further findings of fact and conclusion of law are required. The Commission will order GMO's FAC clarified to state that GMO's FAC excludes transmission costs related to Crossroads.

The Commission recognized the only reason GMO incurred any transmission costs for Crossroads was because the power plant was located in Mississippi, over 500 miles from GMO's customers, in another RTO. The Commission concluded that use of Crossroads as a generating resource was prudent decision as long as the rate base value was appropriately adjusted and none of the transmission costs were included in rates.

The Commission stated the following in the Conclusion of Law – Crossroads section, at page 99 of its Order in GMO's 2010 rate case:

> In addition to the valuation, the Commission concludes that but for the location of Crossroads customers would not have to pay the excessive cost of transmission. Therefore, transmission costs from the Crossroads facility, including any related to OSS [off-system sales] shall be disallowed from expenses in rates and therefore also not recoverable through GMO's fuel adjustment clause ("FAC").

Q. Has the Commission recognized that GMO's transmission costs for obtaining energy from Crossroads were ongoing?

A. Yes. In its order for GMO's 2010 rate case the Commission stated at page 87:

> This **higher transmission cost is an ongoing cost that will be paid every year that Crossroads is operating to provide electricity to customers located in and about Kansas City, Missouri.** GMO does not incur any transmission costs for its other production facilities that are located in its MPS district that are used to serve its native load customers in that district. This ongoing transmission cost GMO incurs for Crossroads is a cost that it does not incur for South Harper, and is the cause of one of the biggest differences in the on-going operating costs between the two facilities.
>
> It is not just and reasonable to require ratepayers to pay for the added transmission costs of electricity generated so far away in a transmission constricted location. Thus, the Commission will exclude the excessive transmission costs from recovery in rates.
> [Emphasis added.]

Q. Is GMO's alternative position in this case substantively different from the rate treatments ordered for Crossroads in the Commission's 2010 and 2012 rate cases?

A. Yes. Mr. Rush states at his rebuttal testimony at page 13 the following regarding its proposal to recover additional Crossroads transmission costs:

> This equitable allocation of costs provides customers with energy from a reasonably priced asset whose capacity is fully accredited capacity and with firm transmission to supply energy to GMO customers.

GMO is proposing what it terms an "equitable allocation" between the shareholders and customers in its rebuttal testimony but this is not the solution the Commission determined was fair to customers in the 2010 and 2012 rate case. The Commission found all transmission costs relating to Crossroads should be excluded from rate recovery. What GMO is proposing is not consistent with the Commission's 2010 or 2012 order.

CROSSROADS VALUE

Q. Mr. Rush states at page 14 of his rebuttal testimony "the Commission determined that the plant's fair market value should be less than the original cost by over half." Did Great Plains acquire the Crossroads generating asset at Aquila's original cost?

A. No. The original cost of Crossroads to Great Plains is the fair market value of the generating asset when acquired in July 2008 as determined by the Commission in Case No ER-2010-0356. The $132 million amount referenced at page 14 of Mr. Rush's rebuttal testimony (as well as page of 27 his direct testimony) relates to the cost to construct the unit by Aquila Merchant. The $132 million is not what is referred to in utility regulation as "original cost" nor is this the amount Great Plains actually paid for Crossroads or actually invested in this facility.

Q. What is original cost?

A. The FERC Uniform System of Accounts ("USOA") defines "original cost" as the value when a utility first places an investment into public service. In this instance, the Commission first placed Crossroads in GMO's rate base with its order in the 2010 rate case.

The term "original cost," as defined by the Electric Plant Instruction Section of the FERC Uniform System of Accounts ("USOA"), relates to:

> 2. Electric Plant To Be Recorded at Cost
>
> All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service.
> (Paragraph 15,052 of USOA).

Depreciation and amortization of the utility property from the previous owner must be deducted from the original cost, which results in a net original cost figure to be recorded on the purchaser's books and records. The acquired property is valued at the same value the seller placed on it, hence the "original cost when first devoted to public service," adjusted for depreciation and amortization, concept.

