

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

---

Trackers Policy  
Robertson/Surrebuttal  
Public Counsel  
ER-2014-0370

**SURREBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of  
the Office of the Public Counsel

**KANSAS CITY POWER & LIGHT COMPANY**

**Case No. ER-2014-0370**

June 5, 2015

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

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service. )  
)  
)  
)


Case No. ER-2014-0370

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI )  
) ss  
COUNTY OF COLE )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:


1. My name is Ted Robertson. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Chief Public Utility Accountant

Subscribed and sworn to me this 5<sup>th</sup> day of June 2015.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2017  
Cole County  
Commission #13754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2017.

**SURREBUTTAL TESTIMONY**  
**OF**  
**TED ROBERTSON**  
**KANSAS CITY POWER & LIGHT COMPANY**  
**CASE NO. ER-2014-0370**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Missouri Office of the Public Counsel ("OPC" or "Public Counsel") as the Chief Public Utility Accountant.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. My duties include activities associated with the supervision of the regulatory accounting, financial analysis, and economic operations of the OPC. I am also responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I passed the Uniform

1 Certified Public Accountant Examination, and I obtained Certified Public Accountant  
2 ("CPA") certification from the state of Missouri in 1989. My CPA license number is  
3 2004012798.  
4

5 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC UTILITY  
6 ACCOUNTING?

7 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since  
8 July 1990, I have attended the NARUC Annual Regulatory Studies Program at Michigan  
9 State University, and I have also participated in numerous training seminars relating to  
10 this specific area of accounting study.  
11

12 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE  
13 COMMISSION ("COMMISSION" OR "MPSC")?

14 A. Yes, I have testified on numerous issues before this Commission. Please refer to  
15 Schedule TJR-1, attached to this direct testimony, for a listing of cases in which I have  
16 submitted testimony.  
17

18 II. PURPOSE OF TESTIMONY

19 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

20 A. The purpose of my surrebuttal testimony is to present the Public Counsel's policy  
21 perspective regarding the "tracker" requests discussed in the rebuttal testimonies of  
22 Kansas City Power & Light Company ("KCP&L" or "Company") witnesses, Mr. Tim M.

1 Rush, Mr. Darrin R. Ives, Mr. Joshua F. Phelps-Roper, and Dr. H. Edwin Overcast for  
2 vegetation management expense, property tax expense, critical infrastructure  
3 protection/cyber-security costs, transmission and vehicle charging stations. I will also  
4 briefly discuss the rebuttal testimony of MPSC Staff witness, Mr. Mark L. Oligschlaeger.

5  
6 Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MPSC STAFF WITNESS,  
7 MR. MARK L. OLIGSCHLAEGER?

8 A. Yes. Mr. Oligschlaeger's testimony provides a very detailed discussion of what a tracker is,  
9 when they should be utilized, when they have been utilized in Missouri, how they differ from  
10 a cost deferral associated with an accounting authority order ("AAO"), and why the  
11 Commission should not authorize the trackers that KCPL requests in this case for the  
12 previously discussed costs. Since Mr. Oligschlaeger's rebuttal testimony went into great  
13 detail regarding the propriety and usage of trackers, I will not restate that information in this  
14 testimony, en masse; however, I believe it appropriate to state that I agree with most of  
15 what Mr. Oligschlaeger discussed in his testimony.

16  
17 Q. WHAT IS THE PRIMARY PURPOSE OF A TRACKER?

18 A. The primary purpose of a tracker is to allow utilities to seek authority from the  
19 Commission to change the normal accounting treatment afforded to certain revenues,  
20 expenses or rate base items as set forth under the Commission-authorized Uniform  
21 System Of Accounts ("USOA"). That is, trackers provide a utility with the opportunity to  
22 seek rate recovery of certain types of costs incurred prior to the rate case test year

1 established in a rate case proceeding, whereas normally, in the state of Missouri, only  
2 costs incurred within a rate case test year or shortly thereafter are eligible for recovery in  
3 rates.

4  
5 In almost all tracker applications, utilities seek permission to “defer” costs; that is, to  
6 capitalize on their balance sheets costs that would normally be charged to expense on  
7 the income statement when incurred. From a regulatory accounting perspective, the  
8 costs are entered in a special section of the balance sheet called deferred debits. If the  
9 Commission authorizes the deferral and subsequently grants the utility rate recovery of  
10 the deferred amounts, the deferrals will be amortized to expense on the income  
11 statement over a period of time, as opposed to reflecting the entire cost in one  
12 accounting period.

13  
14 Q. SHOULD THE COMMISSION AUTHORIZE THE USE OF TRACKERS WITH  
15 MODERATION?

