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Witness: Elizabeth Herrington
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2016-0285
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

SURREBUTTAL TESTIMONY

OF

ELIZABETH HERRINGTON

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2017

SURREBUTTAL TESTIMONY

OF

ELIZABETH HERRINGTON

Case No. ER-2016-0285

Q: Please state your name and business address.

A: My name is Elizabeth Herrington. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as Director of Energy and Revenue Accounting.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of KCP&L.

Q: What are your responsibilities?

A: As Director of Energy and Revenue Accounting, I have responsibility for leading the margin accounting team in support of the monthly close and external reporting processes. The margin accounting team is responsible for the recording and analysis of all revenue, fuel, purchased power, and transmission transactions, including the calculations related to all fuel adjustment clauses and the Energy Cost Adjustment.

Q. Please state your educational background and describe your professional training and experience.

A. I graduated from the University of Missouri-Columbia in May 1992 with a Bachelor of Science in Accountancy. In October 1997, I joined the Company as a staff accountant and have held several roles such as Supervisor - Accounts Receivable, Supervisor -

Regulatory Accounting, Manager - Revenue and Fuel Accounting, Manager - Energy Accounting and Senior Manager - Accounting before assuming my current role in 2016.

Q. Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission" or "MPSC") or before any other utility regulatory agency?

A. Yes, I have previously testified before the Kansas Corporation Commission ("KCC") in Docket No. 16-KCPE-388-ACA. I have not previously testified before the MPSC.

Q. **What is the purpose of your Surrebuttal Testimony?**

A: My Surrebuttal Testimony serves three purposes. First, my Surrebuttal Testimony will respond to Mr. John S. Riley's and Mr. James A Dauphinais' Rebuttal testimonies dealing with FERC Order 668, Accounting and Financial Reporting for Public Utilities Including RTO's. Second, I respond to Office of the Public Counsel ("OPC") witnesses Ms. Lena M. Mantle regarding the FAC. Finally I respond to OPC witness Mr. John A. Robinett regarding unit train depreciation in the FAC.

Response to Mr. John S. Riley

Q: Do you agree with Mr. Riley's summarization of FERC Order 668?

A: Yes, specifically the part where Mr. Riley states in his rebuttal on pages 1-2 that this Order deals with Accounting and Financial Reporting as opposed to ratemaking.

Q: Does KCP&L correctly present purchased power and off system sales revenue in its financial statements as prescribed by FERC Order 668?

A: Yes. KCP&L nets all day-ahead purchases and sales from the Southwest Power Pool (SPP) on an hourly basis, and all real time purchases and sales on a five minute basis, as prescribed by FERC Order 668. However, this Order does <u>not</u> prescribe how the

Company should present or prepare ratemaking schedules, including tariffs that set forth FAC provision.

Q: Do you believe KCP&L should report netted transactions in its base FAC calculation?

A: No. Contrary to Mr. Riley's testimony, using FERC Order 668 in this manner would create a lack of transparency in the Company's rate schedules and would not properly reflect the operations of the Company. KCP&L uses the production cost model in the FAC base calculation which more properly and accurately reflects the Company's operations.

Q: Please explain.

A: FERC Order 668 requires transactions to be netted based upon the MWh's bought and sold in the settlement period. For instance, assume the price at Generator A is $20 and 100 MWh were sold into the market during Period 1. Also during Period 1, Load B purchased 75 MWh at $25. That is $2000 of sales at $20 per MWh and $1875 of purchases at $25 per MWh. However, if FERC Order 668 netting were applied, there would be no reference to purchases and only a misleading reference to 25 Mwh of sales for $125 or $5 per MWh (100-75 = 25 MWh and $2000-$1875 = $125 where $125 / 25 MWh = $5). Obviously there were no market transactions during Period 1 for $5 in the above example. Using FERC Order 668 netting for ratemaking and FAC purposes conceals the actual transactions committed to by Generator A and Load B, and removes the transparency that the FAC currently provides.

Q: On page two of his rebuttal testimony, Mr. Riley asserts FERC's primary goal with Order 668 is for consistency and comparability. Is that correct?

A: Yes, when a utility's financial statement or FERC Form No. 1 that complies with Order 668 is compared with other utilities, there is a basis for comparability but ensures the RTO participant's size and revenue producing potential are not inflated. However, compliance with Order 668 does not necessarily enhance transparency. FERC itself explains in Order 668 that the "Commission does expect public utilities, however, to maintain detailed records for auditing purposes of the gross sale and purchase transactions that support the net energy market amounts." Mr. Riley quotes this passage on page 7 of the unmarked attachment to his rebuttal testimony. Additionally, in FERC Order 2001, FERC established the Electric Quarterly Report ("EQR") to use as a reporting tool to ensure utilities' rates are just and reasonable. Order 2001 requires that all transactions be reported in gross or as they really took place.

Q: Does KCP&L file an EQR with FERC with netted power transactions?

