Exhibit No. 123

Exhibit No.:	
Issues:	*Bad Debt Expense, Transource Adjustments, SERP, Pension Tracker, Income Taxes, Earned Rate of Return*
Witness:	*Keith Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

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Missouri Public Service Commission

SURREBUTTAL TESTIMONY

OF

KEITH MAJORS

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
September 2016

** Denotes Highly Confidential Information **

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SURREBUTTAL TESTIMONY

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CASE NO. ER-2016-0156

Q. Please state your name and business address.

A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

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

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission").

Q. Are you the same Keith Majors who previously testified in this case?

A. Yes. I testified in Staff's revenue requirement cost of service report filed July 15, 2016, in this case. I testified on bad debts (uncollectibles), forfeited discounts (late payment fees), income tax expense, accumulated deferred income taxes, pensions, and other post-employment benefits ("OPEBs"). I also filed rebuttal testimony on August 15 responding to several Kansas City Power & Light Greater Missouri Operations Company ("GMO" or "Company") witnesses.

Q. What is the purpose of your testimony?

A. I respond to the rebuttal testimony of the following witnesses:

- Ronald A. Klote – Bad Debt Expense, Supplemental Executive Retirement Plan ("SERP"), Prepaid Pension Tracker
- Don A. Frerking – Transource Adjustments

- Melissa K. Hardesty – Income Taxes
- Charles R. Hyneman – Income Taxes, SERP
- Tim M. Rush – Earned Rate of Return

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony.

A. I respond to GMO's request to recover projected bad debt expense in excess of the annualized level of bad debt expense calculated in this case, as described in GMO witness Ronald A. Klote's rebuttal testimony. GMO's request to include an adjustment for bad debt expense associated with a revenue requirement increase (or decrease) is commonly referred to as bad debt "factor up" or "gross up." Staff recommends that this projected expense not be included in GMO's cost of service. No direct correlation exists between revenues and bad debt expense to justify including additional bad debt expense proportionate to the amount of the requested rate increase. This adjustment is not "known and measurable" and should not be adopted by the Commission.

By the same token, GMO's request to factor up late payment revenue should be denied. No direct correlation exists between retail revenues and late payment revenue to justify including additional late payment revenue based on the amount of the requested rate increase.

I respond to GMO witness Frerking's rebuttal testimony concerning Adjustment CS-108 – "Transource CWIP/FERC Incentives." GMO performed a calculation of the differential between Federal Energy Regulatory Commission ("FERC") and Missouri concerning the transmission projects transferred to Transource Missouri ("Transource") in File No. EO-2012-0367. Staff recommends several adjustments to the calculations to conform to the *Report and Order* in File No. EA-2013-0098. File No. EO-2012-0367 was consolidated by the Commission into EA-2013-0098.

I respond to the rebuttal testimony of OPC witness Hyneman concerning SERP expense. Staff recommends allocation of a portion of SERP expenses to GMO as being appropriate.

I respond to GMO witness Klote's rebuttal testimony concerning the balance and amortization of the pension trackers detailed in GMO Adjustment RB-65 and CS-65. GMO's proposed amortization amount did not reflect the expiration of the L&P prepaid pension asset amortization. Staff reflected this expired amortization in its calculation in order to appropriately offset amounts recorded in the current pension trackers.

I respond to the rebuttal testimony of GMO witness Melissa K. Hardesty and Office of Public Counsel ("OPC") witness Charles R. Hyneman concerning current income tax expense. Staff recommends calculation of current income taxes consistent with the last GMO rate case, File No. ER-2012-0175 ("2012 Rate Case").

Finally, I respond to GMO witness Tim M. Rush's rebuttal testimony concerning GMO's earned rate of return.

<u>BAD DEBT EXPENSE</u>

Q. What is Staff's recommendation regarding the bad debt factor-up?

A. GMO's request to include an adjustment for bad debt expense proportionate to a revenue requirement increase (or decrease) is commonly referred to as bad debt "factor-up" or "gross-up." This adjustment is identified in the direct and rebuttal testimonies of GMO witness Klote. Staff recommends that this projected expense not be included in GMO's cost of service. No direct correlation exists between a change in rates and a change in bad debt expense to justify the use of a bad debt "factor up."

GMO's rationale for making this request is based on an assumption that lacks any factual evidence to support its conclusion. I would note that witness Klote has not identified any study or evidence that bad debts have a correlation to revenues that would justify inclusion of a bad debt factor up. On the other hand, Staff has analyzed GMO's historical retail revenues and net write-offs over nearly fifteen years to determine if a direct and proportional relationship exists between retail revenues and bad debt expense. Staff's analysis of the actual net write-offs as compared to related revenues shows no correlation, and in many cases bad debts and revenues move in opposite directions. Staff recommends that the Commission deny GMO's request to adopt the proposed bad debt factor up for bad debts.