16 A. Yes. The Commission has, in the past, granted authority for utilities to defer costs in a  
17 number of circumstances. However, trackers should be used very sparingly because  
18 they permit ratemaking consideration of items from outside a rate case test year.  
19 Generally, the deferral of costs from one accounting period to another accounting period  
20 for the development of a revenue requirement violates the traditional method of setting  
21 utility rates in the state of Missouri.

1 Q. HOW ARE RATES USUALLY ESTABLISHED IN THE STATE OF MISSOURI?

2 A. In Missouri, rates are usually established based upon a historical test year which  
3 focuses on four factors: (1) the rate of return that the utility has an opportunity to earn;  
4 (2) the rate base upon which a return may be earned; (3) the depreciation expense  
5 related to plant and equipment; and (4) the allowable operating expenses including  
6 income and other taxes. The relationship among these four factors is such that the  
7 expenses and the rate base necessary to produce the revenue requirement are  
8 synchronized. The deferral of costs from a prior period results in costs associated with  
9 the production of revenues in one period being charged against the revenues in a  
10 different period. This violates the "matching principle" espoused by the Generally  
11 Accepted Accounting Principles ("GAAP") and the Commission-authorized USOA.

12  
13 Q. WHAT IS THE MATCHING PRINCIPLE?

14 A. The matching principal is a fundamental concept of accrual basis accounting that  
15 revenues should be offset against expenses on the basis of their cause-and-effect  
16 relationship. It states that, in measuring net income for an accounting period, the costs  
17 incurred in that period should be matched against the revenue generated in the same  
18 period. One of the basic accounting principles; it is followed to create a consistency in  
19 the income statements, balance sheets, etc. That is, financial statements may be  
20 greatly distorted if expenses are recognized earlier rather than later and vice versa;  
21 jeopardizing the quality of the statements and providing an unfair representation of the  
22 financial position of the business. For example:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

- Recognizing an expense earlier than is appropriate lowers net income.
- Recognizing an expense later than appropriate raises net income.

The matching principle allows for a more objective analysis of profitability. By recognizing costs in the period they are incurred, a business can see how much money was spent to generate revenue, reducing possible confusion or misinformation from timing mismatch between when costs are incurred and when revenue is realized.

Q. IS IT PUBLIC COUNSEL'S POSITION THAT TRACKERS ARE AN ABNORMAL ACCOUNTING MECHANISM THAT IF USED INAPPROPRIATELY CAUSES ABERRATIONS IN THE DEVELOPMENT OF A UTILITY'S COST OF SERVICE AND ULTIMATELY CUSTOMER RATES?

A. Yes. In general, I believe that the use of tracker mechanisms subvert the regulatory rate model process and should only be used, if at all, in very limited instances.

Q. WHY DO YOU BELIEVE THE USE OF TRACKER MECHANISMS SHOULD BE LIMITED?

A. Tracker mechanisms, if used at all, should be utilized on a limited basis because they have the effect of either increasing or decreasing a utility's earnings for a prior period by increasing or decreasing revenues in future periods. The process violates the accounting and regulatory ratemaking "matching principle" by distorting the comparison



1 of revenues, rate base return and expenses for each accounting period subject to the  
2 terms of the tracker. They also have the effect of inappropriately manipulating a utility's  
3 business risk. In instances where costs are carried over for recovery in future years  
4 business risk is reduced without any offsetting compensation mechanism that  
5 recognizes the reduced business risk and vice versa for the reciprocal position.

6  
7 However, most important of all is the fact that a tracker mechanism guarantees a utility  
8 that all costs incurred will eventually be included in its cost of service and base rates.  
9 This subversion of the regulatory ratemaking model has at least two major detrimental  
10 effects. First, to one degree or another, it relieves the utility's management of some  
11 responsibility to appropriately manage the costs it incurs. Of course, a utility's  
12 management will promise and profess their undying fidelity to ratepayers and financial  
13 responsibilities to shareholders to gain the benefits a tracker provides, but in the end a  
14 guarantee of including the deferred expense in base rates versus the normal regulatory  
15 ratemaking process of subjecting all expenses to ongoing prudence reviews can have a  
16 sobering impact on actual management actions. Secondly, the regulatory ratemaking  
17 process in this State is a surrogate competitive process for monopoly utilities. The  
18 guarantee of base rate recovery that a tracker provides inappropriately shortcuts the  
19 "competitive" actions that the regulations and rules of the regulatory ratemaking process  
20 were set up to provide. In a normal situation, a utility has the burden of proof to  
21 convince the Commission to authorize revenues sufficient to provide for all costs in each  
22 and every general rate increase case. If the costs under review are authorized for base