A: No. KCP&L files an EQR with FERC that includes all required transactions as gross transactions as prescribed by FERC Order 2001. Using the example above, KCP&L would show the sale of 100 MWh at $20 which is not only required, but more transparent than only reporting a sale of 25 MWh at $5, which did not really take place.

Q: Mr. Riley states in his rebuttal testimony at page 4 that "these unnetted figures in the Company's testimony and rate case workpapers misrepresents the Company's operations which is exactly what FERC Order 668 was intended to address." Do you agree?

A: No. As discussed above, Order 668 is only for Accounting and Financial Reporting. Mr., Riley himself stated "consistency and comparability were the primary goals" of FERC. In the context of an FAC, presenting energy purchases and sales consistent with Order 668 is not transparent and is not appropriate or required for rate making. Using my earlier example, the Company's operations clearly consisted of two transactions with SPP, a purchase and a sale. Under Mr. Riley's proposal, netting would show that the Company only made a sale in the market for $5 which would be inaccurate and misleading since market prices were in the $20-25 range in the example. Further, the Company's operations as represented by the production cost model used in the FAC calculation also include the cost the Company incurs to produce the MWhs sold. If we assume in my earlier example that it cost Generator A $15 to produce a MWh, selling a MWh for $20 would be appropriate. However, selling a MWh for $5 would not.

Q: Do you believe the Company's rate case adjustment reflects the Company's operations?

A: Yes, the adjustments in Schedule TMR-4 reflect the Company's production cost model. A description of how a production cost model works is included in the Rebuttal testimony of Staff witness Charles Poston. As he states on pages 2-3 of his rebuttal, the production cost model is a depiction of how the Company operates its plants, including purchases and sales to SPP's integrated marketplace, and the fuel necessary for those operations.

Using the example above, the production cost model would include Generator A producing a sale of 100 MWh at $20, as opposed to a sale of 25 MWh at $5. Additionally, the production cost model would include the fuel or purchases necessary to make a 100 MWh sale, as opposed to a 25 MWh sale. KCP&L's ratemaking schedules are transparent and accurate. The Commission should disregard any assertion that KCP&L does not follow proper accounting treatments for netting its purchases and sales.

Q: Do you agree with Mr. Riley's assertion the Commission ordered the Company to use Order 668 netting in its ratemaking schedules?

A: No. In KCP&L's last rate case, at page 35 of the *Report and Order* for ER-2014-0370, the Commission concluded: "The evidence shows in this case that on a daily basis, KCPL sells all of the power it generates into the SPP market and purchases 100% of the electricity it sells to its retail customers." However, based on its analysis in other cases, the Commission ordered the Company to identify "true purchased power and off system sales" in order to calculate the transmission costs it would allow in the FAC. The Company used a calculation based upon Staff's fuel model to determine the percentage of allowable transmission costs. Notably, the Commission did not require KCP&L to use Order 668 accounting treatments, and Order 668 is not discussed in the *Report and Order* for ER-2014-0370. Mr. Riley is attempting to confuse the Commission's orders for calculating allowable transmission expense with how the Company should complete rate making schedules for purchases and sales and therefore his proposal should be rejected by the Commission.

Q: Mr. Riley asserts at p.1 of his rebuttal testimony that the Company's presentation of purchased power costs and off system sales revenues are confusing and inaccurate. Do you agree?

A: No. The Company is not only compliant with FERC Order 668, but its presentation of data is straightforward because all purchases and sales are reported as depicted by the production cost model which reflects transactions that really take place.

Response to Mr. James R. Dauphinais

Q: Mr. Dauphinais claims on page 5 of his rebuttal testimony that KCP&L's proposed FAC adjustments misrepresent the Company's true purchased power expense and its use of the SPP energy market. Do you agree?

A: No. For the reasons discussed in my testimony above, including these adjustments adds transparency and correctly reflects the Company's operations and its production cost model. Additionally, as Mr. Dauphinais points out, removing the FERC Order 668 netting from the adjustment (which is not required by FERC in a ratemaking schedule), would not change the Company's revenue requirement or base FAC calculation.

Q: Does KCP&L's FERC Form No. 1 reflect these transactions "grossed up" or prior to Order 668 netting?

A: No. The FERC Form No. 1 is a financial statement and as such is reported with the netting prescribed by Order 668. As Mr. Dauphinais points out, Order 668 specifically states, "one purpose of this rule is to establish uniform accounting requirements for the purchase and sale of energy in RTO markets. The purpose of reporting gross information in EQRs, in contrast, is to provide the Commission and the public with a more complete picture of wholesale market activities". For this reason, KCP&L reports its financial statements including FERC Form No. 1 with the purchases and sales netted and it's EQR with the sales as they really took place. There is no mention in FERC Order 668 as to how a utilities rate making schedules should be presented. As such, the Commission should reject Mr. Dauphinais' assertion that KCP&L's statements are misrepresented by not applying FERC Order 668.