However, in the event that the Commission does grant GMO's request to factor up bad debt expense proportionate with an increase in revenue requirement, I would agree with witness Klote's recommendation to also reflect a debt factor-up for additional forfeited discounts (late payment fees), in the interest of consistency. GMO included the late payment fee factor up in its direct filed case.

Q. What analysis did Staff perform comparing bad debts to revenues?

A. In my rebuttal testimony, I provided several tables and graphical analyses to demonstrate the fallacy of GMO's assumption that increased revenues lead to increased bad debt. In theory, this assumption may appear to be reasonable. In practice, however, this theory simply does not hold true.

Staff performed the following comparative analyses of bad debt and revenues:

- A fifteen year analysis of the monthly change in retail revenues and bad debts

- A fifteen year analysis of the percent monthly change in retail revenues and bad debts
- A fifteen year analysis comparing a 12 month period of bad debt to the corresponding retail revenues, on a quarterly rolling basis
- Graphical analysis of the items above

I have attached the third analysis, which compares 12 month periods of bad debt to the corresponding revenues[1] on a quarterly basis from January 2001 through December 2015, along with the graphical representation of the data. This data includes information for MPS, L&P, and both combined for total GMO, and is attached as Highly Confidential Schedule KM-s1. The remainder of the analyses were attached to my rebuttal testimony.

Q. Please explain this data and accompanying graph.

A. This analysis is the clearest way to depict how bad debt and revenue have no positive correlation. I have listed on the graph all GMO rate increases (or decreases) during the time period.

This data is a comparison of bad debt as a percentage of revenues from 2001 through 2015. This comparison is the methodology Staff and Company use to annualize bad debts on current annualized and normalized revenues. Case No. ER-2001-672 resulted in a rate *decrease*, and as can be seen, bad debts ***increased during the comparable time period.*** Bad debts subsequently decreased before levelling out from 2003 through mid-2009. Case No. ER-2009-0090 resulted in a rate ***increase***, and during part of the year following the rate increase, bad debts actually ***decreased,*** coming to a low in March 2010. Since Case No. ER-2010-0356, after peaking in June 2011, bad debts have steadily decreased.

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[1] The approximate time to "write-off' bad debts is six months. Therefore, bad debts in a given month relate to revenues six months prior. Staff's analysis through December 31, 2015 updates through June 2016 bad debts that relate to December 2015 revenues.

Q. Would Staff require evidence of a perfect correlation between bad debt and revenues to recommend the inclusion of a bad debt factor-up?

A. No. However, the evidence shows not only lack of a *perfect* correlation, but also lack of a general correlation. GMO's contention is that when revenues increase as a result of a rate case, bad debts will increase proportionately. If that were true, I would expect the line representing the ratio of bad debts and revenues to be relatively the same throughout the analysis, perhaps being a somewhat straight line across the graph. For example, if bad debts to revenues were .75% at one time period, one would expect the ratio to fluctuate around that percentage, but not have any trends up or down. This analysis does not examine the change in bad debts or revenues; it measures the change of the ratio between the two.

Even if bad debts were somewhat correlated, GMO's bad debt factor-up, and similarly, late payment factor-up, are not known and measurable.

Q. How is the bad debt factor up not a "known and measurable" expense?

A. The effective date of rates in this case will occur in December 2016. The revenue requirement authorized by the Commission, if any, will be collected in the following 12 months. The bad debt expense related to the increase in revenues will not be fully realized until six months after this date in June 2018, 18 months beyond the operation of law date, and 24 months beyond the true-up date in this case. GMO's adjustment attempts to collect in rates expenses that may or may not be fully realized 18 months past the effective date of rates. The level of bad debt expense 18 months past the effective date of rates is certainly not known and measurable.

Q. How is Staff's normalization of bad debts in its direct filed case known and measurable?

A. Staff's direct filed bad debt annualization captured the latest bad debts as of the 12 months ending December 2015 that correspond with the actual revenues as of June 2015. The ratio between the two is applied to the annualized, normalized revenues as of December 2015. Bad debts and revenues are routinely included in the true-up process and will be in this case. This method captures the most up to date information as of July 2016.

Q. What is the current bad debt percentage when compared to the data in the 2012 Rate Case?

A. The bad debt write-off in the 2012 Rate Case was 0.62% for MPS, 0.57% for L&P, and 0.60% for GMO combined, using bad debts as of the 12 months ending March 31, 2012.[2] In the current case, the percentage is ** ____________________ ** for MPS, L&P and GMO combined, respectively, for the 12 months ending December 31, 2015. Actual historical data shows that bad debts as a percentage of revenues have ***decreased*** since rates were ***increased*** effective January 26, 2013, for MPS and L&P combined. This evidence refutes the assumption that bad debts should be increased in proportion to any rate increase granted by the Commission.

