

Exhibit No.: **653 NP**
Issue: Revenue Requirement
Witness: Michael L. Brosch
Type of Exhibit: Direct Testimony
Sponsoring Party: Midwest Energy Consumer's Group
Case No.: ER-2016-0285
Date Testimony Prepared: November 30, 2016

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

FILED
March 6, 2017
Data Center
Missouri Public
Service Commission

_____)
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**

Direct Testimony and Schedules of

Michael L. Brosch

Revenue Requirement

On behalf of

Midwest Energy Consumers' Group

PUBLIC VERSION

P

November 30, 2016

MECG Exhibit No. 653
Date 2-28-17 Reporter KF
File No. ER-2016-0285

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

STATE OF MISSOURI)
) SS
COUNTY OF JACKSON)

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:

1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. We have been retained by the Midwest Energy Consumer's Group in this proceeding on their behalf.

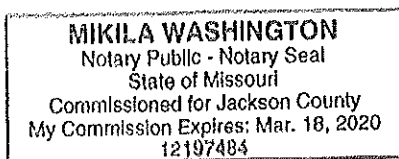
2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2016-0285.

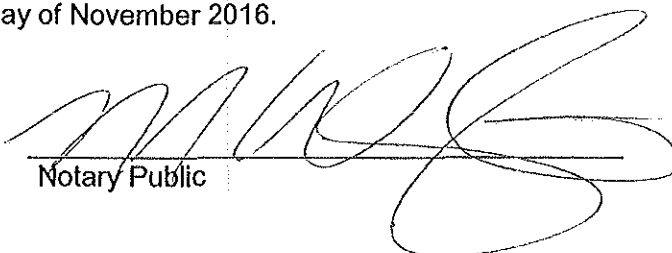
3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



Michael L. Brosch

Subscribed and sworn to before me this 20th day of November 2016.





Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

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|---|-----------------------|------------------------------|
| 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 |
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Appendix A: Qualifications of Michael L. Brosch and Summary of Previously Filed Testimony

Schedule MLB-1: KCPL response to MECG Data Request 4-2, with HC Attachment.

Schedule MLB-2: KCPL response to MECG Data Request 3-5.

Schedule MLB-3: KCPL response to MECG Data Request 2-10, with HC Attachments.

**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
)
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)

Direct Testimony of Michael L. Brosch

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City,**
3 **Missouri 64148.**

4 **Q WHAT IS YOUR PRESENT OCCUPATION?**

5 **A I am the President of the firm Utilitech, Inc., a consulting firm engaged primarily in utility**
6 **rate and regulation work. The firm's business and my responsibilities are related to**
7 **special services work for utility regulatory clients. These services include rate case**
8 **reviews, cost of service analyses, jurisdictional and class cost allocations, financial**
9 **studies, rate design analyses and focused investigations related to utility operations**
10 **and ratemaking issues.**

11 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

12 **A I am appearing on behalf of the Midwest Energy Consumer's Group ("MECG").**
13 **Utilitech, Inc. was engaged by MECG to review and address certain revenue**
14 **requirement and ratemaking policy issues raised by Kansas City Power & Light**
15 **("KCPL" or "Company"). Utilitech's work, as sponsored in this testimony, complements**

1 the work of other MECG witnesses who will address other elements of the revenue
2 requirement and rate design, including Messrs. Gorman and Brubaker.

3 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A My testimony is responsive to KCPL's proposals for either cost of service tracking
5 mechanisms or "trackers" for property tax and net transmission service expenses or, in
6 the alternative, the inclusion of projected future expense amounts in the revenue
7 requirement, subject to true-up if comparable actual expenses are ultimately lower than
8 the projected amounts. I explain the regulatory policy and factual reasons why both
9 proposals should be rejected by the Commission and why continued traditional test
10 year regulation of these two categories of expense should continue. In this regard, my
11 recommendations are consistent with my testimony in KCPL's last Missouri rate case
12 proceeding, in which the Commission agreed that extraordinary rate tracker treatment,
13 or the inclusion of projected higher post-test year expenses as an alternative, was not
14 appropriate for these same categories of expense.

15

16 **EDUCATION AND EXPERIENCE**

17 **Q WHAT IS YOUR EDUCATIONAL BACKGROUND?**

18 A Appendix A to this testimony is a summary of my education and professional
19 qualifications that also contains a listing of my previous testimonies in regulatory
20 proceedings in Missouri and other states.

21 **Q PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE IN THE FIELD OF**
22 **UTILITY REGULATION.**

1 A My professional career began in 1978, when I was employed by the Missouri Public
2 Service Commission as part of the accounting department audit staff. While with the
3 Staff from 1978 to 1981, I participated in rate cases involving Kansas City Power &
4 Light Company, Missouri Public Service Company, Southwestern Bell and several
5 smaller Missouri utilities. Since leaving the Commission Staff, I have worked as an
6 independent consultant and have testified before utility regulatory agencies in Arizona,
7 Arkansas, California, Florida, Hawaii, Illinois, Indiana, Iowa, Kansas, Michigan,
8 Missouri, New Mexico, Ohio, Oklahoma, Texas, Utah, Washington, and Wisconsin in
9 regulatory proceedings involving electric, gas, telephone, water, sewer, transit, water
10 carrier and steam utilities. I have participated in many electric, gas and telephone
11 utility regulatory proceedings, as listed and described in Appendix A. I testified for
12 MCEG in the most recent KCPL Missouri rate case, Case Number ER-2014-0370,
13 addressing similar regulatory policy issues as well as the Company's proposal to
14 implement a Fuel Adjustment Clause ("FAC").

15

16

EXECUTIVE SUMMARY

17 Q PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

18 A My testimony explains why KCPL does not need and should not be awarded the
19 extraordinary regulatory treatment it has proposed for test year property taxes, and net
20 transmission expenses. I describe the key characteristics of traditional test year
21 ratemaking and explain why piecemeal, preferential ratemaking for selected routine,
22 ongoing types of expense is poor regulatory policy that should be avoided. I also
23 explain the generally applied regulatory criteria to determine if and when extraordinary
24 regulatory mechanisms are appropriate. My testimony demonstrates that the Company
25 has not met these criteria and has not justified its requests for piecemeal, preferential

1 treatment of property taxes and transmission expenses. My recommendation is that
2 KCPL's proposed extraordinary ratemaking mechanisms for its net transmission
3 expenses and its property tax expenses be rejected.

4
5 **KCPL EXPENSE TRACKING PROPOSALS**

6 **Q DOES THE COMPANY CONTEND THAT CERTAIN OF ITS COSTS MERIT SPECIAL**
7 **TREATMENT, COMPARED TO NORMAL TEST YEAR RATEMAKING**
8 **PROCEDURES?**

9 **A** Yes. In its Direct Testimony, the Company has proposed extraordinary ratemaking
10 treatment for its transmission costs paid to Regional Transmission Organizations
11 ("RTO's), primarily the Southwest Power Pool ("SPP"), and for its property tax
12 expenses.¹ The proposed treatment of transmission expenses is explained by KCPL
13 witness Mr. Ives as follows:

14 SPP's regional transmission upgrade projects are being planned, constructed
15 and billed to SPP members in order to expand and enhance the ability for the
16 SPP transmission footprint. SPP's regional transmission plan provides for
17 regional transmission expansion and a detailed list of projects in order to
18 achieve the plan. As these projects are placed in service, KCP&L is paying its
19 share of the costs of the expansion charged under SPP's FERC-approved
20 tariff. Due to the continual increase in transmission cost levels during this
21 expansion, the Company is requesting that a forecasted level of transmission
22 of electricity by other costs be included in the Company's FAC. The Company
23 requests, in the alternative, that if any of the transmission of electricity by
24 others costs is not included in the FAC then the forecasted annual average of
25 SPP-billed transmission costs for 2017 and 2018 be used in its cost of
26 service and be tracked under a one-way tracker.²
27

28 With respect to the Company's proposal for property tax expenses, Mr. Ives argues for
29 similar extraordinary regulatory treatment:

¹ KCPL initially requested special regulatory treatment of its expenses associated with its Critical Infrastructure Protection standards and cyber-security expenses in Direct Testimony, but this proposal was later withdrawn on September 9, 2016.

² Direct Testimony of Darrin Ives, page 9.

1 Property taxes are determined by state assessors, are a significant
2 component of the Company's cost of service and amounts assessed are
3 beyond the control of the Company to manage. Since the 2014 Rate Case,
4 property taxes have continued to increase, and are expected to continue to
5 increase, from the amounts that were included in rates in that case. As such,
6 the Company is requesting that the average of projected 2017 and 2018
7 property taxes be used in its cost of service and be tracked under a one-way
8 tracker.³
9

10 More detailed discussion of the Company's proposed expense tracking or projected
11 cost ratemaking mechanisms is provided in the Direct Testimonies of KCPL witnesses
12 Messrs. Tim Rush, Ronald Klote and John Carlson.

13

14 **Q IS THERE A COMMON THEME BEHIND THE COMPANY'S COST PROJECTION**
15 **AND EXPENSE TRACKING PROPOSALS?**

16 **A** Yes. In both instances, KCPL management has selected only categories of expense
17 where future spending is expected to increase. For example, Mr. Ives explains his
18 proposed tracking of projected future transmission expenses through the FAC or
19 separately outside the FAC noting that, "SPP transmission costs allocated to KCPL
20 have been rising, and projections show that these expenses will continue to increase at
21 a significant rate."⁴ Similarly, Mr. Klote supports base rate recovery of projected
22 property tax costs through 2018 with rate tracking, stating, "[b]ased on the dramatic
23 increases in Property Tax O&M expense in each of the last five years and the expected
24 increases in earnings for KCPL, we expect Property Tax O&M expense to continue to
25 increase in the next few years."⁵

26 Effectively, KCPL is attempting to apply extraordinary ratemaking methods in
27 order to carry future costs into a rate case test year for recovery. Specifically, KCPL
28 wants to carry costs into a future test year through the tracker or bring those future

³ Id, page 10.

⁴ Direct Testimony of Darrin R. Ives, page 11.

⁵ Direct Testimony of Ronald Klote, page 68.

1 costs into the current rate case test year through its request for forecasted costs. In
2 either situation, KCPL's request is one-sided. KCPL seeks to apply its extraordinary
3 requests only to costs that are increasing, but does not seek to apply the same tools to
4 costs that are decreasing or revenues that are increasing.

5 In both instances, the types of expense where KCPL is now proposing
6 extraordinary regulation through rate tracking mechanisms have historically been
7 evaluated and quantified within traditional test year rate cases. These new tracking
8 mechanism proposals should be carefully evaluated by the Commission to ensure that
9 KCPL is not allowed to select only its increasing costs for tracking between test years,
10 while other more favorable changes to the overall revenue requirement that may occur
11 between test years are ignored and allowed to contribute to the Company's earnings.

12
13 **Q WHAT RATIONALE IS OFFERED BY THE COMPANY FOR ITS PROPOSED**
14 **EXTRAORDINARY TREATMENT OF TRANSMISSION AND PROPERTY TAX**
15 **EXPENSES?**

16 **A** The Company argues that "regulatory lag" is a significant problem that should be
17 remedied, by allowing KCPL to select certain elements of its overall revenue
18 requirement that are expected to increase for extraordinary cost tracking treatment.

19 For his part, Mr. Ives states:

20 Consistent with my testimony in the 2014 Rate Case, KCP&L continues to
21 experience extensive regulatory lag, particularly in its Missouri jurisdiction,
22 consistent with results over the last several years. The regulatory lag
23 experienced prevents the Company from realizing an earned ROE that is
24 reasonable and expected based on the allowed ROE authorized by the
25 Commission in previous cases. While allowed returns do not represent a
26 guarantee of a return, investors in our Company certainly have an
27 expectation that earned returns will be reasonable in relation to the allowed
28 returns. Investors have an understanding of the limitations of the Missouri
29 regulatory framework caused by the use of historical test years and the lag
30 that is inherent due to capital investments placed in service between rate
31 cases; however, our recent experience in earned returns has not been
32 reflective of the expected relationship between earned and allowed returns.

1 In fact, the gap between earned returns and authorized returns from 2007
2 through 2015 as portrayed below has resulted in an aggregate earnings
3 shortfall to our shareholders over the period in excess of \$315 million,
4 which in no way is reflective of investors' expectations for performance.⁶
5

6 Mr. Ives then presents a graph comparing the Company's "Earned ROE" to its
7 "Authorized ROE" for the years 2007 through 2015 and claims that several factors
8 contribute to regulatory lag for KCPL in Missouri, including:

- 9 • The regulatory model in Missouri is built primarily on historical financial
10 information, trued up for known and measurable changes.
11
- 12 • This model ignores cost increases that have occurred between the historical
13 test year used and the date rates are effective.
14
- 15 • In certain cost of service categories, costs can vary significantly from year-to-
16 year, and when such costs are a material cost of service component, they can
17 have a dramatic impact to the Company as a result of regulatory lag, and
18
- 19 • Another factor significantly contributing to regulatory lag for KCPL is that the
20 Company is experiencing little or no growth in its Missouri sales due to stable
21 population numbers in its Missouri service territory, conservation measures and
22 other factors. This lack of load growth exacerbates the cost of service and
23 capital investment regulatory lag previously discussed.⁷
24
25

26 After making these claims, Mr. Ives acknowledges in testimony that the Company was
27 "...granted the use of a FAC which should decrease its fuel and purchased power cost
28 impact upon regulatory lag on a going forward basis."⁸ However, none of the historical
29 information offered by Mr. Ives to illustrate the alleged historical earnings problem has
30 been restated to reflect any retrospective impact of the Company's newly implemented
31 Fuel Adjustment Clause, had a Missouri FAC been effective in those prior years.⁹
32

⁶ Direct Testimony of Darrin R. Ives, page 11.

⁷ Id. pages 12-13.

⁸ Id. page 15.

⁹ In Data Request MECG 2-6, KCPL was asked to show the impact upon its "Earned ROE" in each of the years within Mr. Ives' graph, if the FAC that was approved for use by KCPL in the Company's last rate case had been effective in all such historical periods, and KCPL replied, "the Company has not produced such an analysis."