Q. Is use of net original cost for valuing rate base still the predominant form of regulation?

A. Yes. In the State of Missouri, the use of original cost less depreciation and amortization, i.e., net original cost, to set rates is not only the predominant form of regulation, but to my knowledge, the only form that has been employed by this Commission.

Q. Did the Commission value Crossroads considering depreciation and amortization of the previous owner?

A. No. The Commission valued Crossroads as though Great Plains acquired the power plant as new generating facility, purchased in a distressed market. The Commission's decision, in effect, determined Crossroads was acquired by Great Plains in July 2008 at a steep discount over what Aquila Merchant actually paid to construct the facility in 2002. Therefore, the $132 million amount reference by Mr. Rush should in no way be considered to be Crossroads "original cost" accounting.

Q. What value should be considered as Crossroads' original costs?

A. The value determined by the Commission in its 2010 rate order should still be considered the original costs of Crossroads. That original cost amount is what Great Plains invested in the plant-- the amount determined by the Commission in Case No. ER-2010-0356 of

$61.8 million. As such, the value of Crossroads was determined when Great Plains acquired Aquila in 2008 when Crossroads was first placed in public service by GMO.

Q. Did operational, financial or legal concerns affect Great Plains' consideration of the appropriate purchase price paid for Aquila specific assets?

A. Yes. At the time of the Aquila acquisition, Aquila's South Harper 315 megawatt peaking generating facility was in litigation regarding whether that station could remain operational at its near Peculiar, Missouri location. During the due diligence phase of acquiring Aquila, Great Plains identified there was an ongoing issue with South Harper, and indicated it considered this concern in its purchase price of the Aquila assets.

In the Form 425 SEC filing made on February 8, 2007, a few weeks after the January 2007 announcement of the Aquila acquisition, Great Plains included a transcript of a joint webcast call by Great Plains, Aquila, and Black Hills Corporation on February 7, 2007. Mr. Chesser, the Chief Executive Officer of Great Plains at the time, made the following statement regarding South Harper:

> **Mike Chesser** At this stage as you know it is in litigation. And it has been appealed or it has been ruled on and appealed and it's being reappealed. We have done quite a bit of due diligence around the potential outcomes on that and **we have factored that impact into our purchase price.** [Emphasis added.]

In fact, there were many issues other than Crossroads surrounding unusual circumstances in the Aquila acquisition transaction needing consideration by Great Plains in terms of the amount paid for the Aquila assets. The Aquila corporate headquarters that was eventually sold as distressed property, the liabilities resulting from the Aquila Merchant natural gas contracts and Crossroads were all considered in the price paid for Aquila.

Q. Did the Commission explain why it did not accept Great Plains' asserted $132 million rate base value in the 2010 rate case?

A. Yes. At page 94 of its May 4, 2011 Order the Commission stated:

> When conducting its due diligence review of Aquila's assets for determining its offer price for Aquila, **GPE would have considered the transmission constraints and other problems associated with Crossroads. It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri.** And, it is a virtual certainty that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years. Further, it is equally likely that GPE was in as good a position to negotiate a price for Crossroads as AmerenUE was when it negotiated the purchases of Raccoon Creek and Goose Creek, both located in Illinois, from Aquila Merchant in 2006.
> [Footnotes Omitted; Emphasis added.]

TRUE-UP DIRECT

Q. Please identify the areas you are responsible for concerning the true-up.

A. I am responsible for the area of plant in service ("plant") and accumulated depreciation reserve ("reserve"). Staff witness Michael Jason Taylor contributed to the Cost of Service Report for plant and reserve. Mr. Taylor has since left the employment of the Commission so I am now responsible for the portion of testimony relating to plant and reserve. I worked directly with Mr. Taylor on these areas throughout out the audit process and am adopting his testimony in the Cost of Service Report.

Q. Please describe the results of the true-up for the areas you are responsible.

A. Staff performed its audit of KCPL and GMO using a test year of 12 months ending June 30, 2017, filing the direct testimony based on updating this test year through

December 31, 2017. Since the direct testimony, filed on June 19, 2018, Staff has further identified areas needing updating through June 30, 2018.