Q. Witness Klote quotes the Commission Report and Order in KCPL's 2006 rate case, Case No. ER-2006-0314. The Commission authorized KCPL's request in that case. Why is that case not relevant to this current case?

A. The 2006 KCPL rate case was its first in 20 years. There was no data that would confirm or deny whether or not bad debts increase with a general rate increase. However, in examining the data and graphs for GMO, in some cases bad debts ***decreased*** with a rate ***increase***, and in one case they ***increased*** with a rate ***decrease***.

[2] Surrebuttal Testimony of John P. Weisensee, FileNo. ER-2012-0175.

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The data Staff reviewed does not support GMO's assumptions, and does not support its adjustment.

TRANSOURCE ADJUSTMENTS

Q. Please describe this issue.

A. Staff and GMO have differing calculations of the amounts ordered by the Commission in File No. EA-2013-0098. These calculations are described in detail in my rebuttal testimony in this case.

Q. What Transource adjustments does GMO witness Frerking discuss in his rebuttal testimony?

A. Witness Frerking discusses adjustment CS-108 – "Transource CWIP/FERC Incentives." As described in rebuttal testimony, this adjustment calculates the difference between the annual transmission revenue requirement ("ATRR") for the projects transferred to Transource Missouri in File No. EO-2012-0367, and the ATRR for these projects without FERC incentives.

Q. On page 16 of his rebuttal testimony, GMO witness Frerking states the following:

> Based on subsequent adjustment discussions with Staff during that case [ER-2014-0370], the Company's understanding of Staff's position was that depreciation rate differences should be reflected in the Transource CWIP/FERC Incentives adjustment.

Did you recommend that depreciation rates should be a difference recognized in this adjustment?

A. No. At that time, I was not the member of Staff responsible for this adjustment in File No. ER-2014-0370 ("2014 KCPL Case"), but I have no reason to disagree with GMO witness Frerking's statement. I would note that the comparable direct filed adjustment to

Account 565 in the 2014 KCPL Case was ($1,753,011), and the true-up adjustment was ($1,125,402). Staff's suggestion may have reduced the reduction to cost of service, in KCPL's favor in that case.

Q. On page 17 of his rebuttal testimony, GMO witness Frerking states the following:

> Similar to the prior discussion regarding depreciation rates, the Company did not adjust for state income tax assumption differences in the Transource CWIP/FERC Incentives adjustment in its Direct filing in the ER-2014-0370 KCP&L rate case, but subsequently did so based on the Company's understanding of Staff's position during that case.

Did you recommend that state income tax rates should be a difference recognized in this adjustment?

A. No. At that time, I was not the member of Staff responsible for this adjustment in the 2014 KCPL Case, but I have no reason to disagree with witness Frerking's statement. Again, Staff's suggestion may have reduced the reduction to cost of service, in KCPL's favor in that case.

Q. On page 17 of his rebuttal testimony, witness Frerking states the following:

> It is highly unlikely that Transource Missouri would have been able to acquire debt financing on as favorable terms as it did without the rate incentives that FERC granted. Making an adjustment to remove the rate incentives while keeping the debt rates at levels that would likely not have been available to Transource Missouri with the accompanying rate incentive would, thus, be inappropriate.

How do you respond?

A. I have no reason to dispute the first claim that the granting of FERC incentives had an effect on the debt financing on favorable terms. However, that is irrelevant to the terms of the Commission's Report and Order in File No. EA-2013-0098. In that Report and Order, the Commission ordered the following concerning the adjustment to be made:

> 2. With respect to transmission facilities located in GMO certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, GMO agrees that for ratemaking purposes in Missouri the costs allocated to GMO by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if GMO's authorized ROE and capital structure had been applied and there had been no CWIP (if applicable) or other **FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities**; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. GMO will make this adjustment in all rate cases so long as these transmission facilities are in service. [emphasis added]

The Commission was clear, only adjustments for FERC incentives are to be made to the ATRR. As the cost of debt is not a FERC incentive, it should not be adjusted, pursuant to the EA-2013-0098 Report and Order.

Q. On page 18 of his rebuttal testimony, witness Frerking claims Staff did not adjust the Allowance for Funds Used During Construction ("AFUDC") rates for the additional construction work in progress ("CWIP") for the two projects. How do you respond?