1 Q DID KCPL SUPPORT ITS REQUEST FOR IMPLEMENTATION OF A FUEL
2 ADJUSTMENT CLAUSE IN ITS PREVIOUS BASE RATE CASE NO ER-2014-0370
3 BY PRESENTING THE SAME ARGUMENTS REGARDING HISTORICALLY LOWER
4 ACHIEVED ROE LEVELS THAN COMMISSION-AUTHORIZED LEVELS?

5 A Yes. At page 4 of his Direct Testimony filed in Case No. ER-2014-0370, Mr. Ives
6 presented the same graph comparing "Earned ROE vs. Authorized ROE" for the
7 periods 2007 through 2013. In that prior case Mr. Ives argued:

8 Overall, fuel, purchased power and transmission costs have increased
9 significantly in recent years. Absent an FAC, these costs are reflected in
10 customer rates at a level experienced in a historic period, typically an
11 updated test year. Any change in costs either up or down must be
12 absorbed by the Company. In the case of fuel, purchased power and
13 transmission costs, these largely uncontrollable costs have steadily
14 increased resulting in recovery and earnings shortfalls. The amount the
15 Company has been allowed to recover as set in rates has simply been
16 inadequate. The FAC however, will allow for the recovery of these prudently
17 incurred costs and any change in the costs either up or down will be
18 properly and importantly—timely— returned to or recovered from
19 customers.¹⁰

20
21
22 After KCP&L was granted its requested FAC in the prior rate case, any past problems
23 with under-recoveries of fuel and purchased power costs should be largely remedied
24 going forward. However, Mr. Ives has offered no restatement of his graph of Earned
25 ROE in his direct testimony in the instant case to show how much of the claimed
26 "earnings shortfall" in the years 2007 through 2015 would have been mitigated if the
27 now extant FAC had been in place in those years.

28

29 Q HAS THE IMPLEMENTATION OF AN FAC FOR THE BENEFIT OF KCPL
30 RESULTED IN INCREASED EARNINGS FOR THE COMPANY AND SIGNIFICANT
31 IMPROVEMENT IN ITS RECENT FINANCIAL PERFORMANCE?

¹⁰ Darrin Ives Direct Testimony in ER-2014-0370 at page 22.

1 A Yes. The KCPL Fuel Adjustment Clause was implemented when new rates went into
2 effect on September 29, 2015. In its highly confidential response to Data Request
3 MECG 4-2, the Company confirmed that the Missouri FAC has provided for the deferral
4 for future recovery of an additional ****_____**** of fuel and purchased power costs
5 in its first eleven months of operation. This result represents a significant contribution
6 to higher pretax earnings of the utility, at the expense of KCPL ratepayers. I have
7 included a copy of this response within Schedule MLB-1.

8

9 **Q HAVE THE COMPANY'S PUBLICLY REPORTED FINANCIAL RESULTS IMPROVED**
10 **IN 2016, AFTER AN FAC WAS AUTHORIZED IN KCPL'S RECENTLY CONCLUDED**
11 **MISSOURI RATE CASE?**

12 A Yes. The SEC Form 10K filed by Great Plains Energy, Inc. for the third quarter of
13 2016 describes the financial performance of its "Electric Utility Segment" as follows:

14 Electric utility's net income increased \$82.0 million year to date September 30, 2016,
15 compared to the same period in 2015 primarily due to:

16

17 • a \$176.9 million increase in gross margin driven by new retail rates, warmer
18 weather, **new cost recovery mechanisms**, an increase in MEEIA throughput
19 disincentive and an increase in recovery of program costs for energy efficiency
20 programs under MEEIA, partially offset by a decrease in other items including
21 higher transmission expense; (emphasis added)

22

23 • a \$29.9 million increase in other operating expenses driven by an increase in
24 Wolf Creek operating and maintenance expenses primarily due to increased
25 refueling outage amortization, an increase in pension expense, an increase in
26 program costs for energy efficiency programs under MEEIA and an increase in
27 general taxes driven by higher property taxes and higher gross receipts taxes
28 due to an increase in retail revenues, partially offset by a decrease in plant
29 operating and maintenance expenses;

30

31 • an \$11.2 million increase in depreciation and amortization expense driven by
32 capital additions;

33

34 • a \$5.3 million increase in interest charges primarily due to an increase in interest
35 expense in 2016 related to KCP&L's issuance of \$350 million of 3.65% Senior
36 Notes in August 2015; partially offset by a decrease in interest expense due to
37 KCP&L's purchase in lieu of redemption of its \$50.0 million and \$21.9 million
38 EIRR Series 2005 bonds in September 2015; and

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• a \$48.2 million increase in income tax expense primarily due to an increase in pre-tax income.¹¹

While the amounts in Great Plain's public financial statements are inclusive of KCPL's operations in both Missouri and Kansas as well as its Greater Missouri Operations ("GMO") that are included in this "segment", these results illustrate how the timing and amounts of increased retail rates, new utility cost recovery mechanisms and offsetting increases and decreases in various expenses all contribute to higher net overall earnings. The Company's financial performance has improved and it would be patently unfair to ratepayers to allow selective additional future rate tracking treatment for only those elements of its overall cost of service that KCPL management expects will increase.

Q HAS THE COMPANY PROVEN THAT IT WILL BE UNABLE TO EARN AT OR NEAR ITS AUTHORIZED ROE IN THE FUTURE, AFTER NEW RATES ARE SET IN THE PENDING MISSOURI RATE CASE, WITHOUT MORE EXPANSIVE RATE TRACKING OF HIGHER EXPECTED FUTURE EXPENSES?

A No. The Company has not presented any verifiable financial projections or other factual data to show that future achieved ROE levels will suffer meaningful earnings attrition after rates are set in this pending rate case.

Q HAS THE COMPANY'S IMPROVED FINANCIAL PERFORMANCE SINCE THE LAST MISSOURI RATE ORDER CONTRIBUTED TO THE ABILITY OF GREAT PLAINS ENERGY TO PAY DIVIDENDS TO SHAREHOLDERS?

¹¹ Great Plains Energy Incorporated, Kansas City Power & Light Company, SEC Form 10-Q for the quarterly period ended September 30, 2016, page 55.

1 A Yes. In a recent News Release reporting "Strong Third Quarter Results" the parent
2 company announced a 5 percent annualized dividend increase from \$1.05 to \$1.10 per
3 share.¹²

4
5 **Q HAS THIS IMPROVED FINANCIAL PERFORMANCE BEEN DEMONSTRATED IN**
6 **OTHER WAYS?**

7 A Yes. In late May 2016, Great Plains announced the acquisition of Westar Energy. In
8 making this acquisition, Great Plains is paying a significant premium over the book
9 value for Westar. Certainly, it is unlikely that Great Plains is able to make such a large
10 and costly acquisition if Missouri regulation was such a financial burden, as KCPL now
11 seeks to depict.

12
13 **Q ARE KCPL SHAREHOLDERS COMPENSATED FOR ANY NEGATIVE**
14 **IMPLICATIONS ASSOCIATED WITH MISSOURI REGULATION?**

15 A Yes, to the extent that there is increased regulatory lag in Missouri, KCPL has been
16 compensated. Specifically, while Kansas has statutorily authorized both a property tax
17 and a transmission tracker, the Kansas Commission has also granted KCPL a
18 somewhat lower return on equity. In 2014, KCPL was completing rate cases in both
19 Missouri and Kansas. While Missouri authorized a return on equity of 9.5%, Kansas
20 authorized a return on equity of only 9.3%. Based upon the reconciliation prepared in
21 that case on July 17, 2015, this difference in return on equity was worth approximately
22 \$4.2 million to KCPL. Noticeably, while KCPL bemoans certain aspects of Missouri
23 regulation, it fails to note the higher return on equity authorized in Missouri.

24

¹² Great Plains Energy New Release dated November 3, 2016. Available at: http://phx.corporate-ir.net/phoenix.zhtml?c=96211&p=irol-newsArticle_print&ID=2219603

1

2 Q HOW HAVE YOU ORGANIZED THE BALANCE OF YOUR TESTIMONY
3 RESPONDING TO THE COMPANY'S PROPOSED EXPENSE TRACKING
4 MECHANISMS?

5 A My testimony will first explain the traditional treatment of utility operating expenses
6 within test year rate cases and the rationale for consistent and internally matched
7 accounting for changes in utility expenses, revenues, rate base investment and cost of
8 capital. Then I will describe the policy criteria that should be applied whenever
9 exceptions to traditional ratemaking are proposed, including piecemeal expense
10 tracking proposals of the type being recommended by KCPL witnesses. Then, after
11 explaining the proper evaluative criteria for piecemeal cost-tracking mechanisms, I will
12 apply this approach to each of the Company's proposed cost tracking mechanisms in
13 separate sections of this testimony.

14

15 **REGULATORY POLICY CONCERNS RAISED BY TRACKERS**

16 Q PLEASE DESCRIBE HOW TRADITIONAL UTILITY RATE REGULATION WORKS.

17 A Traditional regulation of energy utilities involves the conduct of formal rate cases, in
18 which the utility selects a test year and presents a calculation of its desired revenue
19 requirement, including operating expenses, depreciation and taxes, plus a rate of return
20 applied to a rate base measure of invested capital. The key characteristics of traditional
21 rate case regulation include:

- 22 • A **test year**, in which all of the components of the revenue requirement are
23 holistically analyzed and quantified in a balanced and internally consistent manner
24 with appropriate "matching" of costs and revenues.

- 1 • Utilization of regulatory lag as an **efficiency incentive**, by financially rewarding the
2 utility for achieved cost reductions and punishing the utility when costs increase
3 more rapidly than revenues between test years.
- 4 • Application of **regulatory rules** to the analysis of revenue requirement components,
5 including prescribed adjustments, minimum filing requirements, and adherence to
6 past rate orders and policies.
- 7 • A detailed **formal filing** with testimony and exhibits supportive of the asserted
8 revenue requirement.
- 9 • Updated quantification of input data, employing a **holistic measurement** of
10 changing revenue requirements, which in Missouri includes a true-up of all
11 individually significant elements of the revenue requirement to capture the most
12 current available ongoing cost levels,
- 13 • An opportunity for **prudence review** of management actions or inaction that may
14 have contributed to unreasonable recorded costs.
- 15 • **Procedural provisions** for discovery and critical analysis of test year data
16 submitted by the utility, and for litigation of disputed issues.
- 17 • **Comprehensive Review** of utility filings, discovery and submission of testimony
18 and exhibits by Commission Staff and consumer intervenors.
- 19 • **Regulatory costs** are dedicated to support these more formal procedures.

20

21 The fundamental concept behind traditional utility regulation is that, in the absence of
22 competitive markets to determine pricing for an essential public service, just and
23 reasonable utility rates should be determined based primarily upon careful
24 measurement of the utility's prudently incurred costs to provide such monopoly
25 services.

1

2 **Q DOES TRADITIONAL, TEST-YEAR REGULATION CAUSE PUBLIC UTILITY**
3 **MANAGEMENT TO BE COMPLETELY INDIFFERENT ABOUT ITS COST LEVELS?**

4 A No. An important element of traditional test period regulation is the incentive created
5 for management to control and reduce costs, so as to maximize the opportunity to
6 actually earn at or above the authorized return level between rate case test periods.
7 Traditional test year regulation is not continuous regulation, because prices established
8 in a rate case are normally fixed for a period of years. Changes in actual costs or sales
9 levels between rate cases can increase or decrease a utility's profit levels before such
10 changes can be translated into revised prices after a "next" rate case. This passage of
11 time between rate cases, commonly referred to as "regulatory lag," serves as an
12 efficiency incentive and moderates the counter-incentive that results when prices are
13 based upon costs to serve.

14 Another beneficial characteristic of traditional test year regulation is the
15 intensive focus upon utility operations and costs within a formal proceeding in which
16 Commission Staff and other interested parties can carefully examine or audit the
17 components making up the revenue requirement. The potential for regulatory
18 disallowance of excessive or otherwise unreasonable costs in such formal proceedings
19 represents another form of efficiency incentive to management.

20

21 **Q HOW DOES USE OF A TRACKING MECHANISM FOR SELECTED ELEMENTS OF**
22 **THE UTILITY'S OVERALL COSTS REDUCE THE INCENTIVES TO MANAGEMENT**
23 **FOR CONTROL OVER THE TRACKED TYPE OF COST?**

24 A A tracking mechanism for a specific type of cost eliminates the regulated lag incentive
25 that would normally serve to encourage efficiency and cost control between rate cases.
26 If every dollar of a tracked type of cost is eligible for deferral and future rate recovery,

1 management can afford to be less concerned about efficiency and the aggressive
2 pursuit of cost containment for that type of cost and can be expected to focus attention
3 on other areas of the business where earnings will be impacted by cost changes. In
4 fact, if the pursuit of new efficiencies in connection with any tracked cost involves any
5 significant risks or the incurrence of other costs that are not tracked, rational business
6 behavior would discourage the pursuit of such efficiencies. Thus, trackers not only
7 blunt the incentive to be efficient in regards to the tracked cost, it may also discourage
8 overall efficiency with regards to untracked costs that are related to the tracked cost.
9 An example is a situation where a utility operates under a fuel adjustment clause. The
10 presence of that mechanism makes utility management largely apathetic to increases in
11 tracked fuel and purchased power expenses. As a result, management is not
12 encouraged to accelerate capital investments or overhaul costs that are justified by
13 increased combustion efficiency that reduces tracked fuel usage and expense, because
14 the recovery of such accelerated non-includable cost is not tracked between test-years
15 while the related fuel expense savings go directly to ratepayers. In this way, the
16 presence of the selective tracking mechanism (a fuel adjustment clause) for only
17 certain includable costs, reduces the incentive for the utility to optimize overall costs
18 through efficiency programs that involve incurrence of costs that are not tracked..