Staff has updated plant and reserve through the true-up period ending June 30, 2018.

Q. Why was plant and reserve included as part of the true-up?

A. Both KCPL and GMO added significant plant additions and retirements since the update period of December 31, 2017, over the six months through June 30, 2018, true-up. One of the most significant capital additions was for a new billing and customer information system called One CIS. This project, which has been anticipated over last several years, went into service in May 2018. The inclusion of One CIS in the true-up was discussed in KCPL and GMO direct testimony[20] and page 152 of the Staff Cost of Service Report.

ONE CUSTOMER INFORMATION SYSTEM (ONE CIS)

Q. How did KCPL treat the in service of the One CIS Solution Project ("One CIS")?

A. KCPL booked all the costs associated with One CIS to FERC "Intangible Plant Account 303.15 - Miscellaneous Intangible Plant - 15 Year Software." The total amount of this investment is $124.3 million, all charged to KCPL books. In addition, approximately two months of depreciation has been recorded in Account 108, Reserve in the amount of $1.4 million.

Q. Is One CIS in service?

A. Yes. The new CIS system went into service in May 2018. It is my understanding it is fully functional and being used to bill both KCPL Missouri and Kansas customers and GMO customers.

[20] Direct testimony of KCPL and GMO witness Forest Archibald, page 15.

Q. What is the period KCPL is proposing to recover this investment?

A. KCPL is using a 15 year period to depreciate/amortize the costs relating to One CIS. Staff is in agreement with this 15 year recovery period and has reflected an annualized amount in this case for the first full year of depreciation/amortization.[21]

Q. Does One CIS benefit both KCPL and GMO?

A. Yes. GMO's billing system was also replaced with the One CIS.

Q. How is One CIS investment reflected in the GMO case?

A. KCPL proposes to allocate the costs of One CIS to GMO through what it calls the common billing process. KCPL uses this process for other common plant assets that are jointly used by both KCPL and GMO. These other common costs are allocated to GMO in adjustments made to GMO's income statement as E 151.1 with a corresponding adjustment made to KCPL's income statement E 209.1. Common Use Plant Billings was discussed at page 152 of the Staff Cost of Service Report.

Q. How does the common plant billing system work?

A. All capital investment costs are included on KCPL's books. In the case of the new capital addition, One CIS, all of the total $124.3 million is included in KCPL's plant in service in the normal way investment dollars are included in the financial accounting records. Consequently, One CIS investment is also included KCPL's regulatory plant records in the rate case.

However, neither the financial nor the regulatory books of GMO include One CIS for GMO's share of this new billing system investment. Calculations are made by KCPL to

[21] Staff Cost of Service Report, page 156 under section Depreciation—C. CIS Amortization.

reflect costs relating to depreciation (amortization)-- return "of" investment—and annual return-- return "on" investment-- to identify costs that should be assigned to GMO for use of this investment. GMO is essentially allocated a portion of the investment costs with an increase to expenses through an adjustment to the income statement while KCPL reduces its expenses with a corresponding adjustment to its income statement.

Q. Does Staff agree with the use of the common billing process to assign costs of One CIS to GMO?

A. To the extent KCPL wants to continue using the common billing process on its and GMO's books and records to include costs relating to common plant needed to operate both KCPL and GMO, Staff does not take issue. However, for purposes of rate case presentation, Staff has included One CIS investment in both KCPL's and GMO's plant balances. In other words, both KCPL's and GMO's plant and reserve include an allocated share of the One CIS investment since both companies jointly share in the need for and the benefits of this important customer information system. As such, the GMO share of One CIS is reflected in the FERC "Intangible Plant Account 303.15-- Miscellaneous Intangible Plant—15 Year Software" in Staff's Accounting Schedules, which is the same treatment as KCPL.

Also, an appropriate amount of depreciation/amortization expense was included in the cost of service calculation as adjustment E 253.3 for KCPL and adjustment E 188.4 for GMO.