A. This claim is incorrect. AFUDC is determined by a formula dictated by FERC. The formula uses the balance of CWIP to determine the cost of capital. To determine the AFUDC that would have been capitalized had KCPL and GMO retained ownership of the projects transferred to Transource, the monthly or annual levels of CWIP related to the projects must be added to the formula to calculate AFUDC. Staff did include additional

CWIP to calculate the monthly AFUDC rates in its direct filing based on the monthly or annual CWIP amounts. The detail of the amounts calculated were in the workpapers provided with Staff's cost of service report.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP")

Q. Please describe the issue concerning SERP.

A. Office of the Public Counsel ("OPC") witness Charles R. Hyneman takes issue with allocating any amount of KCPL SERP to GMO. The KCPL SERP expense consists of payments to former KCPL executives that were not employed during the period GPE has owned GMO.

Staff allocated $43,908 and $15,626 of SERP expense to MPS and L&P, respectively.

Q. Does GMO receive an allocation of pension expense?

A. Yes. Pension expense, not including SERP, is allocated to KCPL and GMO using the current payroll allocators. Within the ongoing pension expense are normal pension payments to the same KCPL executives that receive SERP, who did not provide any service to GMO. Staff allocated SERP expenses to GMO because normal pension expense is allocated to GMO. It would be impossible to separate legacy KCPL and GMO (then Aquila) pension expense as the pension plans have been combined. The same would apply to OPEB expense. Therefore, for the sake of consistency, both pension expense and SERP are allocated between KCPL and GMO.

Q. Did Staff allocate a portion of KCPL SERP to GMO in the last prior KCPL case, Case No. ER-2014-0370?

A. Yes, following the same method as in this case. The KCPL SERP expense was reduced by an amount allocated to GMO, and consequently the amount paid by KCPL customers was reduced.

PENSION TRACKER

Q. What is the issue concerning GMO's pension tracker?

A. Staff's direct case filed pension tracker adjustments capture the expired amortization of the L&P prepaid pension asset amortization. GMO has over-recovered above the amount of the prepaid pension asset. The amounts being paid by ratepayers for this amortization are still being collected by GMO in rates, and will continue to be collected until rates change resulting from this rate case. GMO did not in any way take into account the amounts that are currently being collected in rates for this amortization.

Staff recommends the over-recovery of the prepaid pension asset be "rolled into" the current FAS 87 pension tracker mechanism to offset against the balance of the current regulatory asset. Witness Klote discusses this issue on pages 31-33 of his rebuttal testimony.

Q. Briefly further describe this issue.

A. The L&P prepaid pension asset was established in Case No. ER-2004-0034, *In the matter of Aquila, Inc. d/b/a Aquila Networks L&P and Aquila Networks MPS to implement a general rate increase in electricity.* It was intended to compensate L&P for a prepaid pension asset that was created during the time L&P and MPS received rate recovery of pension expense using the FAS 87 accrual methodology. Beginning in that case, the L&P and MPS divisions of Aquila changed the method of calculating pension expense from using FAS 87 to use of the "minimum ERISA" method along with a tracker. Because of this change, the remaining prepaid pension asset resulting from using the FAS 87 method was amortized over the approximate time period that FAS 87 was adopted for ratemaking purposes. For L&P the length of time was 9.25 years. The amortization ended July 2013.

The annual amortization of prepaid pension asset, per the *Unanimous Stipulation and Agreement* filed in Case No. ER-2004-0034, is $3,352,742 for L&P electric. The cumulative amount of over collection through the true-up date July 2016 in this case is $10,142,064.

Q. What is a "tracker", as that term applies to ratemaking methodology?

A. For ratemaking purposes, a tracker mechanism is an ongoing comparison of the amount of an expense actually incurred by a utility to the amount of the same expense recovered in the utility's rates. While tracker mechanisms are generally not appropriate for use in setting rates, trackers for pension expenses are a unique exception because of the possibly significant cash flow implications to utilities if their pension funding requirements are materially different from their pension expense recovery levels in rates. Trackers have been used for several years for all major utilities in Missouri rate cases because of the volatility of pension costs. Tracker mechanisms provide rate recovery of the exact amount of an expense and are specifically designed to consider both increases and decreases to pension costs. Ongoing tracker mechanisms capture both under and over recovery of an expense for recovery from or return to ratepayers. The overall goal of a tracker mechanism, when properly exercised, is to provide the utility with dollar-for-dollar recovery of reasonable and prudently incurred expenses, no more and no less.

Q. What are "vintages" or "layers," as that term applies to tracker methodology?

A. A tracker captures the relationship between cash expenditures paid by a utility and specific recovery of those expenditures in rates during a specific time period. From rate case to subsequent rate case, under-recovery or over-recovery of the item is captured into a regulatory asset or regulatory liability, respectively, depending on what was specifically in rates for the item and what ratepayers paid in rates for the item. The specific time periods are determined by cutoff periods in rate cases, and effective dates of new rates or tariffs in rate cases. These regulatory assets or liabilities are amortized to allow sufficient recovery or disbursement in rates to recover or flow back the pension costs and are referred to as "layers" or "vintages". Each vintage is specially identified to ensure that each of the pension layers is fully addressed.