19

20 **Q DOES THE USE OF FORECASTED COSTS RAISE MANY OF THE SAME**
21 **CONCERNS?**

22 **A** Yes. The use of forecasted costs raises similar concerns. Specifically, if the
23 Commission includes a forecasted amount for any specific cost, then the utility's
24 incentive to minimize those costs is reduced. In essence, the Commission would be
25 giving the utility a blank check, up to the amount of the forecasted cost, within which
26 range it is expected to operate. In this case, the utility has much less incentive to

1 minimize actual spending and a strong incentive to maximize the forecasted amount
2 being used to set rates. The utility will undoubtedly argue that it is still subject to some
3 prudence disallowances, but the Commission has specifically noted in the past that
4 prudence reviews are not as effective as regulatory lag in serving to minimize costs.
5 For instance, the Commission noted in a prior Ameren case:

6 Of course, any such expenditure would still be subject to a prudence
7 review in the next rate case, but a prudence review is not a complete
8 substitute for a good financial incentive.¹³
9

10 However, an after-the-fact prudence review is not a substitute for an
11 appropriate financial incentive, nor is an incentive provision intended to
12 be a penalty against the company. Rather, a financial incentive
13 recognizes that fuel and purchased power activities are very complex and
14 there are actions AmerenUE can take that will affect the cost
15 effectiveness of those activities.¹⁴
16

17 **Q DOES THE USE OF FORECASTED COSTS RAISE ANY OTHER CONCERNS?**

18 **A** Yes. The use of forecasted costs are extremely dependent on the utility's ability and
19 willingness to accurately forecast costs, without injecting bias into the judgment that is
20 required in preparing any forecast. In many situations, this ability is extremely limited.
21 For instance, in its last rate case KCPL sought to utilize forecasts for many costs
22 including CIPS / cyber-security costs. The request to use forecasted costs was again
23 based upon KCPL's forecast that these cyber-security costs would increase in the
24 future. Barely a year after the Commission issued its order rejecting KCPL's request to
25 use forecasted costs, KCPL admits that the projected increase in these costs did not
26 occur and that there has been a "recent moderation in the level of increases in
27 CIP/cyber-security compliance costs."¹⁵

¹³ *Report and Order*, Case No. ER-2008-0318, issued January 27, 2009, at page 40.

¹⁴ *Id.* at 72.

¹⁵ *Notice of Withdrawal of Proposal to Use Forecasted Expenses or a Tracker for CIP / Cyber-Security Compliance Costs*, filed September 9, 2016.

1 The problems arising from the use of forecasts to establish utility rates have
2 been broadly recognized. From the utility's perspective, there is a strong incentive to
3 pessimistically forecast future utility cost increases, so as to reduce the risk of
4 unfavorable variances caused when actual costs exceed the levels of forecasted cost
5 used in setting rates. From the ratepayers' perspective, utility management has a
6 tremendous information advantage from which to develop rate case forecasts that
7 employ pessimistic assumptions and inputs, so as to optimize rate levels and reduce
8 the risk of lower future earnings if future actual costs exceed rate case forecasted
9 levels.

10
11 **Q ARE YOU AWARE OF ANY PUBLISHED STUDY THAT ADDRESSES THE**
12 **PROBLEMS WITH BIAS AND INFORMATION ASYMMETRY THAT ARE**
13 **ASSOCIATED WITH UTILITY FORECASTS THAT ARE USED TO SET RATES?**

14 **A Yes. On August 13, 2013, the National Regulatory Research Institute ("NRRI")**
15 **published a report titled, Future Test Years: Challenges Posted for State Utility**
16 **Commissions. NRRI is the research arm of the National Association of Regulatory**
17 **Utility Commissioners ("NARUC").¹⁶ The Executive Summary of this report defines**
18 **future test year ("FTY") and historical test year ("HTY") approaches and states:**

19 The reader might ask why a commission should rely on anything other than an
20 FTY, since good ratemaking requires that new rates reflect the utility's costs
21 and sales, at least over the first several months that they are in effect.
22 Ratemaking, after all, is prospective, and an FTY matches the test year with
23 the effective period of new rates. Although in theory this argument seems
24 indisputable, it ignores the reality that forecasts are susceptible to error and
25 some costs and sales elements are inherently difficult to predict. Another
26 factor, as this paper stresses, is that utilities would have incentives to present
27 biased forecasts that are not always easy for commission staff and interveners
28 to uncover. A commission would be presumptuous to assume that forecasted
29 costs and sales are more accurate than modified HTY data accounting for
30 "known and measurable" changes. In fact, many commissions have taken this

¹⁶ Available at: <http://nrri.org/download/nrri-13-08-future-test-years/>

1 view, which seems sensible and in line with their mandate to set "just and
2 reasonable" rates.

3
4 In sum, an environment of rising average cost does not constitute a sufficient
5 condition for the use of an FTY. Supporters of an FTY give this false
6 impression, which ignores the reality of utility forecasts being susceptible to
7 bias and inherent error. Information asymmetry, which is an acute problem in
8 public utility regulation, makes it difficult for commissions to evaluate a utility's
9 forecasts in terms of their accuracy and objectivity.¹⁷

10
11 This report also discusses three major areas of concern when using future test year
12 forecasts:

- 13 • **Why would a utility be more inclined to overstate costs than to understate**
14 **costs?** The utility expects the commission to lower its cost forecasts, so it would
15 tend to initially file inflated costs. There is little payback for a utility that hedges on
16 the low side. The likelihood of the utility's actual costs being higher would increase,
17 thus jeopardizing its rate of return and penalizing shareholders.
- 18
19 • **How serious is this problem?** It depends on the ability of a utility to get away with
20 reporting inflated costs. For example, the utility might ask for recovery of costs in a
21 rate case no matter how frivolous or unlikely they are. It has little to lose if the
22 commission catches it (except for the credibility of future forecasts); if the
23 commission approves the cost, the utility recovers "phantom" or imprudent costs.
24 The result is that the utility's customers are paying excessively for utility service.
- 25
26 • **How can a commission detect overstating of costs?** It can observe any
27 systematic bias in past forecasts. For example, it may detect constant
28 overforecasting of a certain cost item for a number of years. The only way for a
29 commission to uncover inflated costs, although admittedly imperfect, is to do a
30 thorough review of the assumptions, methodologies and other factors underlying
31 the forecasts. This activity requires a commission staff with adequate resources and
32 skills. It also subtracts time from other crucial rate-case matters that could lead to ill-
33 informed decisions.¹⁸

34
35 The bias inherent in creation of test year rate case forecasts is undeniable and argues
36 against reliance upon forecasts within rate case proceedings.

37

¹⁷ Future Test Years: Challenges Posted for State Utility Commissions; August 13, 2013, National
Regulatory Research Institute ("NRRRI"), Executive Summary at iv.

¹⁸ Id., page 24, footnotes omitted.

1 Q DOES THE INSTALLATION OF NEW COST TRACKING MECHANISMS ADD TO
2 THE COMMISSION'S REGULATORY RESPONSIBILITIES AND RESOURCE
3 COMMITMENTS?

4 A Yes. Each new cost tracking mechanism imposes additional regulatory burdens upon
5 the Commission, its Staff, and concerned intervenors, through the creation of
6 incremental monthly cost deferral accounting entries with carrying charges that should
7 be rigorously analyzed for accuracy and prudence before being converted into
8 incremental future rate increases. However, the incremental regulatory resources
9 required for this needed critical analysis is often limited.

10

11 Q HOW DOES KCPL ATTEMPT TO JUSTIFY ITS REQUEST TO DEVIATE FROM
12 TEST YEAR REGULATION?

13 A The Company is requesting new expense tracking mechanisms for only its SPP
14 transmission and property tax expenses simply on the basis that these expenses are
15 expected to increase above test year levels in the future. As discussed above,
16 Company witnesses Ives and Rush contend that the Company's historical inability to
17 fully achieve Commission-authorized rates of return on equity ("ROE") is caused by
18 "regulatory lag" which they attribute to the delay in their ability to explicitly recognize
19 cost increases in the ratemaking process. The Company's new proposed tracking
20 mechanisms are intended to secure incremental revenue increases, beyond the
21 amounts available through normal rate case processes, so as to improve the
22 Company's future earnings.

23

24 Q ARE PREDICTIONS OF HIGHER FUTURE EXPENSE LEVELS A REASONABLE
25 BASIS FOR CREATING NEW REGULATORY TRACKING MECHANISMS BETWEEN
26 RATE CASE TEST YEARS?

1 A No. In fact, this is precisely the wrong reason for implementing expense tracking
2 mechanisms. A tracking mechanism is an extraordinary regulatory treatment that can
3 be appropriate only where large and volatile future changes in costs may threaten the
4 financial stability of the utility without such a tracking mechanism. In contrast, steadily
5 increasing costs can be readily addressed in traditional rate cases and do not require
6 any extraordinary treatment via a tracking mechanism or forecasted costs. Tracking of
7 normal inflationary pressures upon routinely incurred cost levels introduces an upward
8 bias toward higher future revenue requirements, particularly when piecemeal cost
9 tracking mechanisms are installed for only selected increasing costs, while ignoring
10 favorable cost trends or increasing operational efficiency. While such a bias is
11 beneficial to utility shareholders, it is not likely to produce just and reasonable rates for
12 utility customers.

13

14 Q HAS KCPL PROPOSED ANY MEANINGFUL CRITERIA FOR CONSIDERATION BY
15 THE COMMISSION IN DETERMINING WHEN A COST TRACKING MECHANISM
16 SHOULD BE APPROVED?

17 A No meaningful objective criteria are specified or systematically applied within the
18 Company's testimony regarding expense tracking for changes in transmission
19 expenses or property taxes. Instead, Mr. Ives argues, "[b]y utilizing such forward-
20 looking treatment judiciously, the Commission can have a positive impact on KCP&L's
21 ability to continue to enjoy access to low-cost capital to fund future investments that will
22 be used to serve customers."¹⁹ However, without robust criteria to carefully evaluate
23 such extraordinary rate treatment proposals, there is no limit to the scope of cost

¹⁹ In its response to Data Request MECG 2-7, KCPL explained that "Judiciously" as used in this passage of testimony means "selectively" or "on a targeted basis" rather than "universally" or "in all circumstances". This request asked for copies of all reports, analyses, publications, studies, projections and other data relied upon to support its "judicious" approach and no materials were relied upon or provided by the Company.

1 categories that could be selected for new tracking mechanisms in instances where
2 future utility costs are expected to be higher. If new tracking mechanisms are made
3 generally available in Missouri without carefully prescribed regulatory criteria, the
4 Commission can expect to be inundated with such requests in future rate case
5 proceedings where utility management's fiduciary duty to maximize utility earnings
6 would dictate aggressively pursuing these attractive opportunities for additional
7 revenues and earnings.

8

9 **Q IS THERE ANOTHER REASON WHY COSTS THAT ARE EXPECTED TO**
10 **INCREASE IN THE FUTURE SHOULD NOT BE SUBJECTED TO REGULATORY**
11 **TRACKING AND FUTURE RECOVERY?**

12 **A** Yes. The many diverse elements of electric utility revenue requirements are constantly
13 changing between test years. Some utility costs increase while others decline. New
14 investments are made to replace aging or obsolete utility plant assets, which can
15 favorably impact maintenance costs or can inject new technologies and efficiencies into
16 utility operations. Between test years, customers can be added or can modify their load
17 and revenue levels significantly, particularly in times of economic growth. In recent
18 years, historically low interest rates have allowed electric utilities to refinance long term
19 debt at attractive cost rates to reduce the overall revenue requirement. Any attempt to
20 isolate and track selected costs that are expected to increase, while ignoring the other
21 continuous changes in the utility's revenue requirement elsewhere that may offset such
22 cost increases, opens the regulatory system up to gaming and excessive rates. The
23 isolation of only cost increases for regulatory tracking and future recovery creates a
24 problem of "piecemeal ratemaking" that destroys the essential balance and "matching"
25 of costs and revenues that is performed by measuring all of the elements of the test
26 year revenue requirement in a balanced manner in formal rate cases.

1

2 **Q CAN YOU CITE ANY SPECIFIC EXAMPLES OF SIGNIFICANT COST REDUCTIONS**
3 **THAT KCPL HAS EXPERIENCED HISTORICALLY AND EXPECTS TO**
4 **EXPERIENCE IN THE FUTURE THAT HELP TO OFFSET INFLATIONARY**
5 **PRESSURES UPON KCPL'S OTHER COSTS?**

6 A Yes. The Company has been able to refinance long term debt, achieving substantial
7 savings in interest expense, and expects to realize additional future cost savings when
8 certain currently outstanding debt is scheduled to mature and be refinanced. I have
9 included in Schedule MLB-2 a copy of KCPL responses to MEEG Data Request 3-5
10 that provides information regarding past and future cost savings from refinancing
11 activities. Since late 2011, long term debt refinancing activities and reductions in the
12 interest rates on tax-exempt bonds have produced interest savings for KCPL totaling
13 more than \$10.5 million annually. According to this response, the Company has
14 taxable long-term debt maturing in 2017, 2018 and 2019 that it expects to refinance at
15 a lower cost when it matures. Depending upon the tenor of new debt issued in
16 connection with these refinancing activities, estimated future annual interest expense
17 savings could range from \$27.2 million to \$36.9 million on a total company basis.

18 Other costs savings programs have been implemented by KCPL that have
19 produced ongoing and significant realized savings in the past several years. Mr.
20 Heidtbrink states in testimony that, "[t]he Company has worked very hard to manage
21 the costs that can be controlled, which ultimately reduce the rate increase request. A
22 host of cost control measures have been undertaken over the past several years,
23 including but not limited to, the supply chain transformation project, benchmarking
24 initiatives in the generation, delivery and supply chain areas, and disciplined
25 management of employee headcount." According to this testimony, KCPL has
26 achieved efficiencies historically that have limited the increase in total Great Plains

1 Energy non-fuel operating and maintenance expense to 0.69% annually from 2011-
2 2015, a rate significantly below general inflation levels.²⁰ Company management
3 should be expected to continue to aggressively manage future expense levels and not
4 be excused from such responsibility through the adoption of regulatory policies that
5 burden ratepayers with forward-looking estimated expenses on a piecemeal basis, as if
6 continuing efficiency gains are not expected to mitigate future cost increases.