Response to Ms. Lena M. Mantle

Q: At page 2 of her Rebuttal Testimony, Ms. Lena Mantle claims OPC is proposing an FAC that will minimize the complexity of KCP&L's FAC. Will OPC's proposal increase or decrease the complexity of administering the FAC?

A: OPC's proposal will increase the complexity of administering the FAC. OPC's proposal is substantially different than FERC's Uniform System of Accounts ("USoA"). Ms. Mantle's proposal relies on using purchase price of fuel rather than inventory cost, which is inconsistent with how KCP&L and all other utilities subject to the USoA keep track of fuel expense. Per the USoA, fuel is purchased and first put into inventory before moving to expense. KCP&L takes the total value of inventory and divides by the units of fuel in inventory to determine the average value of fuel in inventory. That average value of fuel in inventory is used to determine the amount of fuel inventory to be included in fuel expense. The Company knows all of the items that went into inventory, but to segregate those items after they are added into inventory would be extremely difficult and complicated.

Q: If all of those items are comingled in inventory, why can't KCP&L just use the purchase price to determine the commodity cost and transportation price for the FAC?

A: The question is how to define "purchase price." We maintain fuel inventories because fuel deliveries rarely if ever exactly match fuel requirements. On any given day, we are likely to have somewhere between 45-70 days of coal on hand. Which purchase price do we use? Do we use the price for the most recent shipment? From a physical perspective, that is most likely the coal that will be burned. Do we use the price for the oldest shipment still in the coal pile? How do we determine what is the oldest shipment still in the coal pile? Do we use sophisticated real-time coal analysis equipment to try to determine which mine the coal came from and our best judgment regarding which contract it may have shipped under so we can more accurately peg the right price for the coal being burned? Oil becomes so comingled that its costs cannot be traced once separate deliveries are combined in the oil tank. Ms. Mantle's proposal may sound simple, but in reality it is more subjective, raises many questions and is much more complex than FERC's USoA. If the FAC is to represent the actual cost of fuel used to provide electricity, OPC's proposal is unworkable.

Q: At page 2, of her Rebuttal Testimony, Ms. Mantle claims that OPC's FAC proposal will reduce the likelihood of errors in the FAC. What is your opinion?

A: There are several reasons why this won't occur. First, Ms. Mantle's proposal actually increases the complexity of accounting for the FAC. As she deviates from the USoA, her proposal does not have the advantage of all of the checks and controls that exist in the

Company's current USoA system. That is, as deviations from FERC's USoA occur, Ms. Mantle's scheme will not permit Staff auditors to focus on compliance with the USoA.

Second, if we look back to Ms. Mantle's Direct Testimony she cites an example of a Staff prudence audit of GMO's FAC that did not find a flow through that should not have been collected from customers in its FAC. What she does not say is those costs were properly recorded to the correct FERC account. If the FAC had conformed with FERC's USoA, using the FERC prime accounts the error would not have happened.

Response to Mr. John A. Robinett

Q: What part of Mr. Robinett's testimony will you be responding to?

A: Starting at page 19, Mr. Robinett argues that unit train depreciation should be removed from the FAC.

Q: Why has KCP&L included unit train depreciation in the FAC?

A: 4 CSR 240-20.030 Uniform System of Accounts—Electrical Corporations directs the Company to use FERC's USoA. FERC states in the USoA instructions for account 151 [where? that "Depreciation expense applicable to transportation equipment used for transportation of fuel from the point of acquisition to the unloading point shall be charged to Account 151, Fuel Stock." It then goes on to say, "The cost of <u>fuel</u> shall be charged initially to account 151, Fuel Stock." [emphasis added] In other words, FERC requires the Company to treat depreciation expense for unit trains which move coal to the Company's plants to be charged as "fuel."

Q: Mr. Robinett appears to defend his position on the premise that "it is improper to account for unit train depreciation expense under both the FAC and as an annual expense built into revenue requirement." Is the Company proposing that unit train depreciation expense be included in both the FAC and the revenue requirement?

A: Absolutely not. The Company is proposing that pursuant to 4 CSR 240-20.030, the revenue requirement and the FAC treat unit train depreciation in accordance with the USoA.

Q: Does this open the door for more depreciation costs to be included in the FAC, as Mr. Robinett alleges?

A: No. FERC defines what is included in each of its accounts. KCP&L cannot change FERC's account definitions. Of all of the various depreciation costs identified in the USoA, Item 4 to Account 151 "Fuel Stock" states that "Operating, maintenance and depreciation expenses and ad valorem taxes on utility owned transportation equipment used to transport fuel from the point of acquisition to the unloading point" is the only depreciation expense classified as a "fuel" expense.

Q: Does that conclude your 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-2016-0285

AFFIDAVIT OF ELIZABETH HERRINGTON

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Elizabeth Herrington, being first duly sworn on his oath, states:

1. My name is Elizabeth Herrington. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director of Energy and Revenue Accounting.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Elizabeth Herrington

Subscribed and sworn before me this 27th day of January 2017.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200