Q. Are tracker mechanisms appropriate for broad categories of expenses?

A. No. Pension expenses have unique attributes that reduce the timing of the control utility management has over these expenses. While management has some control of the expenses, such as the asset mix of the pension trusts and negotiation of future benefits and costs, the investments in the pension trusts are subject to market forces, of which management has little to no control.

Q. How does Staff recommend treatment of over collections?

A. Over collections represent money that ratepayers have paid in excess of the projected operational costs. Because GMO's pension expense has received extraordinary treatment through the use of a tracker, it is completely appropriate to capture over-collections to offset other asset balances that would otherwise be amortized. This treatment maintains the fundamental premise of tracker accounting; that is, dollar for dollar recovery of expense, no more and no less with the tracker designed to capture increases and decreases in pension costs.

GMO is currently amortizing other pension regulatory assets based on the prior method of tracking pensions, commonly referred to as "minimum ERISA". This tracker was based on the prior method of the minimum amounts contributed to the pension trusts as determined under the Employee Retirement Income Security Act of 1974 ("ERISA"). These amortizations will end in August 2017 and March 2018 for MPS and L&P, respectively. Staff would suggest tracking of these over-collections to offset pension regulatory assets in the next GMO rate case, similar to the current over collected amortization.

Q. What is the benefit to the utility and its customers of using tracker accounting?

A. When properly exercised, tracker accounting ensures dollar-for-dollar recovery of an expense. For both the utility and its customers, regulatory lag is effectively eliminated by making the utility whole for certain unique expenses, one of which is currently pensions. The utility receives dollar for dollar recovery of pension expenses and rate base treatment of the unamortized balances.

Q. On page 32 of his rebuttal testimony, witness Klote states "Neither the 2004 nor any subsequent cases allowed for the tracking and return of any over collection of prepaid pension amortizations." How do you respond?

A. I would agree that there was no *explicit* agreement to track any over collection of this amortization.

However, for the past 20 years, Staff and the major utilities in the state, including GMO, have agreed to use tracking mechanisms in one form or another for pension expense. The language pertinent to the pension tracker does not specifically identify that over-collections will be tracked. However, Staff would not have agreed to the tracker approach for pension costs if it believed the Company was inherently going to "profit" from any over-collection of these costs. Staff worked with the utility industry to develop a mechanism to ensure the proper funding of pensions and OPEBs. Staff developed the tracker approach to allow the utility companies the ability to fully recover reasonable and proper pension costs. The pension and OPEBs trackers were not designed to allow for either under-recovery or over-recovery of those costs.

Q. Has GMO over-collected other amortizations?

A. Yes. These are identified and described in the surrebuttal testimony of Staff witness Karen Lyons. Staff recommends ratepayers receive credit for those over-collections similar to the pension over-collections.

Q. Please summarize Staff's position on the treatment of over-collections of pension expense.

A. Proper tracker accounting dictates that expenses deferred for recovery by a utility are recovered dollar-for-dollar with over-collections returned to customers and under collections recovered by the utility. Retaining over-collections results in a windfall to the utility and is an abuse of the unique treatment pension expenses has received from the Commission. Tracker accounting is a unique tool that eliminates regulatory lag for both the utility and its customers for the particular regulatory item. GMO should not be permitted to retain over-collections while asking its customers to pay for expenses it has already recovered.

INCOME TAXES

Q. Please describe the issue concerning income taxes.

A. OPC witness Hyneman takes issue with Staff's calculation of current income taxes in this case. Witness Hyneman alleges Staff's treatment of current income tax expense in this case is inconsistent with what it recommended in a recent Empire District Electric Company (Empire) rate case, File No. ER-2016-0023.

Q. What is your understanding of the treatment of current income taxes in the Empire rate case?

A. It is my understanding that current income taxes were calculated on the revenue requirement in that case. The amount calculated was then entered on Schedule 11, line 51 in Staff's EMS model, the line identified as "Deferred Income Taxes". This treatment was recommended on the basis that Empire had not incurred a liability for current income taxes for several years, and was unlikely to do in the immediate future.

Q. On page 62 of his rebuttal testimony, OPC witness Hyneman states "Given these facts, it would be inappropriate to include current income tax expense as a part of GMO's cost of service in this rate case." How do you respond?

A. It is not clear from his testimony if OPC witness Hyneman is recommending that no current income tax should be recovered in the cost of service, or if the current income taxes should be included on the "Deferred Income Taxes" line of Schedule 11 in Staff's EMS.

In this case, Staff treated income taxes consistent with the last GMO case, and the last KCPL case.