Q. Is this treatment of including One CIS investment in GMO's plant the same as through the common use billing system?

A. Yes. If the total One CIS plant investment of $124.3 million is properly included in GMO's plant and reserve the impact on KCPL and GMO should be the same as though the common use billing system is used to assign costs.

Q. If the results are intended to be the same, why has Staff included the One CIS investment in GMO's case?

A. Since GMO jointly shares in the need for and the benefit of an upgrade to a new customer billing system, and because One CIS is a significant capital expenditure to both GMO and KCPL, this investment should be clearly shown as the plant asset it is and not "buried" in an adjustment to the income statement. Staff's approach is to show complete transparency to both GMO and KCPL for this sizable capital investment.

Q. How are the investment dollars allocated?

A. KCPL made the decision to allocate the costs of the new One CIS investment using customers for GMO and KCPL. Using customer counts, GMO receives 37% of the investment costs, while KCPL's Kansas and Missouri customers are responsible for the remaining 63% of the costs.

Q. How did Staff allocate GMO its share of the One CIS investment?

A. All investment costs were included in KCPL's plant and reserve as of June 30, 2018, true-up levels. Staff made adjustments to reduce KCPL's plant and reserve for GMO's portion of the One CIS investment costs. Accordingly, adjustments to increase GMO's plant and reserve were made to include its share of One CIS investment costs. The following table identifies the adjustments made to both KCPL and GMO for One CIS:

	KCPL Adjustment	KCPL Dollar Amount		GMO Adjustment	GMO Dollar Amount
FERC Intangible Account 303.15-Plant	P 21	($46.6 million)		P 10	$46.6 million
FERC Account 303.15- Reserve	R 21	($507,691)		R 10	$507,691

Accounting Schedule 3- Plant and Schedule 6- Reserve

Q. What are the results of allocating One CIS costs to both KCPL and GMO?

A. The total $124.3 million plant amount and $1.4 million reserve amount for One CIS allocated to KCPL and GMO can be identified as follows:

FERC Intangible Account	Total at June 30, 2018	Total KCPL Share at 62.51% (before allocation to Missouri)	GMO Share at 37.49%
Account 303.15 Plant	$124,319,903	$77,712,371	$46,607,532
FERC Account 303.15- Reserve	$1,354,293	$846,569	$507,691

Source: True-Up Accounting Schedule 3, line 21 and Accounting Schedule 6, line 21 as of June 30, 2018.

The $77.7 million amount assigned to KCPL is Total KCPL which includes both Kansas and Missouri jurisdictions. The Missouri jurisdictional portion of KCPL's share of the new One CIS plant is allocated to Missouri at approximately 53 percent, resulting in an amount of $41.8 million.

ASSET RETIREMENT OBLIGATIONS

Q. Has KCPL and GMO made any significant accounting changes relating to plant and reserve in the true-up period?

A. Yes. As a direct result of the June 4, 2018, merger with Westar Energy and Great Plains Energy, KCPL and GMO made a decision to change its method of accounting for asset retirement obligations ("AROs"). KCPL made a series of adjustments to its depreciation reserve to reflect this change in accounting treatment for AROs in May and June 2018. GMO adjusted its reserve in May.

Q. Is this a significant methodology change?

A. Yes. This is a substantial methodological change, resulting in a material increase in rates. This type of change is not appropriate for the true-up. The true-up phase of a rate case is not the appropriate place to propose accounting changes of this sort e.g., the true-up phase is not the time to make methodology changes.

True-ups were designed to update numbers to reflect costs to as close to the effective date of rates as possible. Methods and processes of annualizing and normalizing costs are to be addressed in the direct filing portion of general rate cases. This allows all parties to be aware of a given position giving reasonable time to assess and evaluate recommendations, and to provide ample opportunity to challenge any proposed treated of costs in rates. True-ups were developed to use the methods and processes put forth in the direct case and simply replace with the latest information available. True-ups are done in a very compressed time frame, with very limited time for the Commission to hear "new" proposals. As such, the Commission generally has not allowed method changes in the true-up.

Q. What are AROs?

A. For financial reporting purposes, AROs represent an estimate of future payouts by business entities for mandated environmental remediation/clean-up activities associated with retirement of assets.