1 rate inclusion, the utility is then allowed the "opportunity," but not the "guarantee" to earn  
2 a return on equity after paying all other costs (which are impacted by the future actions  
3 of its management and operations). Trackers eliminate a real incentive to manage costs  
4 in real time and are not consistent with a competitive market. In essence, trackers  
5 circumvent the regulatory competition supplied by the normal ratemaking process by  
6 eliminating the utility's burden to "prove," in every general rate increase case, the costs  
7 for which it seeks recovery.  
8

9 Q. DOES THE COMMISSION BELIEVE THAT TRACKERS INCENT UTILITIES TO  
10 AGGRESSIVELY CONTROL COSTS?

11 A. No. On page 45 of the Commission's *Report and Order* in Ameren Missouri, Case No. ER-  
12 2014-0258, the Commission stated, "By their nature, cost trackers tend to reduce a  
13 utility's incentive to aggressively control costs by ensuring that all costs will be  
14 recovered. Under a tracker, such costs would be subject to a prudence review, but a  
15 prudence review cannot control costs as efficiently as a strong economic incentive."  
16

17 Q. SHOULD TRACKERS BE UTILIZED TO HELP GUARANTEE A UTILITY EARN ITS  
18 COMMISSION-AUTHORIZED RATE OF RETURN?

19 A. No. Trackers should not be authorized by the Commission based on a utility's present or  
20 future prospects of achieving its authorized rate of return. A utility's ability to earn its  
21 authorized rate of return is dependent on a host of variables, including the utility's ability to  
22 manage its operating costs prudently. Trackers should not be used to insulate a utility from

1 business risks that might likely impede the utility's ability to achieve its authorized rate of  
2 return. A tracking mechanism is a ratemaking tool that is specifically designed to reduce  
3 risk and essentially guarantee a utility's ability to recover the costs deferred thus, reducing  
4 the risk to the utility that it will earn its Commission-authorized rate of return. In fact, the  
5 rate of return component is synonymous to the profit margin of a non-regulated utility. If  
6 there is any logical conclusion that can be drawn from KCP&L's request, it is that the  
7 Company wants the Commission to give it protection so that it can earn its profit margin.  
8 It is Public Counsel's position that trackers should not be utilized to guarantee a utility's  
9 ability to earn its Commission-authorized rate of return.

10  
11 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

12 A. Yes, it does.

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b>Company Name</b>	<b>Case No.</b>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b>Company Name</b>	<b>Case No.</b>
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291
Missouri Gas Utility, Inc.	GR-2008-0060
Empire District Electric Company	ER-2008-0093
Missouri Gas Energy	GU-2007-0480
Stoddard County Sewer Company	SO-2008-0289
Missouri-American Water Company	WR-2008-0311
Union Electric Company	ER-2008-0318
Aquila, Inc., d/b/a KCPL GMOC	ER-2009-0090
Missouri Gas Energy	GR-2009-0355
Empire District Gas Company	GR-2009-0434
Lake Region Water & Sewer Company	SR-2010-0110
Lake Region Water & Sewer Company	WR-2010-0111
Missouri-American Water Company	WR-2010-0131
Kansas City Power & Light Company	ER-2010-0355
Kansas City Power & Light Company	ER-2010-0356
Timber Creek Sewer Company	SR-2010-0320
Empire District Electric Company	ER-2011-0004
Union Electric Company, d/b/a AmerenUE	ER-2011-0028
Missouri-American Water Company	WR-2011-0337
Union Electric Company, d/b/a AmerenMO	EU-2012-0027
Missouri-American Water Company	WA-2012-0066
Union Electric Company, d/b/a AmerenMO	ER-2012-0166
Laclede Gas Company	GO-2012-0363
Kansas City Power & Light Company	ER-2012-0174
Kansas City Power & Light Company GMOC	ER-2012-0175
Empire District Electric Company	ER-2012-0345

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

<b>Company Name</b>	<b>Case No.</b>
Emerald Pointe Utility Company, Inc.	SR-2013-0016
Liberty Utilities	GO-2014-0006
Lincoln County Sewer & Water, LLC	SR-2013-0321
Lincoln County Sewer & Water, LLC	WR-2013-0322
Lake Region Water & Sewer Company	WR-2013-0461
Missouri Gas Energy	GR-2014-0007
Peaceful Valley Service Company	SR-2014-0153
Peaceful Valley Service Company	WR-2014-0154
Hillcrest Utility Operating Company, Inc.	WO-2014-0340
Union Electric Company, d/b/a AmerenMO	ER-2014-0258
Kansas City Power & Light Company	EU-2014-0255
Kansas City Power & Light Company	ER-2014-0370