Q. On page 62 of his rebuttal testimony, OPC witness Hyneman states "I think all parties to this rate case would agree that it would be detrimental to GMO's customers to pay GMO for an expense it does not incur and does not pay." How do you respond?

A. Although GMO may not have paid actual cash federal income taxes in the last few years, GMO does have $426 million of accumulated deferred income taxes, which is a liability of owed income taxes to the Internal Revenue Service. Under the current Internal Revenue Service Tax Code, and long-standing Commission policy, regulated utilities are allowed to collect deferred income taxes from customers even though such taxes may not be paid to taxing authorities until some future period.

Q. If OPC witness Hyneman's recommendation to include the calculation of current taxes on the "Deferred Income Tax" line on Schedule 11 of Staff's EMS is adopted, would that action change GMO's revenue requirement?

A. Yes, it would actually increase GMO's revenue requirement. Including current income taxes with the deferred income taxes removes any cash working capital impact calculated on Accounting Schedule 8 – Cash Working Capital associated with income taxes. In Staff's direct filed Accounting Schedules dated July 15, 2016, the income tax calculation produced a rate base offset (reduction) of $1,370,935, resulting in a decrease to revenue requirement of approximately $123,000. This rate base reduction would be eliminated in OPC's recommendation on this issue is accepted.

EARNED RATE OF RETURN

Q. On page 27 of his rebuttal testimony, GMO witness Rush refers to "the Company's inability to earn its authorized rate of return." What has been GMO's actual earned return on equity been since its last rate case, Case No. ER-2012-0175?

A. Attached to this testimony as Highly Confidential Schedule KM-s2 is the Commission authorized return on equity and the actual earned return on equity as reported by GMO separately for MPS and L&P in the Fuel Adjustment Clause ("FAC") Quarterly Surveillance Reports accessed on the Commission's Electronic Filing Information System ("EFIS"). The difference between the authorized and earned return on equity is listed as well. This is the same data attached to my rebuttal testimony, but updated to incorporate the latest June 30, 2016 surveillance report. ** ____

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Q. Have these rates of return been adjusted for any ratemaking normalizations or annualizations?

A. No. These rates of return on equity are from the quarterly surveillance reports as reported by MPS and L&P. The revenues are reported are not weather-normalized, nor are any of the expenses adjusted from actual results, as opposed to the substantial adjustments made during the ratemaking process. For these reasons, the ROE results reported in the FAC surveillance reports do not necessarily correspond with the revenue requirement calculations used in general rate proceedings to determine whether a utility's rates should be increased or decreased.

Q. On page 8 of your rebuttal testimony filed in this case, you stated your belief that the returns on equity are potentially understated due to the inclusion of Crossroads rate base and transmission costs in the calculations. Do you have return on equity calculations adjusting for the impact of the Crossroads disallowances?

A. Yes. Attached as Schedule KM-s3 is the response to Staff Data Request No. 0228. This response identifies that the Crossroads disallowances were not removed from the calculation of the surveillance reports and provides the plant and estimated reserve for the Crossroads disallowance.

Staff Data Request No. 0155.1 identifies Crossroads transmission expenses separated between MPS and L&P. All Crossroads transmission expenses were disallowed from cost of

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service in the 2010 and 2012 rate cases.

To calculate the return on equity, Staff removed the estimated Crossroads net plant from the response to Staff Data Request No. 0228 from the rate base used to calculate the return on rate base. Staff then added back the Crossroads transmission expense to the Net Operating Income line using the response to Staff Data Request No. 0155.1. The recalculated rate of return was then used to calculate the return on equity using the overall cost of capital calculations in the surveillance reports.

Q. What was the return on equity for MPS and L&P adjusted for the Crossroads plant and transmission disallowances?

A Attached as Highly Confidential Schedules KM-s4 and KM-s5 are the summary and detailed calculations of return on equity from the 12 months ending December 2012 through the 12 months ending June 30, 2016.

Using the recalculated return on equity without the Crossroads disallowances, ** ____________________ **

Contrary to witness Rush's testimony, MPS and L&P have not recently experienced significant inability achieving their authorized rates of return.

Q. Does that conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2016-0156

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Surrebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Keith Majors
KEITH MAJORS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 1st day of September, 2016.