Q. Are ARO calculations currently used as a direct input into utility ratemaking in Missouri?

A. No. Instead, any such costs are normally assumed to be part of the "cost of removal" component of depreciation rates. AROs are not included in the ratemaking process other than through the inclusion of cost of removal included as a component of the depreciation rate.

Q. Does Staff agree with KCPL's and GMO's proposed changes to reserve due to the ARO accounting change?

A. No. This is an unnecessary change in accounting method and results in substantial increases in the revenue requirement for both KCPL and GMO. Furthermore, the true-up phase of a rate case is not the appropriate place to propose changes to accounting methodology; especially changes of this magnitude.

Q. What adjustments did KCPL and GMO make to reflect the change in accounting method for AROs?

A. KCPL made a series of debit entries resulting in a decrease to overall reserve to reflect a change in accounting for AROs to adopt Westar Energy's method, moving from the approach taken for many years by KCPL and GMO.

Q. What is the difference between the KCPL and the GMO accounting for AROs and the Westar Energy Accounting?

A. The change in accounting for the AROs essentially is one of timing. KCPL and GMO accounted for the AROs as the entire retirement project is completed. On the other hand, Westar Energy accounted for its AROs each month as dollars are incurred for these retirement projects. While Westar Energy's method is accepted from an accounting perspective, so is the method used by KCPL and GMO.

Q. Is this a situation where the accounting profession has recently mandated a change in method?

A. No. Both methods continue to be accepted, and KCPL and GMO can continue to use their prior method of accounting for the AROs as the retirement projects are completed.

Q. Is the method previously used by KCPL and GMO to account for AROs a better method than that used by Westar Energy?

A. Yes. The practice of accounting for the AROs when the retirement is completed is more consistent with the construction work in progress ("CWIP") and retirement work in progress ("RWIP") approaches used for both financial reporting ("booking") and ratemaking. Costs for construction and for retirements are accumulated and not included or excluded from rate base until the work is completed. As such, the previous method used by KCPL and GMO for accounting for AROs was to accumulate the actual costs of the retirement projects until the project is completed and then reflect the impacts to the reserve.

KCPL's and GMO's method of accounting for AROs identifies the actual retirement costs at the time of the completion of the retirement project while Westar Energy's

method recognizes AROs each month as costs of retirements are incurred, although the retirement project is not yet completed. Westar Energy's method of treating AROs is inconsistent with CWIP and RWIP treatment in Missouri. In Missouri regulation of public utilities, CWIP is excluded from rate base until the construction is completed. Once a construction project becomes fully in service it is transferred to plant in service and is eligible for rate base treatment in a rate case. Thus, recognizing the actual cost of the retirement in the ARO when the project is completed as KCPL and GMO did prior to the change in accounting due to the Westar Energy merger is consistent with how construction costs and retirement costs are treated by KCPL and GMO for ratemaking purposes in Missouri.

Q. What is RWIP?

A. RWIP amounts represent the cost associated with a fully completed retirement, but for which the retirement costs have not been placed in the various depreciation reserve account categories. An adjustment is made in the reserve accounting schedule to reflect RWIP amounts by plant category such as production, transmission, distribution and general plant accounts. While RWIP balances can increase or decrease reserve, they typically reduce reserve and cause an increase to rate base and to revenue requirement, much like what KCPL and GMO is proposing for the change in AROs. Staff has included the impacts of RWIP in rates in prior rate cases but is opposed to the further reflection to increase rates for the change in accounting for the AROs.

Q. Does the change in accounting for the AROs result in any actual increases in cost to KCPL and GMO?

A. No. Unlike other changes that cause increases to the cost structures of KCPL and GMO, making the change in accounting method for AROs does not result in actual cost impacts to KCPL and GMO, up or down. For example, while increases for payroll result in a direct impact to the level of KCPL's and GMO's costs, the change being proposed by both these entities for AROs has no impact on actual costs to the companies.

Q. How does the change in method for AROs result in an increase in rates?

A. The depreciation reserve is reduced for this change in accounting for AROs, increasing rate base for both KCPL and GMO. This increase in rate base causes an increase to the revenue requirement for KCPL and GMO by several million dollars.

Q. Did either KCPL or GMO perform a depreciation study in these current rate cases?

A. No. Since the ARO change impacts reserve balances, Staff is opposed to the change in method for the AROs until a full and comprehensive analysis is performed on the depreciation reserve as part of a depreciation study.

Q. Did Staff make true-up adjustments to the reserve accounts related to AROs?

A. Yes. In May and June of this year, KCPL and GMO made adjustments to the various affected reserve accounts that impacted the June 30, 2018, reserve balances to reflect the new ARO accounting policy. In order to reverse out these adjustments, Staff had to make corresponding adjustments to the June 30, 2018, balances.

Q. What are the amounts of adjustment for AROs made by KCPL and GMO in their respective reserves?

A. The following table identifies the total adjustments made to reduce the KCPL and GMO reserve balances as of June 30, 2018, for the changed method to the AROs:

Company	**Total Company**	**Total Missouri Jurisdictional**
KCPL--Jurisdictional Factor of 52.76%	$47.7 million	$25.2 million
GMO	$6.6 million	$6.6 million

Source: Data Request 478 and 478.2

The above adjustments all have the effect of reducing the reserve, increasing rate base, and ultimately increasing revenue requirement to consumers. The increase in revenue requirement associated with these adjustments to reserves for KCPL is $2.3 million and for GMO is approximately $575,000.

Q. Identify the adjustments made to KCPL's and GMO's reserve to reverse the effects of the accounting change relating to the Westar Energy merger.

A. The following table shows the adjustments made to the KCPL reserve at June 30, 2018:

Reserve Adjustment No.	**Reserve Account**	**Total KCPL**	**Missouri Jurisdiction at 52.76%**
R 27.1	Hawthorn Common--Account 312	$9,080,235	$4,790,732
R 47.1	Iatan Common-Account 311	363,092	191,567
R 56.1	Iatan Unit 1-Account 311	24,042,602	12,684,877
R 84.1	LaCygne Common-Account 311	5,031,456	2,654,596

R 85.1	LaCygne Common-Account 312	546,404	288,283
R 111.1	Montrose Common-Account 312	$8,609,907	4,542,587
Total		**$47,673,696**	**$25,152,642**

Source: Data Request No. 0478.2

The following table shows the adjustments made to the GMO reserve at June 30, 2018:

Reserve Adjustment No.	**Reserve Account**	**Total GMO**	**Missouri Jurisdiction at 99.66%**
R 115.1	Iatan Common--Account 312	$106,357	$105,995
R 90.1	Iatan Unit 1-Account 312	6,043,611	6,023,063
R 151.1	Lake Road-Account 312	458,591	457,032
Total		**$6,608,560**	**$6,586,091**

Source: Data Request No. 0478.2

Q. Will be KCPL and GMO be harmed by not changing to the Westar Energy ARO method?

A. No. Neither KCPL nor GMO is in any way harmed by not making this change in accounting for AROs. The method used by both KCPL and GMO is also accepted practice and both entities have used this method for a long time.

Q. What is Staff's recommendation regarding KCPL and GMO proposed change to the accounting method for AROs?

A. Staff recommends that this accounting change to AROs not be accepted for ratemaking purposes. If KCPL and GMO want to propose a change in the method for determining AROs in any future case, then it can do so; however, it should also provide at that

time a depreciation study to examine the impacts of such a change and supporting the reasons and rationale for the necessity of a change of this magnitude.

If KCPL, GMO, or its external auditors assert a need for Commission authority to continue to account for AROs in the previous manner used in Missouri, Staff is not opposed to the Commission including the necessary language in its order in this case to that effect.

Q. Does this conclude your surrebuttal testimony and true-up direct?

A. Yes.

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-2018-0145
		and
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2018-0146

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CARY G. FEATHERSTONE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal* and *True-Up Direct Testimony* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

CARY G. FEATHERSTONE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of August 2018.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

Notary Public