7 Finally, KCPL's parent company has agreed to acquire Westar Energy and has
8 estimated that this transaction will provide significant opportunities for increased
9 efficiency, cost savings and investment optimization across the combined company,
10 yielding estimated net efficiencies of about \$65 million in year 1 and improving to \$200
11 million in year 3 and beyond.²¹ The KCPL Missouri portion of such estimated savings
12 would be available to mitigate any increases in transmission or property tax expenses,
13 if the Westar Energy transaction is consummated and business operations of the
14 merged entities are integrated as planned. Noticeably, while KCPL seeks a tracker for
15 selected increasing cost items, it has not proposed a tracker for the multitude of costs
16 that it alleges will decrease as a result of the Westar acquisition. In this way, KCPL
17 hopes to capture the entirety of merger-enabled savings for the benefit of shareholders
18 until such savings can be reflected in a future rate case.

19
20 **Q ARE THERE ANY SITUATIONS WHERE MISSOURI'S TRADITIONAL TEST YEAR**
21 **RATEMAKING APPROACH SHOULD BE MODIFIED?**

22 **A** Yes. There can be extraordinary circumstances where traditional test year ratemaking
23 should be supplemented with cost tracking mechanisms. One instance can be for net
24 energy costs, including fuel and purchased power costs less off-system sales, where

²⁰ Direct Testimony of Scott Heidbrink at 11.

²¹ See Great Plains Energy Investor Presentation dated June 7, 2016, slide deck page 7, available at:
<http://phx.corporate-ir.net/phoenix.zhtml?c=96211&p=irol-presentations>

1 the legislature has permitted the use of a Fuel Adjustment Clause ("FAC") mechanism
2 to track and recover or return changes in net energy costs that occur between test
3 years. The Commission has reviewed requests for FAC implementation and, after
4 applying certain evaluative criteria, has approved Fuel Adjustment Clauses for KCPL
5 and for other Missouri electric utilities.

6 Additionally, there can be large and volatile costs, other than net energy costs,
7 incurred by utilities where traditional test year ratemaking may be incapable of
8 producing reasonable results that properly balance the interests of the utility and its
9 ratepayers. For example, the Commission has granted expense tracking treatment for
10 vegetation management costs incurred by electric utilities after it passed new
11 vegetation management rules and for gas utilities costs incurred to comply with new
12 gas safety rules.²²

13
14 **Q WHAT IS THE PRIMARY CRITERIA USED IN MISSOURI FOR THE**
15 **CONSIDERATION OF TRACKING MECHANISMS?**

16 **A** In the last KCPL rate case the Commission applied an "extraordinary" standard for its
17 consideration of extraordinary mechanisms like Accounting Authority Orders or
18 trackers. For instance, in discussing the implementation of a tracker for transmission
19 costs, the Commission stated:

²² Regarding electric utilities, following extensive storm related service outages in 2006, the Commission promulgated new rules designed to compel Missouri's electric utilities to do a better job of maintaining their electric distribution systems. Those rules, entitled Electrical Corporation Infrastructure Standards 4 CSR 240-23.020 and Electrical Corporation Vegetation Management Standards and Reporting Requirements 4 CSR 240-23.030 became effective on June 30, 2008. In ER-2008-0318, the Commission allowed Ameren UE to recover \$54.1 million in its base rates for vegetation management costs, and \$10.7 million for infrastructure inspection costs. However, since the rules were new, the Commission found that Ameren UE had too little experience to reasonably know how much it would need to spend to comply with the vegetation management and infrastructure inspection rules. Because of that uncertainty, the Commission established a two-way tracking mechanism to allow Ameren UE to track its vegetation management and infrastructure costs. Since that time, as utilities have become more familiar with the vegetation management rules and costs have moderated, the Commission has discontinued the vegetation management tracker for all Missouri utilities.

1 The evidence presented in this case showed that KCPL's transmission
2 costs, while having increased in recent years, are normal, ordinary and
3 recurring operation costs. These recurring costs are not abnormal or
4 significantly different from the ordinary and typical activities of the
5 company, so they are not extraordinary and, therefore, not subject to
6 deferral under the USoA. The Commission concludes that KCPL has not
7 met its burden of proof to demonstrate that projected transmission cost
8 increases are extraordinary, so its request for a transmission tracker will
9 be denied.²³

10
11 It is my understanding that the Commission's decision to apply an extraordinary
12 standard for consideration of a tracking mechanism has been upheld by the Western
13 District Court of Appeals.

14
15 **Q IN ADDITION TO THE EXTRAORDINARY STANDARD, WHAT ARE THE BASIC**
16 **CRITERIA THAT OTHER REGULATORY COMMISSIONS HAVE EMPLOYED TO**
17 **EVALUATE THE NEED FOR TRACKING MECHANISM TREATMENT OF CERTAIN**
18 **UTILITY COSTS?**

19 **A** Cost tracking mechanisms should be approved only in instances where compelling
20 circumstances justify departure from traditional test period review of all test year costs
21 and revenues within rate case proceedings in which the overall revenue requirement
22 can be audited and considered in a balanced and synchronized manner. Costs or
23 revenue changes to be deferred or tracked through a rider should generally have all of
24 the following attributes to merit such exceptional and preferential rate recovery
25 treatment:

- 26 1. Substantial enough to have a material impact upon revenue requirements and the
27 financial performance of the business between rate cases.
- 28 2. Beyond the control of management, where utility management has little influence
29 over experienced revenue or cost levels.

²³ *Report and Order*, Case No. ER-2014-0370, issued September 15, 2015, at page 54. Similarly, the Commission applied an extraordinary standard to its consideration and rejection of a tracker mechanism for property taxes (page 56) and cyber-security costs (page 58).

- 1 3. Volatile in amount, causing potentially significant swings in income and cash flows
2 if not tracked.
- 3 4. Straightforward and simple to administer, readily audited and verified through
4 expedited regulatory reviews.
- 5 5. Balanced, such that any known factors that mitigate cost impacts are accounted
6 for in a manner that preserves test year matching principles.

7

8 Relative to the volatility factor, it is important to recognize that volatility does not simply
9 refer to an increasing cost. Rather, as the Commission has recognized, volatility
10 involves costs that are increasing and decreasing in an unpredictable manner.

11 Thus AmerenUE's fuel costs, while certainly rising, cannot be said to be
12 volatile. Markets in which prices are volatile tend to go up and down in an
13 unpredictable manner. When a utility's fuel and purchased power costs are
14 swinging in that way, the time consuming ratemaking process cannot
15 possibly keep up with the swings. As a result, in those circumstances, a fuel
16 adjustment clause may be needed to protect both the utility and its ratepayers
17 from inappropriately low or high rates. Because AmerenUE's costs are
18 simply rising, that sort of protection is not needed.²⁴

19

20 In the testimony that follows, I will discuss the facts associated with KCPL's proposed
21 new regulatory mechanisms for RTO transmission expenses and property taxes and
22 subject the proposals to these criteria, to support my recommendation that the
23 proposals should not be approved by the Commission.

24

25 **TRANSMISSION EXPENSE PROPOSAL**

26 **Q PLEASE DESCRIBE THE COMPANY'S SPECIFIC PROPOSALS WITH RESPECT**
27 **TO RATEMAKING FOR TRANSMISSION EXPENSES.**

28 **A KCPL witness Mr. Rush explains the Company's proposal, stating:**

²⁴ Case No. ER-2007-0002, *Report and Order*, issued May 22, 2007, at page 23 (emphasis added).

1 The Company requests that all transmission costs associated with the
2 charges and revenues from Southwest Power Pool ("SPP") billings, and
3 transmission costs to buy and sell energy, be recovered in rates through the
4 FAC mechanism. This will provide for a direct link between transmission
5 associated with the sale and purchase of energy and ensure appropriate
6 recovery of transmission costs billed to KCP&L. Transmission costs incurred
7 for the operation of KCP&L transmission systems will not be included in the
8 FAC, but will be recovered through base rates. The adjustment in this case
9 reflects inclusion of the projected transmission costs for the average of 2017
10 and 2018. To the extent the Commission rejects inclusion of any portion of
11 SPP transmission costs in the FAC, then in the alternative, the Company
12 requests inclusion of the projected transmission costs and revenues for the
13 average of 2017 and 2018, be included in base rates. If the actual costs are
14 less than forecasted expense levels included in rates, then the difference will
15 be credited to customers in the next rate case. If the actuals are greater than
16 the amount in rates, then the Company would absorb the excess costs.²⁵
17

18 Mr. Rush also acknowledges that, in the Company's last rate case, KCPL requested a
19 comparable form of inclusion of the net transmission costs and revenues in its
20 proposed FAC, as well as the same asymmetrical tracker approach in that Case No.
21 ER-2014-0370, and he admits that "both positions were rejected in that case and the
22 inclusion of transmission expenses and revenues is currently on appeal." He also
23 recites a series of requests prior to the last rate case where piecemeal tracker and
24 Accounting Authority Order ("AAO") treatment of transmission costs has been
25 requested by KCPL and rejected by the Commission.²⁶
26

27 **Q IN REJECTING KCPL'S MOST RECENT REQUEST FOR RATE TRACKING**
28 **TREATMENT OF TRANSMISSION EXPENSES IN CASE NO. ER-2014-0370, DID**
29 **THE COMMISSION EXPRESS THE SAME CONCERNS YOU HAVE DESCRIBED IN**
30 **THIS TESTIMONY WITH REGARD TO REGULATORY POLICIES ASSOCIATED**
31 **WITH TRACKERS?**

32 **A** Yes. In its Report and Order the Commission agreed with Staff's witness and stated,
33 "The broad use of trackers should be limited because they violate the matching

²⁵ Direct Testimony of Tim Rush, pages 8-9.

²⁶ Id, pages 9-10.

1 principle, tend to unreasonably skew ratemaking results, and dull the incentives a utility
2 has to operate efficiently and productively under the rate regulation approach employed
3 in Missouri."²⁷ The Report and Order provided a definition of "extraordinary items" that
4 may be eligible for deferral and later recovery under the Uniform System of Accounts
5 prescribed by the FERC and recited the Company's previous requests for a
6 "transmission tracker" that were denied. In conclusion on this matter, the Commission
7 Stated:

8 The evidence presented in this case showed that KCPL's transmission costs,
9 while having increased in recent years, are normal, ordinary and recurring
10 operation costs. These recurring costs are not abnormal or significantly
11 different from the ordinary and typical activities of the company, so they are not
12 extraordinary and, therefore, not subject to deferral under the USoA. The
13 Commission concludes that KCPL has not met its burden of proof to
14 demonstrate that projected transmission cost increases are extraordinary, so
15 its request for a transmission tracker will be denied.
16

17 The Commission also denied the Company's request to add an additional amount of
18 \$5 million as an estimate of increased transmission costs, subject to refund in a
19 future rate case, noting the Company's failure to adequately explain how the
20 estimate was determined or how the Commission has the legal authority to grant
21 such relief.²⁸
22

23 **Q HOW MANY TIMES HAS THE COMMISSION REJECTED KCPL'S REQUEST**
24 **FOR A TRANSMISSION TRACKER?**

25 **A** The Commission has rejected KCPL's requested transmission tracker on at least three
26 separate occasions within the last four years. For instance, in Case No. ER-2012-
27 0174, the Commission stated: "Applicants have not proved that the transmission cost
28 increases meet that standard. The projected transmission cost increases are not

²⁷ File No. ER-2014-0370, Report and Order issued September 2, 2015, page 51 at 116.

²⁸ Id, page 54.

1 "extraordinary" within the legal definition because they are not rare or current."²⁹ Still
2 again, in Case No. EU-2014-0077, the Commission again rejected KCPL's requested
3 transmission tracker on the basis that it failed to meet the "extraordinary" standard.
4 "Consistent with the language in General Instruction No. 7, the Commission has
5 evaluated the transmission costs for which Companies seek an AAO to determine if
6 they are an unusual and infrequent occurrence. The Commission concludes they are
7 not."³⁰ Then, as mentioned, the Commission rejected KCPL's proposed transmission
8 tracker in its last rate case (Case No. ER-2014-0370). Therefore, this represents the
9 fourth time in less than four years that KCPL has requested a tracker for its
10 transmission costs.

11

12 **Q DO YOU AGREE WITH THE COMMISSION'S CONCLUSION IN PREVIOUS**
13 **RATEMAKING DECISIONS THAT KCPL'S TRANSMISSION EXPENSES ARE**
14 **NORMAL, ORDINARY AND RECURRING OPERATIONAL COSTS FOR WHICH**
15 **TRACKER TREATMENT IS NOT APPROPRIATE?**

16 **A** Yes. These costs are incurred every day in order to operate the Company's grid and
17 represent the continuing recovery of mostly fixed costs associated with KCPL's share of
18 the O&M expense, return on investment and depreciation of transmission facilities
19 across the Southwest Power Pool ("SPP") region. The historically increasing trend in
20 such expenses that the Company has experienced does not justify extraordinary
21 regulatory treatment of such costs.

22

23 **Q ARE THE COMPANY'S SPP TRANSMISSION EXPENSES AN INDIVIDUALLY**
24 **LARGE COMPONENT OF TOTAL ANNUAL EXPENSES OR ANNUAL REVENUES?**

²⁹ *Report and Order*, Case No. ER-2012-0174, issued January 9, 2013, at page 31.

³⁰ *Report and Order*, Case No. EU-2014-0077, issued July 30, 2014, at page 10.

1 A No. Mr. Klote sponsors the Company's adjustment proposing to reach forward and
2 include an average of 2017 and 2018 projected costs, which results in an annualized
3 amount of \$69.2 million being requested by KCPL.³¹ In relation to Total Operating
4 Expenses, as reported by KCPL in SEC Form 10K for 2015 of \$1.35 billion,
5 transmission expenses represented about 5.1 percent of overall expenses. In relation
6 to total Electric Revenues, as reported by KCPL in SEC Form 10K for 2015 of \$1.72
7 billion, these SPP transmission expenses represented about 4.0 percent of overall
8 electric revenues.³² These relationships illustrate the fairly modest contribution of SPP
9 transmission expenses to the Company's overall costs and revenues. When we focus
10 upon only the year-over-year change in SPP transmission expenses, for which KCPL
11 proposes extraordinary ratemaking treatment, the amounts involved do not merit
12 tracker treatment.³³

13
14 Q AT THESE LEVELS, ARE CHANGES IN SPP TRANSMISSION CHARGES
15 SUBSTANTIAL ENOUGH TO HAVE A MATERIAL IMPACT UPON REVENUE
16 REQUIREMENTS AND THE FINANCIAL PERFORMANCE OF THE BUSINESS
17 BETWEEN RATE CASES?

18 A No. Given the modest overall amount of expense involved, as a percentage of overall
19 costs and revenues, changes in SPP transmission expenses in isolation would not be
20 reasonably expected to adversely impact the Company's future financial stability or

³¹ Direct Testimony of Ronald Klote, page 41. Mr. Klote also proposes rate recovery of SPP Schedule 1-A. administrative fees of another \$12.6 million at page 51 of his testimony.

³² Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2015, page 55. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

³³ It is important to recognize that, while the Commission rejected KCPL's proposed transmission tracker, the Commission did authorize the implementation of a fuel adjustment clause which includes that amount of transmission costs that are related to power purchased from third parties. Therefore, some amount of KCPL's transmission costs is already tracked. Therefore, the referenced numbers are inflated in that they do not reflect that portion of transmission costs that are already tracked through the fuel adjustment clause.

1 access to capital on reasonable terms. Transmission charges can be reasonably
2 addressed in traditional rate cases, where these expenses have been handled in
3 previous Missouri rate case proceedings.

4

5 **Q HAVE THE HISTORICAL LEVELS OF SPP TRANSMISSION CHARGES TO KCPL**
6 **PROVEN TO BE VOLATILE FROM YEAR TO YEAR?**

7 A No. KCPL witness Mr. Carlson sponsors "Schedule JRC-4" with his Direct Testimony
8 summarizing in a graph historical and projected SPP Base Plan Funding Costs, which
9 is a large components of overall SPP transmission charges. Schedule JRC-4 shows
10 steady increases in these charges from 2010 to 2016, and then relative stability at
11 around \$50 million per years in all subsequent projected years 2017 through 2024.

12

13 **Q DOES KCPL EXPECT THAT ITS OVERALL SPP TRANSMISSION EXPENSES,**
14 **INCLUDING THE OTHER SPP FEES AND ASSESSMENTS INCLUDED IN ITS**
15 **RATEMAKING ADJUSTMENTS, WILL BE VOLATILE AFTER 2016?**

16 A No. In its Highly Confidential response to Data Request MCEG 2-10, the Company
17 provided its Transmission Expense Budget for the years 2016 through 2020. The
18 following table summarizes these expense estimates based upon this response:

19

20

21

22

23

24

1 ****HC Table 1: KCPL Projected Transmission Expenses by Year³⁴**

2

3

4

5

6

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11

12

13

14

**

15 In this response, the Company stated, ** _____

16 _____

17 _____

18 _____** is expected by the Company with regard to SPP transmission charges and fees
19 in the future. The same response reveals minimal expected change in annual
20 transmission revenues in each of the future years 2016 through 2020. A copy of
21 KCPL's highly confidential response to Data Request MEGC 2-10 is included in
22 Schedule MLB-3.

23

24 **Q ARE THE TRANSMISSION EXPENSES THE COMPANY PAYS TO SPP ENTIRELY**
25 **BEYOND THE CONTROL OF KCPL MANAGEMENT?**

³⁴ Derived from KCPL response to Data Request MEGC 2-10.

1 A No. The Company participates in the governance of SPP, in an effort to exercise
2 control over decisions made that impact net charges to KCPL by SPP. In its response
3 to Data Request MEGC 2-10, KCPL listed many different employees who monitor and
4 participate in the committees, working groups and task forces making up the SPP
5 governance structure.³⁵

6
7 **Q WOULD A TRACKING MECHANISM FOR THE COMPANY'S SPP TRANSMISSION**
8 **EXPENSES BE STRAIGHTFORWARD AND SIMPLE TO ADMINISTER, READILY**
9 **AUDITED AND VERIFIED THROUGH EXPEDITED REGULATORY REVIEWS?**

10 A No. Any SPP transmission expense tracking mechanism would be challenging to
11 effectively audit and verify, because of the number and complexity of the underlying
12 transactions. The incremental costs to the utility and the Commission Staff, as well as
13 the effort and cost involved if any disputes arise, argue against adopting such an SPP
14 transmission expense tracking mechanism. The difficulty in auditing the costs that are
15 flowed through a tracking mechanism can be observed in a recent situation involving
16 GMO's fuel adjustment clause. Historically, the Commission has disallowed all
17 transmission costs associated with the Crossroads unit in Mississippi. Nevertheless,
18 GMO recorded these transmission costs as recoverable through its fuel adjustment
19 clause. Initially, these otherwise disallowed costs were not recognized and were
20 allowed to be recovered in the fuel adjustment clause. Only later, were these
21 disallowed costs noticed and a correction made.³⁶ These facts illustrate the difficulty in
22 auditing and ensuring that only proper costs are included in any inherently complex
23 tracking mechanism.

24

³⁵ See KCPL response to Data Request MEGC 2-10, parts (d) and (e) contained in Schedule MLB-3.

³⁶ *Staff Cost of Service Report*, Case No. ER-2016-0156, filed July 15, 2016, at pages 60, 187-189.

1 Q WOULD A TRACKING MECHANISM FOR CHANGES IN TRANSMISSION
2 EXPENSES BETWEEN TEST YEARS BE APPROPRIATELY BALANCED, SUCH
3 THAT ANY KNOWN FACTORS THAT MITIGATE COST IMPACTS ARE
4 ACCOUNTED FOR IN A MANNER THAT PRESERVES TEST YEAR MATCHING
5 PRINCIPLES?

6 A Yes. Transmission net revenues and expenses represent discrete amounts that are
7 not interactive with other elements of the utility's base rate revenue requirement.
8 Added transmission investments and costs may improve the efficiency of the
9 transmission grid, helping KCPL reduce its net energy costs that are being tracked
10 through the FAC.

11

12 Q CONSIDERING EACH OF THE CRITERIA YOU HAVE RECOMMENDED FOR
13 EXTRAORDINARY REGULATORY TREATMENT OF SPECIFIC TYPES OF COSTS,
14 SHOULD KCPL'S SPP TRANSMISSION EXPENSES BE GRANTED THE TRACKING
15 MECHANISM TREATMENT THAT IS PROPOSED BY THE COMPANY?

16 A No. As described above, SPP transmission expenses incurred by KCPL are not
17 extraordinary and are not sufficiently large and volatile that they merit extraordinary
18 expense tracking treatment. Additionally, KCPL management exercises some limited
19 control over SPP transmission expenses and the incentive for ongoing cost control
20 efforts and costs would be blunted if expense tracker treatment was implemented.

21

22 Q SHOULD THE FORECASTED LEVELS OF SPP TRANSMISSION COSTS
23 EXPECTED BY KCPL IN THE YEARS 2017 AND 2018 BE INCLUDED IN THE
24 COMPANY'S REVENUE REQUIREMENT?

25 A No. These forecasted amounts are not known and measurable and cannot be verified
26 at this time. Instead, actual fact-based calculations should be used to determine test

1 year transmission expenses. Notably, the ability for the Company to include a trued-up
2 level of such expenses under the traditional regulatory approach used in Missouri
3 serves to minimize any regulatory lag associated with transmission expenses.

4
5 **Q ARE THERE OTHER CONSIDERATIONS THAT YOU BELIEVE UNDERMINE THE**
6 **COMPANY'S REQUEST FOR A TRANSMISSION TRACKER?**

7 **A** Yes. As an initial matter, I would point out that the KCPL is allowed to recover some of
8 its transmission costs through its fuel adjustment clause. Section 386.266 allows for
9 the implementation of a fuel adjustment clause for the recovery of changes in the
10 utility's "fuel and purchased-power costs, including transportation." In recent cases, the
11 Commission has been asked to extend the scope of "transportation" costs to include
12 these transmission costs. There, the Commission held that the inclusion of
13 transportation costs was limited to only those transmission costs associated with
14 purchased power from third-parties and does not extend to the transmission of energy
15 from the utility's own generating resources.³⁷ Thus, in interpreting the scope of Section
16 386.266, the Commission has already allowed some percent of utility transmission
17 costs in the fuel adjustment clause.

18 It would seem somewhat illogical that the General Assembly would authorize
19 the inclusion of some percentage of transmission costs within a fuel adjustment clause
20 if it believed that the Commission already had authority to allow for the tracking of
21 100% of such costs. Any interpretation that the FAC only allows for tracking of a
22 certain percentage of such costs, while then separately creating a tracker for the
23 tracking of 100% of such costs, seems to create an illogical result.

³⁷ See, *Report and Order*, Case No. ER-2014-0370, issued September 2, 2015, at page 33. See also, *Report and Order*, Case No. ER-2014-0258, issued April 29, 2015, at pages 114-16; *Report and Order*, Case No. ER-2014-0351, issued June 24, 2015, at pages 27-29.

1 Finally, I would note that KCPL is the only Missouri utility that has requested a
2 transmission tracker. Neither Ameren nor Empire has requested the creation of a
3 transmission tracker. Moreover, it is my understanding that neither of these utilities has
4 expressed any difficulty in earning near the authorized return on equity as a result of
5 the lack of a transmission expense tracker. Therefore, the situation raised by KCPL
6 appears to be truly unique to this utility.

7
8 **PROPERTY TAX PROPOSAL**

9 **Q PLEASE DESCRIBE THE COMPANY'S PROPOSED PROPERTY TAX**
10 **RATEMAKING MECHANISM.**

11 **A** According to KCPL witness Rush, "The Company proposes to establish the level of
12 property taxes in this case based on the average of projected 2017 and 2018 costs.
13 The Company would then track its actual property tax expenses on an annual basis
14 against this amount, with the Missouri jurisdictional portion of any excess recovery
15 treated as a regulatory liability (Account 254). When the Company files its next rate
16 case, any amount recorded in account 254 is an over-collection of the Missouri portion
17 of property taxes, and the Company will make an adjustment to return that amount
18 back to customers."³⁸ In support of this approach, KCPL witness Mr. Klote refers to the
19 Company's historically increasing trend in property tax expenses, stating, "KCP&L
20 Property Tax expense has continued to increase dramatically over the last five years; in
21 2011 KCP&L's Property Tax O&M expense was \$72.2 million and in 2015 KCP&L's
22 Property Tax O&M expense was \$90.7 million. In each of the prior years the
23 Company's Property Tax O&M expense has increased by several million dollars over
24 the prior year amount." Mr. Klote then states, "we expect Property Tax O&M expense to

³⁸ Direct Testimony of Tim Rush, page 13.

1 continue to increase in the next few years...[t]herefore, it is appropriate to use the
2 average of 2017 and 2018 budgeted Property Tax O&M expense.”³⁹

3

4 **Q DID THE COMPANY PROPOSE A SIMILAR MECHANISM FOR PROPERTY TAXES**
5 **IN ITS LAST RATE CASE?**

6 **A** Yes. A tracker mechanism for property taxes was proposed by KCPL in Case No. ER-
7 2014-0370 and in surrebuttal requested for the first time that for property taxes not
8 afforded tracker treatment, \$5.6 million of annual estimated Missouri jurisdictional
9 property tax expense should be added to the revenue requirement above the base
10 amount and, if this forecast amount recognized in revenue requirement exceeds actual
11 property tax expenses during the period rates are in effect, such amounts should be
12 credited to customers in a subsequent rate case.

13

14 **Q DID THE COMMISSION APPROVE EITHER THE TRACKER MECHANISM OR THE**
15 **INCLUSION OF ADDITIONAL FORECASTED PROPERTY TAXES IN ITS ORDER?**

16 **A** No. In its Report and Order in Case No. ER-2014-0370, the Commission stated:

17 KCPL has requested that the Commission approval the same type of deferral
18 mechanism for property tax expenses that it requested for transmission fee
19 expenses. For that reason, the Commission incorporates herein the analysis
20 contained in the conclusions of law and decision section from the
21 transmission fee expense issue discussed above. The Commission
22 concludes that KCPL has not met its burden of proof to demonstrate that
23 projected property tax increases are extraordinary, so its request for a
24 property tax tracker will be denied.

25

26 KCPL's correct level of property tax expense to recognize in its revenue
27 requirement on a total company basis is \$91,616,599. KCPL has also
28 requested that the Commission add to this amount an additional amount of
29 \$5.6 million, which it claims is an estimate of its increased property tax costs,
30 subject to refund in a future rate case. Since this request was first submitted
31 in surrebuttal testimony, it violates Commission Rule 4 CSR 240-2.130(7)(A),
32 which requires that “[d]irect testimony shall include all testimony and exhibits
33 asserting and explaining that party’s entire case-in-chief”. By submitting the

³⁹ Direct Testimony of Ronald Klote, page 68.

1 request for the first time in surrebuttal, KCPL has prevented other parties
2 from having a sufficient opportunity to conduct discovery or provide testimony
3 on that matter. The Commission also finds that KCPL failed to adequately
4 explain how it arrived at its estimate and how the Commission has the legal
5 authority to grant such relief. For all these reasons, the Commission
6 concludes that the KCPL's request for an additional \$5.6 million added to the
7 approved base amount of revenue requirement should be denied.⁴⁰
8

9 With essentially the same facts in the present case, I believe the Commission should
10 again reach the same conclusion. There is simply no justification for piecemeal, single-
11 issue ratemaking for KCPL's property tax expenses, as explained below.
12

13 **Q ARE THE COMPANY'S PROPERTY TAX EXPENSES AN INDIVIDUALLY LARGE**
14 **COMPONENT OF TOTAL ANNUAL EXPENSES OR ANNUAL REVENUES?**

15 **A** No. As noted by Mr. Klote, for the year 2015, a total of \$90.7 million of property tax
16 expense was recorded by KCPL.⁴¹ In relation to Total Operating Expenses, as
17 reported by KCPL in SEC Form 10K for 2015 of \$1.35 billion, property taxes
18 represented about 6.7 percent of overall expenses. In relation to total Electric
19 Revenues, as reported by KCPL in SEC Form 10K for 2015 of \$1.72 billion, property
20 taxes represented about 5.3 percent of overall electric revenues.⁴² These relationships
21 illustrate the modest contribution of property taxes to the Company's overall costs and
22 revenues. When we focus upon only the year-over-year change in property tax
23 expenses, for which KCPL proposes extraordinary ratemaking treatment, the amounts
24 involved do not merit tracker treatment.
25

⁴⁰ File No. ER-2014-0370, Report and Order issued September 2, 2015, page 56.

⁴¹ KCPL response to Staff Data Request 104R, Part 4 Attachment.

⁴² Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2015, page 55. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

1 Q ARE ANNUAL CHANGES IN PROPERTY TAXES SUBSTANTIAL ENOUGH TO
2 HAVE A MATERIAL IMPACT UPON REVENUE REQUIREMENTS AND THE
3 FINANCIAL PERFORMANCE OF KCPL BETWEEN RATE CASES?

4 A No. Given the level of expense involved, as a percentage of overall costs and
5 revenues, changes in property taxes in isolation would not be reasonably expected to
6 adversely impact the Company's future financial stability or access to capital on
7 reasonable terms. Property taxes can be reasonably addressed in traditional rate
8 cases, where these taxes have been handled in previous Missouri rate cases.

9

10 Q WERE THE HISTORICAL LEVELS OF KCPL'S PROPERTY TAXES VOLATILE
11 FROM YEAR TO YEAR?

12 A No. The following graph summarizes the Company's property tax expenses payable in
13 both Kansas and Missouri from 2011 through 2015:

14 ****HC Table 2: KCPL Property Tax Expenses by Year⁴³**

15

16

17

18

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24

**

⁴³ Derived from KCPL Highly Confidential Schedule RAK-9.

1 This data clearly shows the relative stability and predictability of historical property tax
2 levels experienced by KCPL. The Company has experienced gradual, single digit
3 percentage increases in this expense from year to year, rather than any volatility or
4 extreme levels of change in any recent year.

5

6 **Q ARE KCPL'S PROPERTY TAXES BEYOND THE CONTROL OF MANAGEMENT,**
7 **WHERE UTILITY MANAGEMENT HAS LITTLE INFLUENCE OVER EXPERIENCED**
8 **COST LEVELS?**

9 A Property tax assessments and mill levy rates are largely, but not completely beyond the
10 control of utility management. There are a number of periodic filings and opportunities
11 for property tax calculation reviews and exemption provisions that KCPL management
12 must prudently administer.⁴⁴ KCPL tax staff personnel work closely with the Missouri
13 State Assessors regarding the valuations of KCPL used to determine property taxes.
14 The inputs to determine taxable value are discussed in detail by the KCPL staff and the
15 State Assessors during the valuation process to ensure that the appraisal is based on
16 accurate data and the assumptions are valid. The annual valuation is reviewed in detail
17 by the KCPL tax staff and all information is tied back to company financial reports.
18 Additionally, the KCPL staff reviews the logic and methods used by the State
19 Assessors to validate that the appraisal is sound and based on generally accepted
20 appraisal theory. The KCPL staff also reviews the state and local tax bills to validate
21 agreement with the various appraisals and that the bills are correct and accurate
22 including the application of proper mill levy tax rates. Any potential error noted in
23 KCPL's annual review is communicated and discussed until KCPL is satisfied that

⁴⁴ Contracts governing Payments in Lieu of Tax ("PILOT") for wind facilities exempted from property taxation are discussed in the Direct Testimony of Ronald Klote at pages 69-70.

1 either there was no error or the taxing authority agreed to correct and reissue a new tax
2 bill.⁴⁵

3

4 **Q WOULD A TRACKING MECHANISM FOR KCPL'S PROPERTY TAXES BE**
5 **STRAIGHTFORWARD AND SIMPLE TO ADMINISTER, READILY AUDITED AND**
6 **VERIFIED THROUGH EXPEDITED REGULATORY REVIEWS?**

7 A Yes. In isolation, a property tax tracking mechanism would not be particularly difficult to
8 audit and verify, although some administrative cost would be incurred because of the
9 large number of taxing jurisdictions that are involved and the potential for corrections
10 and revisions to individual tax bills in each year. From an accounting perspective,
11 property taxes are discrete payments that can be readily isolated for verification and
12 would therefore not require complex analysis to isolate any labor, benefits and other
13 costs embedded in base rates to avoid double recoveries. However, the incremental
14 costs to the utility and the Commission Staff, as well as the effort and cost involved if
15 any disputes arise, argue against adding such a tracking mechanism to the Missouri
16 regulatory regime unless a financial need for such a tracker is proven.

17

18 **Q WOULD A TRACKING MECHANISM FOR CHANGES IN PROPERTY TAXES**
19 **BETWEEN TEST YEARS BE APPROPRIATELY BALANCED, SUCH THAT ANY**
20 **KNOWN FACTORS THAT MITIGATE COST IMPACTS ARE ACCOUNTED FOR IN A**
21 **MANNER THAT PRESERVES TEST YEAR MATCHING PRINCIPLES?**

22 A Yes. Property taxes do not, when paid, create any foreseeable opportunity for
23 offsetting cost savings, operational efficiencies or other benefits to KCPL that must be
24 identified and recognized as an offset to any recorded cost deferrals.

25

⁴⁵ KCPL response to Data Request MECG 3-2.

1 Q CONSIDERING EACH OF THE CRITERIA YOU HAVE RECOMMENDED FOR
2 EXTRAORDINARY REGULATORY TREATMENT OF SPECIFIC TYPES OF COSTS,
3 SHOULD KCPL'S PROPERTY TAX EXPENSES BE GRANTED THE TRACKING
4 MECHANISM TREATMENT THAT IS PROPOSED BY THE COMPANY?

5 A No. As described above, property tax expenses incurred by KCPL are not sufficiently
6 large and volatile that they merit extraordinary expense tracking treatment.
7 Additionally, KCPL management exercises some control over property tax expenses
8 and the incentive for ongoing cost control efforts and costs would be blunted if expense
9 tracker treatment was implemented.

10

11 Q SHOULD THE FORECASTED LEVELS OF PROPERTY TAXES EXPECTED BY
12 KCPL IN THE YEARS 2017 AND 2018 BE INCLUDED IN THE COMPANY'S
13 REVENUE REQUIREMENT?

14 A No. These forecasted amounts are not known and measurable and cannot be verified
15 at this time. Instead, actual fact-based true up calculations should be used to
16 determine annualized test year property tax expenses. Notably, the ability for the
17 Company to include a trued-up level of property tax expenses under the traditional
18 regulatory approach used in Missouri serves to minimize any regulatory lag associated
19 with property taxes. This outcome can be observed in KCPL's last Missouri rate order.
20 As noted above, the Commission approved a total company property tax expense for
21 ratemaking purposes of \$91,616,599 and rejected the Company's proposal to increase
22 this amount by another \$5.6 million for estimated future increases in property taxes.⁴⁶
23 This allowed property tax expense level exceeded KCPL's historically incurred
24 expenses through 2015, as shown in Table 2, above. The \$5.6 million of forecasted

⁴⁶ File No. ER-2014-0370, Report and Order issued September 2, 2015, page 55-56. See Note

1 additional property taxes sought by KCPL in its former rate case was based upon
2 average budgeted property tax expenses for 2016 and 2017 of ** _____
3 _____**, respectively.⁴⁷ The Company's updated budgeted property tax
4 expense for the same years 2016 and 2017, as reflected in Mr. Klote's Schedule RAK-9
5 in the current rate filing, are now significantly lower at ** _____
6 _____** respectively. The recent reductions in KCPL's budgeted property tax expense
7 illustrates the uncertainty associated with using forecasted data in setting rates and
8 highlights the risk that ratepayers will be overcharged when a utility is allowed to
9 employ forecasts for ratemaking purposes.

10
11 **Q HAVE OTHER MISSOURI UTILITIES REQUESTED A TRACKER OR THE USE OF**
12 **FORECASTED AMOUNTS FOR PROPERTY TAXES?**

13 **A** No. Neither Ameren nor Empire has a property tax tracker and it is my understanding
14 that KCPL is the only Missouri utility that has requested the use of such an
15 extraordinary mechanism.

16
17 **Q DO YOU HAVE ANY OTHER THOUGHTS REGARDING KCPL'S REQUEST FOR**
18 **TRACKERS OR FORECASTED COSTS?**

19 **A** Yes. In the event that the Commission grants KCPL's proposed selective
20 implementation of a tracker, or the use of forecasted costs, for only expenses that are
21 expected to increase, this represents a significant shift of risk from the utility
22 shareholders to the ratepayers. Much as the Commission was instructed to do when it
23 implemented a fuel adjustment clause (Section 386.266.7), the Commission should
24 consider the reduction of KCPL's business risk associated with the adoption of either of
25 these requests when it establishes an appropriate return on equity in this case. I would

⁴⁷ Rush HC Surrebuttal Testimony in Docket No. 2014-0370, page 16.

1 refer any questions regarding the appropriate quantification of the reduced business
2 risk to MEGC witness Gorman.

3 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

4 A Yes.

Michael L. Brosch
Utilitech, Inc. – President
Bachelor of Business Administration (Accounting)
University of Missouri-Kansas City (1978)
Certified Public Accountant Examination (1979)

GENERAL

Mr. Brosch serves as the director of regulatory projects for the firm and is responsible for the planning, supervision and conduct of firm engagements. His academic background is in business administration and accounting and he holds CPA certificates in Kansas and Missouri. Expertise is concentrated within regulatory policy, financial and accounting areas with an emphasis in revenue requirements, business reorganization and alternative regulation.

EXPERIENCE

Mr. Brosch has supervised and conducted the preparation of rate case exhibits and testimony in support of revenue requirements and regulatory policy issues involving more than 100 electric, gas, telephone, water, and sewer proceeding across the United States. Responsible for virtually all facets of revenue requirement determination, cost of service allocations and tariff implementation in addition to involvement in numerous utility merger, alternative regulation and other special project investigations.

Industry restructuring analysis for gas utility rate unbundling, electric deregulation, competitive bidding and strategic planning, with testimony on regulatory processes, asset identification and classification, revenue requirement and unbundled rate designs and class cost of service studies.

Analyzed and presented testimony regarding income tax related issues within ratemaking proceedings involving interpretation of relevant IRS code provisions and regulatory restrictions.

Conducted extensive review of the economic impact upon regulated utility companies of various transactions involving affiliated companies. Reviewed the parent-subsidiary relationships of integrated electric and telephone utility holding companies to determine appropriate treatment of consolidated tax benefits and capital costs. Sponsored testimony on affiliated interests in numerous Bell and major independent telephone company rate proceedings.

Has substantial experience in the application of lead-lag study concepts and methodologies in determination of working capital investment to be included in rate base.

Conducted alternative regulation analyses for clients in Arizona, California, Texas and Oklahoma, focused upon challenges introduced by cost-based regulation, incentive effects available through alternative regulation and balancing of risks, opportunities and benefits among stakeholders.

Mr. Brosch managed the detailed regulatory review of utility mergers and acquisitions, diversification studies and holding company formation issues in energy and telecommunications transactions in multiple states. Sponsored testimony regarding merger synergies, merger accounting and tax implications, regulatory planning and price path strategies. Traditional horizontal utility mergers as well as leveraged buyouts of utility properties by private equity investors were addressed in several states.

Analyzed the utilization of alternative forms of regulation for energy and telecommunications utilities, including formula ratemaking, deferral/amortization accounting, rate adjustment riders and revenue decoupling methodologies. Mr. Brosch has been involved in the design of alternative regulation structures and tariffs and has addressed the attrition considerations and management efficiency incentive impacts arising from alternative regulation. Has been responsible for administration of alternative regulation filings in multiple jurisdictions.

WORK HISTORY

- 1985 - Present **Principal** - Utilitech, Inc. (Previously Dittmer, Brosch and Associates, Inc.)
- 1983 - 1985: **Project manager** - Lubow McKay Stevens and Lewis.
Responsible for supervision and conduct of utility regulatory projects on behalf of industry and regulatory agency clients.
- 1982 - 1983: **Regulatory consultant** - Troupe Kehoe Whiteaker and Kent.
Responsible for management of rate case activities involving analysis of utility operations and results, preparation of expert testimony and exhibits, and issue development including research and legal briefs. Also involved in numerous special projects including financial analysis and utility systems planning. Taught firm's professional education course on "utility income taxation - ratemaking and accounting considerations" in 1982.
- 1978 - 1982: **Senior Regulatory Accountant** - Missouri Public Service Commission.
Supervised and conducted rate case investigations of utilities subject to PSC jurisdiction in response to applications for tariff changes. Responsibilities included development of staff policy on ratemaking issues, planning and evaluating work of outside consultants, and the production of comprehensive testimony and exhibits in support of rate case positions taken.

OTHER QUALIFICATIONS

Bachelor of Business Administration - Accounting, 1978
University of Missouri - Kansas City "with distinction"

Member American Institute of Certified Public Accountants
Missouri Society of Certified Public Accountants
Kansas Society of Certified Public Accountants

Attended Iowa State Regulatory Conference 1981, 1985
Regulated Industries Symposium 1979, 1980
Michigan State Regulatory Conference 1981
United States Telephone Association Round Table 1984
NARUC/NASUCA Annual Meeting 1988, Speaker
NARUC/NASUCA Annual Meeting 2000, Speaker
NASUCA Regional Consumer Protection Meeting 2007, Speaker

Instructor INFOCAST Ratemaking Courses
Arizona Staff Training
Hawaii Staff Training

| | | | | | | |
|----------------------------------|----------|--------------|--------------------------|-------------------|------|--|
| Green Hills Telephone Company | Missouri | PSC | TR-78-282 | Staff | 1978 | Rate Base, Operating Income |
| Kansas City Power and Light Co. | Missouri | PSC | ER-78-252 | Staff | 1978 | Rate Base, Operating Income |
| Missouri Public Service Company | Missouri | PSC | ER-79-59 | Staff | 1979 | Rate Base, Operating Income |
| Nodaway Valley Telephone Company | Missouri | PSC | 16,567 | Staff | 1979 | Rate Base, Operating Income |
| Gas Service Company | Missouri | PSC | GR-79-114 | Staff | 1979 | Rate Base, Operating Income |
| United Telephone Company | Missouri | PSC | TO-79-227 | Staff | 1979 | Rate Base, Operating Income |
| Southwestern Bell Telephone Co. | Missouri | PSC | TR-79-213 | Staff | 1979 | Rate Base, Operating Income |
| Missouri Public Service Company | Missouri | PSC | ER-80-118 GR-80-117 | Staff | 1980 | Rate Base, Operating Income |
| Southwestern Bell Telephone Co. | Missouri | PSC | TR-80-256 | Staff | 1980 | Affiliate Transactions |
| United Telephone Company | Missouri | PSC | TR-80-235 | Staff | 1980 | Affiliate Transactions, Cost Allocations |
| Kansas City Power and Light Co. | Missouri | PSC | ER-81-42 | Staff | 1981 | Rate Base, Operating Income |
| Southwestern Bell Telephone | Missouri | PSC | TR-81-208 | Staff | 1981 | Rate Base, Operating Income, Affiliated Interest |
| Northern Indiana Public Service | Indiana | PSC | 36689 | Consumers Counsel | 1982 | Rate Base, Operating Income |
| Northern Indiana Public Service | Indiana | URC | 37023 | Consumers Counsel | 1983 | Rate Base, Operating Income, Cost Allocations |
| Mountain Bell Telephone | Arizona | ACC | 9981-E1051-81-406 | Staff | 1982 | Affiliated Interest |
| Sun City Water | Arizona | ACC | U-1656-81-332 | Staff | 1982 | Rate Base, Operating Income |
| Sun City Sewer | Arizona | ACC | U-1656-81-331 | Staff | 1982 | Rate Base, Operating Income |
| El Paso Water | Kansas | City Counsel | Unknown | Company | 1982 | Rate Base, Operating Income, Rate of Return |
| Ohio Power Company | Ohio | PUCO | 83-98-EL-AIR | Consumer Counsel | 1983 | Operating Income, Rate Design, Cost Allocations |
| Dayton Power & Light Company | Ohio | PUCO | 83-777-GA-AIR | Consumer Counsel | 1983 | Rate Base |
| Walnut Hill Telephone | Arkansas | PSC | 83-010-U | Company | 1983 | Operating Income, Rate Base |
| Cleveland Electric Illum. | Ohio | PUCO | 84-188-EL-AIR | Consumer Counsel | 1984 | Rate Base, Operating Income, Cost Allocations |
| Cincinnati Gas & Electric | Ohio | PUCO | 84-13-EL-EFC | Consumer Counsel | 1984 | Fuel Clause |
| Cincinnati Gas & Electric | Ohio | PUCO | 84-13-EL-EFC (Subfile A) | Consumer Counsel | 1984 | Fuel Clause |
| General Telephone - Ohio | Ohio | PUCO | 84-1026-TP-AIR | Consumer Counsel | 1984 | Rate Base |
| Cincinnati Bell Telephone | Ohio | PUCO | 84-1272-TP-AIR | Consumer Counsel | 1985 | Rate Base |
| Ohio Bell Telephone | Ohio | PUCO | 84-1535-TP-AIR | Consumer Counsel | 1985 | Rate Base |
| United Telephone - Missouri | Missouri | PSC | TR-85-179 | Staff | 1985 | Rate Base, Operating Income |

| | | | | | | |
|---|-----------|-----|-----------------------------|----------------------|------|--|
| Wisconsin Gas | Wisconsin | PSC | 05-UI-18 | Staff | 1985 | Diversification-Restructuring |
| United Telephone - Indiana | Indiana | URC | 37927 | Consumer Counsel | 1986 | Rate Base, Affiliated Interest |
| Indianapolis Power & Light | Indiana | URC | 37837 | Consumer Counsel | 1986 | Rate Base |
| Northern Indiana Public Service | Indiana | URC | 37972 | Consumer Counsel | 1986 | Plant Cancellation Costs |
| Northern Indiana Public Service | Indiana | URC | 38045 | Consumer Counsel | 1986 | Rate Base, Operating Income, Cost Allocations, Capital Costs |
| Arizona Public Service | Arizona | ACC | U-1435-85-367 | Staff | 1987 | Rate Base, Operating Income, Cost Allocations |
| Kansas City, KS Board of Public Utilities | Kansas | BPU | 87-1 | Municipal Utility | 1987 | Operating Income, Capital Costs |
| Detroit Edison | Michigan | PSC | U-8683 | Industrial Customers | 1987 | Income Taxes |
| Consumers Power | Michigan | PSC | U-8681 | Industrial Customers | 1987 | Income Taxes |
| Consumers Power | Michigan | PSC | U-8680 | Industrial Customers | 1987 | Income Taxes |
| Northern Indiana Public Service | Indiana | URC | 38365 | Consumer Counsel | 1987 | Rate Design |
| Indiana Gas | Indiana | URC | 38080 | Consumer Counsel | 1987 | Rate Base |
| Northern Indiana Public Service | Indiana | URC | 38380 | Consumers Counsel | 1988 | Rate Base, Operating Income, Rate Design, Capital Costs |
| Terre Haute Gas | Indiana | URC | 38515 | Consumers Counsel | 1988 | Rate Base, Operating Income, Capital Costs |
| United Telephone -Kansas | Kansas | KCC | 162,044-U | Consumers Counsel | 1989 | Rate Base, Capital Costs, Affiliated Interest |
| US West Communications | Arizona | ACC | E-1051-88-146 | Staff | 1989 | Rate Base, Operating Income, Affiliate Interest |
| All Kansas Electrics | Kansas | KCC | 140,718-U | Consumers Counsel | 1989 | Generic Fuel Adjustment Hearing |
| Southwest Gas | Arizona | ACC | E-1551-89-102 E-1551-89-103 | Staff | 1989 | Rate Base, Operating Income, Affiliated Interest |
| American Telephone and Telegraph | Kansas | KCC | 167,493-U | Consumers Counsel | 1990 | Price/Flexible Regulation, Competition, Revenue Requirements |
| Indiana Michigan Power | Indiana | URC | 38728 | Consumer Counsel | 1989 | Rate Base, Operating Income, Rate Design |
| People Gas, Light and Coke Company | Illinois | ICC | 90-0007 | Public Counsel | 1990 | Rate Base, Operating Income |
| United Telephone Company | Florida | PSC | 891239-TL | Public Counsel | 1990 | Affiliated Interest |
| Southwestern Bell Telephone Company | Oklahoma | OCC | PUD-000662 | Attorney General | 1990 | Rate Base, Operating Income (Testimony not admitted) |
| Arizona Public Service Company | Arizona | ACC | U-1345-90-007 | Staff | 1991 | Rate Base, Operating Income |
| Indiana Bell Telephone Company | Indiana | URC | 39017 | Consumer Counsel | 1991 | Test Year, Discovery, Schedule |
| Southwestern Bell Telephone Company | Oklahoma | OCC | 39321 | Attorney General | 1991 | Remand Issues |
| UtiliCorp United/ Centel | Kansas | KCC | 175,476-U | Consumer Counsel | 1991 | Merger/Acquisition |

| | | | | | | |
|-------------------------------------|------------|------|----------------------|-----------------------------|------|--|
| Southwestern Bell Telephone Company | Oklahoma | OCC | PUD-000662 | Attorney General | 1991 | Rate Base, Operating Income |
| United Telephone - Florida | Florida | PSC | 910980-TL | Public Counsel | 1992 | Affiliated Interest |
| Hawaii Electric Light Company | Hawaii | PUC | 6999 | Consumer Advocate | 1992 | Rate Base, Operating Income, Budgets/Forecasts |
| Maui Electric Company | Hawaii | PUC | 7000 | Consumer Advocate | 1992 | Rate Base, Operating Income, Budgets/Forecasts |
| Southern Bell Telephone Company | Florida | PSC | 920260-TL | Public Counsel | 1992 | Affiliated Interest |
| US West Communications | Washington | WUTC | U-89-3245-P | Attorney General | 1992 | Alternative Regulation |
| UtiliCorp United/ MPS | Missouri | PSC | ER-93-37 | Staff | 1993 | Affiliated Interest |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-1151, 1144, 1190 | Attorney General | 1993 | Rate Base, Operating Income, Take or Pay, Rate Design |
| Public Service Company of Oklahoma | Oklahoma | OCC | PUD-1342 | Staff | 1993 | Rate Base, Operating Income, Affiliated Interest |
| Illinois Bell Telephone | Illinois | ICC | 92-0448 92-0239 | Citizens Board | 1993 | Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest |
| Hawaii Electric Company | Hawaii | PUC | 7700 | Consumer Advocate | 1993 | Rate Base, Operating Income |
| US West Communications | Arizona | ACC | E-1051-93-183 | Staff | 1994 | Rate Base, Operating Income |
| PSI Energy, Inc. | Indiana | URC | 39584 | Consumer Counselor | 1994 | Rate Base, Operating Income, Alt. Regulation, Forecasts, Affiliated Interest |
| Arkla, a Division of NORAM Energy | Oklahoma | OCC | PUD-940000354 | Attorney General | 1994 | Cost Allocations, Rate Design |
| PSI Energy, Inc. | Indiana | URC | 39584-S2 | Consumer Counselor | 1994 | Merger Costs and Cost Savings, Non-Traditional Ratemaking |
| Transok, Inc. | Oklahoma | OCC | PUD-1342 | Staff | 1994 | Rate Base, Operating Income, Affiliated Interest, Allocations |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-940000477 | Attorney General | 1995 | Rate Base, Operating Income, Cost of Service, Rate Design |
| US West Communications | Washington | WUTC | UT-950200 | Attorney General/ TRACER | 1995 | Operating Income, Affiliate Interest, Service Quality |
| PSI Energy, Inc. | Indiana | URC | 40003 | Consumer Counselor | 1995 | Rate Base, Operating Income |
| Oklahoma Natural Gas Company | Oklahoma | OCC | PUD-880000598 | Attorney General | 1995 | Stand-by Tariff |
| GTE Hawaiian Telephone Co., Inc. | Hawaii | PUC | PUC 94-0298 | Consumer Advocate | 1996 | Rate Base, Operating Income, Affiliate Interest, Cost Allocations |
| Mid-American Energy Company | Iowa | ICC | APP-96-1 | Consumer Advocate | 1996 | Non-Traditional Ratemaking |
| Oklahoma Gas and Electric Company | Oklahoma | OCC | PUD-960000116 | Attorney General | 1996 | Rate Base, Operating Income, Rate Design, Non-Traditional Ratemaking |

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|---|------------|------|---------------------------------|------------------------------|------|---|
| Southwest Gas Corporation | Arizona | ACC | U-1551-96-596 | Staff | 1997 | Operating Income, Affiliated Interest, Gas Supply |
| Utilicorp United - Missouri Public Service Division | Missouri | PSC | EO-97-144 | Staff | 1997 | Operating Income |
| US West Communications | Utah | PSC | 97-049-08 | Consumer Advocate | 1997 | Rate Base, Operating Income, Affiliate Interest, Cost Allocations |
| US West Communications | Washington | WUTC | UT-970766 | Attorney General | 1997 | Rate Base, Operating Income |
| Missouri Gas Energy | Missouri | PSC | GR 98-140 | Public Counsel | 1998 | Affiliated Interest |
| ONEOK | Oklahoma | OCC | PUD980000177 | Attorney General | 1998 | Gas Restructuring, rate Design, Unbundling |
| Nevada Power/Sierra Pacific Power Merger | Nevada | PSC | 98-7023 | Consumer Advocate | 1998 | Merger Savings, Rate Plan and Accounting |
| PacifiCorp / Utah Power | Utah | PSC | 97-035-1 | Consumer Advocate | 1998 | Affiliated Interest |
| MidAmerican Energy / CalEnergy Merger | Iowa | PUB | SPU-98-8 | Consumer Advocate | 1998 | Merger Savings, Rate Plan and Accounting |
| American Electric Power / Central and South West Merger | Oklahoma | OCC | 980000444 | Attorney General | 1998 | Merger Savings, Rate Plan and Accounting |
| ONEOK Gas Transportation | Oklahoma | OCC | 970000088 | Attorney General | 1998 | Cost of Service, Rate Design, Special Contract |
| U S West Communications | Washington | WUTC | UT-98048 | Attorney General | 1999 | Directory Imputation and Business Valuation |
| U S West / Qwest Merger | Iowa | PUB | SPU 99-27 | Consumer Advocate | 1999 | Merger Impacts, Service Quality and Accounting |
| U S West / Qwest Merger | Washington | WUTC | UT-991358 | Attorney General | 2000 | Merger Impacts, Service Quality and Accounting |
| U S West / Qwest Merger | Utah | PSC | 99-049-41 | Consumer Advocate | 2000 | Merger Impacts, Service Quality and Accounting |
| PacifiCorp / Utah Power | Utah | PSC | 99-035-10 | Consumer Advocate | 2000 | Affiliated Interest |
| Oklahoma Natural Gas, ONEOK Gas Transportation | Oklahoma | OCC | 980000683, 980000570, 990000166 | Attorney General | 2000 | Operating Income, Rate Base, Cost of Service, Rate Design, Special Contract |
| U S West Communications | New Mexico | PRC | 3008 | Staff | 2000 | Operating Income, Directory Imputation |
| U S West Communications | Arizona | ACC | T-0105B-99-0105 | Staff | 2000 | Operating Income, Rate Base, Directory Imputation |
| Northern Indiana Public Service Company | Indiana | IURC | 41746 | Consumer Counsel | 2001 | Operating Income, Rate Base, Affiliate Transactions |
| Nevada Power Company | Nevada | PUCN | 01-10001 | Attorney General-BCP | 2001 | Operating Income, Rate Base, Merger Costs, Affiliates |
| Sierra Pacific Power Company | Nevada | PUCN | 01-11030 | Attorney General-BCP | 2002 | Operating Income, Rate Base, Merger Costs, Affiliates |
| The Gas Company, Division of Citizens Communications | Hawaii | PUC | 00-0309 | Consumer Advocate | 2001 | Operating Income, Rate Base, Cost of Service, Rate Design |
| SBC Pacific Bell | California | PUC | I.01-09-002 R.01-09-001 | Office of Ratepayer Advocate | 2002 | Depreciation, Income Taxes and Affiliates |
| Midwest Energy, Inc. | Kansas | KCC | 02-MDWG-922-RTS | Agriculture Customers | 2002 | Rate Design, Cost of Capital |

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|--|------------|------|----------------------------|---------------------------|------|--|
| Qwest Communications – Dex Sale | Utah | PSC | 02-049-76 | Consumer Advocate | 2003 | Directory Publishing |
| Qwest Communications – Dex Sale | Washington | WUTC | UT-021120 | Attorney General | 2003 | Directory Publishing |
| Qwest Communications – Dex Sale | Arizona | ACC | T-0105B-02-0666 | Staff | 2003 | Directory Publishing |
| PSI Energy, Inc. | Indiana | IURC | 42359 | Consumer Counsel | 2003 | Operating Income, Rate Trackers, Cost of Service, Rate Design |
| Qwest Communications – Price Cap Review | Arizona | ACC | T-0105B-03-0454 | Staff | 2004 | Operating Income, Rate Base, Fair Value, Alternative Regulation |
| Verizon Northwest Corp | Washington | WUTC | UT-040788 | Public Counsel | 2004 | Directory Publishing, Rate Base, Operating Income |
| Citizens Gas & Coke Utility | Indiana | IURC | 42767 | Consumer Counsel | 2005 | Operating Income, Debt Service, Working Capital, Affiliate Transactions, Alternative Regulation |
| Hawaiian Electric Company | Hawaii | HPUC | 04-0113 | Consumer Advocate | 2005 | Operating Income, Rate Base, Cost of Service, Rate Design |
| Sprint/Nextel Corporation | Washington | WUTC | UT-051291 | Public Counsel | 2006 | Directory Publishing, Corporate Reorganization |
| Puget Sound Energy, Inc. | Washington | WUTC | UE-060266 and UG-060267 | Public Counsel | 2006 | Alternative Regulation |
| Hawaiian Electric Company | Hawaii | HPUC | 05-0146 | Consumer Advocate | 2006 | Community Benefits / Rate Discounts |
| Cascade Natural Gas Company | Washington | WUTC | UG-060259 | Public Counsel | 2006 | Alternative Regulation |
| Arizona Public Service Company | Arizona | ACC | E-01345A-05- 0816 | Staff | 2006 | Cost of Service Allocations |
| Hawaiian Electric Company | Hawaii | HPUC | 05-0146 | Consumer Advocate | 2006 | Capital Improvements and Discounted Rates |
| Hawaii Electric Light Company | Hawaii | HPUC | 05-0315 | Consumer Advocate | 2006 | Operating Income, Rate Base, Cost of Service, Rate Design |
| Union Electric Company d/b/a AmerenUE | Missouri | PSC | 2007-0002 | Attorney General | 2007 | Operating Income, Rate Base, Fuel Adjustment Clause |
| Hawaiian Electric Company | Hawaii | PUC | 2006-0386 | Consumer Advocate | 2007 | Operating Income, Cost of Service, Rate Design |
| Maui Electric Company | Hawaii | PUC | 2006-0387 | Consumer Advocate | 2007 | Operating Income, Cost of Service, Rate Design |
| Peoples Gas / North Shore Gas Company | Illinois | ICC | 07-0241, 0242 | Attorney General | 2007 | Rate Adjustment Clauses |
| Commonwealth Edison | Illinois | ICC | 07-0566 | Attorney General, City | 2008 | Ratemaking Policy, Rate Trackers |
| Illinois Power Company, Illinois Public Service Co., Central Illinois Public Service Co | Illinois | ICC | 07-0585 cons. | Attorney General/CUB | 2008 | Rate Adjustment Clauses |

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|---------------------------------------|------------|------|---------------|----------------------|------|---|
| Southwestern Public Service Company | Texas | PUCT | 35763 | Municipalities | 2008 | Operating Income, Rate Base, Affiliate Transactions |
| The Gas Company | Hawaii | PUC | 2008-0081 | Consumer Advocate | 2009 | Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design |
| Hawaiian Electric Company | Hawaii | PUC | 2008-0083 | Consumer Advocate | 2009 | Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design |
| Commonwealth Edison | Illinois | ICC | 2009-0263 | Attorney General | 2009 | Rate Adjustment Clauses |
| Avista Corporation Washington WUTC | Washington | WUTC | UG-060518 | Attorney General | 2009 | Rate Adjustment Clauses |
| Kauai Island Utility Cooperative | Hawaii | PUC | 2009-0050 | Consumer Advocate | 2009 | Operating Income, Cooperative Ratemaking Policies, Cost of Service |
| Maui Electric Company | Hawaii | PUC | 2009-0163 | Consumer Advocate | 2010 | Operating Income, Rate Base, Cost of Service, Rate Design |
| Hawaii Electric Light Company | Hawaii | PUC | 2009-0164 | Consumer Advocate | 2010 | Operating Income, Rate Base, Cost of Service, Rate Design |
| Commonwealth Edison | Illinois | ICC | 2010-0467 | AG / CUB | 2010 | Operating Income, Rate Base |
| Commonwealth Edison | Illinois | ICC | 2010-0527 | Attorney General | 2010 | Alternative Regulation |
| Atmos Pipeline - Texas | Texas | RCT | GUD 10000 | ATM Cities | 2010 | Operating Income, Rate Base, Cost of Service, Rate Adjustment Clause |
| Ameren Missouri | Missouri | PSC | 2011-0028 | Industrial Customers | 2011 | Operating Income, Rate Base |
| Hawaiian Electric Company | Hawaii | PUC | 2010-0080 | Consumer Advocate | 2011 | Operating Income, Rate Base, Affiliate Transactions, Cost of Service, Rate Design |
| Utilities, Inc. | Illinois | ICC | 11-0561..0566 | Attorney General | 2011 | Operating Income, Rate Base, Rate Design |
| Commonwealth Edison | Illinois | ICC | 11-0721 | AG / CUB | 2011 | Alternative Regulation |
| Utilities, Inc. | Illinois | ICC | 11-0059 RH | AG | 2012 | Rate Design |
| Maui Electric, Ltd. | Hawaii | PUC | 2011-0092 | Consumer Advocate | 2012 | Operating Income, Rate Base, Cost of Service, Rate Design |
| Ameren Illinois Utilities | Illinois | ICC | 12-0001 | AG/AARP | 2012 | Alternative Regulation |
| Commonwealth Edison | Illinois | ICC | 12-0321 | AG | 2012 | Alternative Regulation |
| Ameren Illinois Utilities | Illinois | ICC | 12-0293 | AG | 2012 | Alternative Regulation |
| Ameren Missouri | Missouri | PSC | ER2012-0166 | Industrials | 2012 | Income Taxes, Alternative Reg |
| Atmos Energy | Texas | RCT | 10170 | Municipals | 2012 | Operating Income, Rate Base |
| Peoples Gas / North Shore Gas Company | Illinois | ICC | 12-0511/0512 | AG | 2012 | Operating Income, Rate Base |
| Ameren Illinois Utilities | Illinois | ICC | 13-0192 | AG | 2013 | Operating Income, Rate Base |
| Ameren Illinois Utilities | Illinois | ICC | 13-0301 | AG | 2013 | Alternative Regulation |

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|--|----------|------|-----------------|-------------------|------|--------------------------------------|
| Commonwealth Edison | Illinois | ICC | 13-0318 | AG | 2013 | Alternative Regulation |
| Commonwealth Edison | Illinois | ICC | 13-0553 | AG | 2013 | Alternative Regulation |
| Commonwealth Edison | Illinois | ICC | 13-0589 | AG | 2014 | Refund of Rider Revenues |
| Commonwealth Edison | Illinois | ICC | 14-0312 | AG | 2014 | Alternative Regulation |
| Ameren Illinois Utilities | Illinois | ICC | 14-0317 | AG | 2014 | Alternative Regulation |
| Atmos Energy | Texas | RCT | 10159 | Municipals | 2014 | Operating Income, Rate Base |
| Southwestern Public Service Company | Texas | PUCT | 43695 | Municipals | 2015 | Operating Income, Rate Base |
| Kansas City Power & Light Company | Missouri | PSC | 2014-0370 | Industrials | 2015 | Alternative Regulation, Taxes |
| Commonwealth Edison Company | Illinois | ICC | 15-0287 | AG | 2015 | Alternative Regulation |
| Ameren Illinois Company | Illinois | ICC | 15-0305 | AG | 2015 | Alternative Regulation |
| Hawaiian Electric Company / NextEra Energy | Hawaii | PUC | 2015-0012 | Consumer Advocate | 2015 | Merger Approval |
| Florida Power & Light | Florida | PSC | 160021-EI | AARP | 2016 | Rate Plan; Forecasts; Rate of Return |
| Commonwealth Edison | Illinois | ICC | 16-0259 | AG | 2016 | Alternative Regulation |
| Ameren Illinois | Illinois | ICC | 16-0262 | AG | 2016 | Alternative Regulation |
| Southwestern Public Service Company | Texas | PUCT | 45524 | Municipals | 2016 | Operating Income, Rate Base |
| Texas Oklahoma Kansas Gas, LLC | Kansas | KCC | 15-TKOG-236-COM | Customers | 2016 | Billing Determinants |

Schedule MLB-1
Is Highly Confidential
In Its Entirety

Schedule MLB-2

KCPL
Case Name: 2016 KCPL Rate Case
Case Number: ER-2016-0285

Response to Woodsmall David Interrogatories - MECG_20160803
Date of Response: 8/22/2016

Question:3/5/2016

[Cost of Debt].

Has the Company been able to refinance any of its long-term debt, either at maturity or prior to scheduled maturity, at a net savings in interest costs during any of the past five years? Are there expected to be future opportunities, given the structure and tenor of the Company's outstanding long term debt, to reduce debt borrowing costs if financial market conditions remain favorable? Please explain and quantify the annualized net interest cost savings associated with each historical or reasonably anticipated future debt cost savings opportunity identified in your response.

Response:

Yes, KCP&L has been able to refinance some of its long-term debt at a net savings over the past five years. The \$150 million 2001 6.5% Senior Notes matured on November 15, 2011 and were refinanced with the \$400 million 2011 5.3% Senior Notes that mature on October 1, 2041. KCP&L also has several series of tax-exempt bonds which can be in a long-term interest rate mode for a specific period of time until a mandatory put back to the Company or in a long-term interest rate mode until final maturity or in a floating interest rate mode. Sometimes when a tax-exempt bond is put back to the Company, KCP&L holds the bonds for a while before it remarkets the bonds to new investors. All of the currently outstanding tax-exempt bonds have had changes in interest rates over the past five years. On June 30, 2011, the \$265.938 million of outstanding tax-exempt bonds had a weighted average cost of 5.16% and on June 30, 2016, the \$280.38 million of outstanding tax-exempt bonds had a weighted average cost of 1.86%.

Yes, there are expected to be future opportunities to reduce debt borrowing costs. KCP&L has taxable long-term debt maturing in 2017, 2018 and 2019 that it expects to refinance at lower cost when it matures. The \$250 million 2007 5.85% Senior Notes mature on June 15, 2017. The \$350 million 2008 6.375% Senior Notes mature on March 1, 2018. The \$400 million 2009 7.15% Mortgage Bonds mature on April 1, 2019. Recent indicative new issue pricing for 10 year debt is around 2.86% and for 30 year debt it is around 3.83%. KCP&L also has a \$31 million 1.25% tax-exempt bond that matures July 1, 2017 which it does not expect to refinance at a lower cost and is expected to be refinanced by combining it with the 2017 Senior Note maturity. The maturing long-term debt in 2017 through 2019 is expected to be refinanced with some 10 year and some 30 year debt depending on market conditions.

Historical annual savings:

Senior notes = \$150 million * (6.5%-5.3%) = \$1.8 million
Tax exempt bonds = \$265.938 million * (5.16%-1.86%) = \$8.776 million

Future potential annual savings based on current 10 year indicative rates:
2007 Senior note = \$250 million * (5.85%-2.86%) = \$7.475 million
2008 Senior note = \$350 million * (6.375%-2.86%) = \$12.3 million
2009 Mortgage bonds = \$400 million * (7.15%-2.86%) = \$17.16 million

Future potential annual savings based on current 30 year indicative rates:
2007 Senior note = \$250 million * (5.85%-3.83%) = \$5.05 million
2008 Senior note = \$350 million * (6.375%-3.83%) = \$8.9 million
2009 Mortgage bonds = \$400 million * (7.15%-3.83%) = \$13.28 million

Information provided by Gregg Clizer


Attachment: Q3-5_Verification.pdf

Verification of Response

**Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations**

Docket No. ER-2016-0285

The response to Data Request # 3-5 is true and accurate to the best of my knowledge and belief.

Signed: 
Date: August 22, 2016

Schedule MLB-3
Is Highly Confidential
In Its Entirety