Beverly M. Webb
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

SCHEDULE KM-s1

and

SCHEDULE KM-s2

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Missouri Public Service Commission

Respond Data Request

Data Request No.	0228
Company Name	KCP&L Greater Missouri Operations Company-Investor (Electric)
Case/Tracking No.	ER-2016-0156
Date Requested	4/1/2016
Issue	General Information & Miscellaneous - Company Information
Requested From	Lois J Liechti
Requested By	Nathan Williams
Brief Description	GMO monthly surveillance reporting – Crossroads disallowances
Description	1a). Do the KCP&L Greater Missouri Operations surveillance reports (including, but not limited to, FAC Quarterly Surveillance Reports) submitted to the Commission include costs disallowed by the Commission relating to Crossroads, costs such as disallowed depreciation expenses, transmission expenses, etc.? b.) If the disallowed costs are included in the surveillance reports provided to the Commission, please re-calculate each monthly surveillance report submitted to the Commission since the Commission disallowed these Crossroads costs in GMO's 2010 rate case—ER-2010-0356 and 2012 rate case- ER-2012-0175 to most current available, removing the disallowed Crossroads costs for each months' operating results. 2. Identify the amount of disallowed Crossroads costs each month since the effective date of rates in GMO's 2010 rate case—June 2011 to the most current available. Provide monthly updated information as available. DR by Cary Featherstone (cary.featherstone@psc.mo.gov)
Response	Please see the attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2016-0156** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **KCP&L Greater Missouri Operations Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **KCP&L Greater Missouri Operations Company-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security : Public
Rationale : NA

KCPL GMO
Case Name: 2016 GMO Rate Case
Case Number: ER-2016-0156

Response to Featherstone Cary Interrogatories - MPSC_20160401
Date of Response: 6/28/2016

Question:0228R

1a). Do the KCP&L Greater Missouri Operations surveillance reports (including, but not limited to, FAC Quarterly Surveillance Reports) submitted to the Commission include costs disallowed by the Commission relating to Crossroads, costs such as disallowed depreciation expenses, transmission expenses, etc.? b.) If the disallowed costs are included in the surveillance reports provided to the Commission, please re-calculate each monthly surveillance report submitted to the Commission since the Commission disallowed these Crossroads costs in GMO's 2010 rate case—ER-2010-0356 and 2012 rate case- ER-2012-0175 to most current available, removing the disallowed Crossroads costs for each months' operating results. 2. Identify the amount of disallowed Crossroads costs each month since the effective date of rates in GMO's 2010 rate case—June 2011 to the most current available. Provide monthly updated information as available. DR by Cary Featherstone (cary.featherstone@psc.mo.gov)

Response:

1a.) All costs related to Crossroads are included in the GMO surveillance reports submitted on a monthly basis.
1b.) No report currently exists that can re-calculate the effect of removing the Crossroads disallowed costs.

2.) See attached file "Q228R Crossroads Disallowed" for the disallowed Crossroads plant, estimated disallowed Crossroads Accumulated Depreciation Reserve and estimated monthly disallowed depreciation expense. The Crossroads accumulated reserve for the months between the 2010 rate case and the 2012 rate case have not been estimated. An estimated reserve was calculated beginning with the 2012 rate case in order to approximate an estimated reserve for the 2016 rate case. The level of transmission expense disallowed in the prior case was $4,915,609.

Response by:
Amy Murray, Regulatory Accounting

Attachment:
Q0228R_CrossRoads Disallowed.xlsx
Q0228R_Verification.pdf

Disallowed Crossroads
ER-2016-0156
CURB- DR 0228

Case No. ER-2010-0356

FERC Account	Account Description	Per PowerPlant Property Rpts & Calculate PP 12/31/2010	Tot Comp Allowed Gross Plant	Disallowed Gross Plant	Accumulated Reserve Per PowerPlant 12/31/2010	Tot Comp Allowed Accumulated Reserve	Disallowed Accum Reserve	Depr Rate	Est Monthly Amortiz
303.010	Miscellaneous Intangibles - Transmission	21,901,183	$ 9,584,651	$ 12,316,532	4,395,612	$ 579,073	$ 3,816,539	2.50%	$ 25,659
340.000	Other Production - Land	427,390	187,039	240,351	0	$ -	-	0.00%	0
341.000	Other Production - Structures	2,276,012	996,055	1,279,957	285,510	$ 42,125	243,385	1.75%	1,867
342.000	Other Production - Fuel Holders	4,300,000	1,881,816	2,418,184	949,341	$ 140,525	808,816	3.09%	6,227
343.000	Other Production - Prime Movers	80,541,888	35,247,679	45,294,209	23,300,490	$ 4,097,249	19,203,241	4.81%	181,554
344.000	Other Production - Generators	16,595,058	7,262,523	9,332,535	4,418,095	$ 666,942	3,751,153	3.80%	29,553
345.000	Other Production - Accessory Electric Equip.	14,960,000	6,546,969	8,413,031	3,149,467	$ 450,923	2,698,544	2.85%	19,981
346.000	Other Production -Miscellaneous Power Plant	130,859	57,268	73,591	32,076	$ 4,941	27,135	3.57%	219
Total		$ 141,132,390	$ 61,764,000	$ 79,368,390	$ 36,530,591	$ 5,981,778	$ 30,548,813		$265,060

Case No. ER-2012-0175

FERC Account	Account Description	Per PowerPlant Property Rpts & Calculate PP 8/31/2012	Tot Comp Allowed Gross Plant	Disallowed Gross Plant	Accumulated Reserve Per PowerPlant 8/31/2012	Tot Comp Allowed Accumulated Reserve	Disallowed Accum Reserve	Depr Rate	Est Monthly Amortiz
303.010	Miscellaneous Intangibles - Transmission	13,476,338	$ 9,584,651	$ 3,891,687	3,252,183	$ 978,433	$ 2,273,750	2.50%	$ 8,108
340.000	Other Production - Land	427,390	187,039	240,351	0	$ -	-	0.00%	0
341.000	Other Production - Structures	2,395,896	1,115,939	1,279,957	354,691	$ 74,149	280,542	1.75%	1,867
342.000	Other Production - Fuel Holders	4,321,888	1,903,704	2,418,184	1,171,693	$ 238,396	933,297	3.09%	6,227
343.000	Other Production - Prime Movers	80,036,540	35,275,138	44,761,402	29,576,160	$ 6,925,205	22,650,955	4.81%	179,419
344.000	Other Production - Generators	16,932,185	7,994,708	8,937,477	5,456,502	$ 1,088,935	4,367,567	3.80%	28,302
345.000	Other Production - Accessory Electric Equip.	15,557,840	6,805,604	8,752,236	3,865,217	$ 770,391	3,094,826	2.85%	20,787
346.000	Other Production -Miscellaneous Power Plant	130,859	57,268	73,591	39,862	$ 8,348	31,514	3.57%	219
Total		$ 133,278,936	$ 62,924,051	$ 70,354,885	$ 43,716,308	$ 10,083,857	$ 33,632,451		$244,927

Mth Ending	Disallowed Plant	Estimated Disallowed Reserve	
Dec 2011	$ 79,368,390	$ 30,548,813	Case No. ER-2010-0356
Aug 2012	$ 70,354,885	$ 33,632,451	Case No. ER-2012-0175
Sept 2012	70,354,885	33,877,378	
Oct 2012	70,354,885	34,122,305	
Nov 2012	70,354,885	34,367,233	
Dec 2012	70,354,885	34,612,160	
Jan 2013	70,354,885	34,857,087	
Feb 2013	70,354,885	35,102,014	
Mar 2013	70,354,885	35,346,942	
Apr 2013	70,354,885	35,591,869	
May 2013	70,354,885	35,836,796	
Jun 2013	70,354,885	36,081,723	
Jul 2013	70,354,885	36,326,651	
Aug 2013	70,354,885	36,571,578	
Sept 2013	70,354,885	36,816,505	
Oct 2013	70,354,885	37,061,432	
Nov 2013	70,354,885	37,306,359	
Dec 2013	70,354,885	37,551,287	

Jan 2014	70,354,885	37,796,214	
Feb 2014	70,354,885	38,041,141	
Mar 2014	70,354,885	38,286,068	
Apr 2014	70,354,885	38,530,996	
May 2014	70,354,885	38,775,923	
Jun 2014	70,354,885	39,020,850	
Jul 2014	70,354,885	39,265,777	
Aug 2014	70,354,885	39,510,705	
Sept 2014	70,354,885	39,755,632	
Oct 2014	70,354,885	40,000,559	
Nov 2014	70,354,885	40,245,486	
Dec 2014	70,354,885	40,490,414	
Jan 2015	70,354,885	40,735,341	
Feb 2015	70,354,885	40,980,268	
Mar 2015	70,354,885	41,225,195	
Apr 2015	70,354,885	41,470,122	
May 2015	70,354,885	41,715,050	
Jun 2015	70,354,885	41,959,977	
Jul 2015	70,354,885	42,204,904	
Aug 2015	70,354,885	42,449,831	
Sept 2015	70,354,885	42,694,759	
Oct 2015	70,354,885	42,939,686	
Nov 2015	70,354,885	43,184,613	
Dec 2015	70,354,885	**43,429,540**	**Dec 2015 Cut-off**
Jan 2016	70,354,885	43,674,468	
Feb 2016	70,354,885	43,919,395	
Mar 2016	70,354,885	44,164,322	
Apr 2016	70,354,885	44,409,249	
May 2016	70,354,885	44,654,176	
Jun 2016	70,354,885	44,899,104	
Jul 2016	70,354,885	**45,144,031**	**July 2016 True-up**

Verification of Response

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

Docket No. ER-2016-0156

The response to Data Request #____0228R____ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: June 28, 2016

SCHEDULE KM-s4

and

SCHEDULE KM-s5

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY