

Exhibit No.: 122
Issue: Transource Adjustment, Transmission Revenues,
Transmission Expenses
Witness: Don A. Frerking
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Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2016-0285
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

**Missouri Public
Service Commission**

SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
January 2017**

KCP+L Exhibit No. 122
Date 2.8.17 Reporter LB
File No. ER-2016-0285

Table of Contents

I.	Transource Adjustment - RESPONSE TO the REBUTTAL TESTIMONY of STAFF WITNESS Keith majors	3
II.	Transmission revenues and transmission expenses – Response to the rebuttal testimony of OPC Witness Charles R. Hynemen	3
A.	Transmission Revenues.....	3
B.	Transmission Expenses	4
III.	Transmission revenues – Response to the rebuttal testimony of MIEC Witness James R. Dauphinais.....	7
A.	Transmission Revenues.....	7
IV.	Transmission revenues and transmission expenses – Response to the rebuttal testimony of Staff Witness Karen Lyons	9
A.	Summary of FERC Dockets Referenced by Ms. Lyons regarding Transmission Revenues and Transmission Expenses.....	9
B.	Transmission Tracker for Transmission Expenses.....	12

SURREBUTTAL TESTIMONY

OF

DON A. FRERKING

Case No. ER-2016-0285

1 **Q. Please state your name and business address.**

2 A. Don A. Frerking. My business address is 1200 Main, Kansas City, Missouri 64105.

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

4 A: I am employed by Kansas City Power & Light Company (“KCP&L” or “Company”)
5 and serve as Regulatory Analyst – Lead for KCP&L and KCP&L Greater Missouri
6 Operations Company (“GMO”).

7 **Q. On whose behalf are you testifying?**

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

9 **Q: Are you the same Don A. Frerking who filed Rebuttal testimony in this**
10 **proceeding?**

11 A: Yes, I am.

12 **Q. What is the purpose of your Surrebuttal testimony?**

13 A. I will respond to the Transource Adjustment discussion in the Rebuttal testimony of
14 the Staff (“Staff”) of the Missouri Public Service Commission (“Commission” or
15 “MPSC”) witness Keith Majors. I will also address and respond to the discussions
16 related to transmission revenues and transmission expenses in the Rebuttal testimony
17 of the Office of the Public Counsel (“OPC”) witness Charles R. Hyneman, in the
18 Rebuttal testimony of Missouri Industrial Energy Consumers (“MIEC”) witness
19 James R. Dauphinais, and in the Rebuttal testimony of Staff witness Karen Lyons.

1 **I. TRANSOURCE ADJUSTMENT - RESPONSE TO THE REBUTTAL**
2 **TESTIMONY OF STAFF WITNESS KEITH MAJORS**

3 **Q. You state that you will respond to the Transource Adjustment discussion in the**
4 **Rebuttal testimony of Staff witness Majors. Did you also address the**
5 **Transource Adjustment in your Rebuttal testimony in this proceeding?**

6 A. Yes. I responded to Staff's proposal regarding the Transource Adjustment (KCP&L
7 Adjustment CS-108) in my Rebuttal testimony at pages 30-34. Staff addressed the
8 Transource Adjustment in the Staff's Report on Revenue Requirement Cost of
9 Service ("Staff Report"), which contained Staff's Direct testimony in this case.

10 **Q. Are there any substantive differences between Staff's proposal in the Staff**
11 **Report and Mr. Majors discussion in his Rebuttal testimony with regard to the**
12 **Transource Adjustment?**

13 A. No.

14 **Q. Do you then believe that your Rebuttal testimony adequately addresses any**
15 **response that you would have to Mr. Majors' Rebuttal testimony on this topic?**

16 A. Yes.

17 **II. TRANSMISSION REVENUES AND TRANSMISSION EXPENSES –**
18 **RESPONSE TO THE REBUTTAL TESTIMONY OF OPC WITNESS**
19 **CHARLES R. HYNEMEN**

20 A. *Transmission Revenues*

21 **Q. What do you wish to respond to regarding Mr. Hyneman's Rebuttal testimony**
22 **related to Transmission Revenues?**

23 A. I will respond to Mr. Hyneman's discussion of KCP&L Adjustment R-80, which was
24 initially addressed in the Direct testimony of Company witness Ronald A. Klote.

1 Q. Did you address KCP&L Adjustment R-80 in your Rebuttal testimony in this
2 proceeding?

3 A. Yes. I responded to Staff's discussion of KCP&L Adjustment R-80 in the Staff
4 Report.

5 Q. Are there any substantive differences between Staff's proposal in the Staff
6 Report and Mr. Hyneman's position in his Rebuttal testimony with regard to
7 KCP&L Adjustment R-80?

8 A. No.

9 Q. Do you then believe that your Rebuttal testimony adequately addresses any
10 response that you would have to Mr. Hyneman's Rebuttal testimony on this
11 topic?

12 A. Yes.

13 B. *Transmission Expenses*

14 Q. Is there a statement(s) in Mr. Hyneman's Rebuttal testimony regarding
15 Transmission Expenses to which you would like to respond?

16 A. Yes. At page 17, lines 3-12, Mr. Hyneman provides the following question and
17 answer ("Q&A"):

18 Q. Do KCPL's transmission revenues provide an opportunity for
19 KCPL to mitigate any negative earnings impact from increased
20 regionally-allocated transmission project costs?

21
22 A. Yes. KCPL management has imprudently decided not to take
23 advantage of this opportunity and instead took specific actions that
24 increase its cost of service. The ability to increase transmission
25 revenues, when netted against transmission expenses, results in lower
26 net transmission expense. KCPL had an opportunity to significantly
27 increase its transmission revenues and thus reduce its transmission
28 expense but decided to transfer this opportunity and these utility

1 revenues to its non-utility parent company, Great Plains Energy
2 (“GPE”) and GPE’s nonregulated ventures.
3

4 **Q. What concerns do you have with the Q&A above?**

5 A. Mr. Hyneman makes a number of incorrect or misleading statements in his answer
6 regarding KCP&L management “imprudence”, “non-regulated” ventures, and netting
7 of transmission revenues against transmission expenses.

8 **Q. It appears that the situation to which Mr. Hyneman is referring in the Q&A is**
9 **the novation, from KCP&L and GMO to Transource Missouri, LLC**
10 **(“Transource Missouri”), of the Notifications to Construct (“NTCs”) for the**
11 **Iatan-Nashua and Sibley-Nebraska City projects, which was addressed in Case**
12 **No. EA-2013-0098. Did the Commission find this to be “imprudent”?**

13 A. No. Case No. EA-2013-0098 ultimately resulted in a Stipulation and Agreement
14 among the parties, which included the Staff and OPC. That Stipulation and
15 Agreement was approved by the Commission.

16 **Q. Does Mr. Hyneman’s answer in the Q&A contain other incorrect or misleading**
17 **statements about “Great Plains Energy (“GPE”) and GPE’s non-regulated**
18 **ventures?”**

19 A. Yes. Mr. Hyneman’s answer seems to imply that the Iatan-Nashua and Sibley-
20 Nebraska City projects are now owned by a “non-regulated” entity. I am not an
21 attorney, but it is my understanding that Transource Missouri, as the owner of the
22 projects, is defined as an electrical corporation under Chapter 393 of the Missouri
23 Statutes and, as such, is subject to certain jurisdictional authority of the Commission
24 under Chapter 386 of the Missouri Statutes. Transource Missouri is not rate-
25 regulated by the MPSC, but it is rate-regulated by the Federal Energy Regulatory

1 Commission ("FERC"). The rates charged for transmission service on the Transource
2 Missouri-owned facilities are developed based on implementation of the FERC-
3 approved Transource Missouri Transmission Formula Rate ("TFR") and are
4 administered under the FERC-approved Southwest Power Pool, Inc. ("SPP") Open
5 Access Transmission Tariff ("OATT").

6 **Q. Does Mr. Hyneman's answer to the Q&A contain other incorrect or misleading**
7 **statements about the netting of transmission revenues against transmission**
8 **expenses?**

9 A. Yes. Whether intentionally or unintentionally, Mr. Hyneman's answer blurs the
10 important distinction between transmission revenues and transmission expenses. I
11 previously addressed the fundamental differences between transmission revenues and
12 transmission expenses in my Rebuttal testimony. Mr. Hyneman's statement that
13 suggests that "(t)he ability to increase transmission revenues, when netted against
14 transmission expenses, results in lower net transmission expense" is simply not true.
15 Increases in Transmission of Electricity for Others revenues reduce the net revenue
16 requirement, but it does not reduce Transmission of Electricity by Others expenses.
17 This distinction is important. Because of the fundamental differences that I addressed
18 in my Rebuttal testimony, transmission revenues and transmission expenses simply
19 cannot be lumped together when discussing the appropriate ratemaking treatment.

1 **III. TRANSMISSION REVENUES – RESPONSE TO THE REBUTTAL**
2 **TESTIMONY OF MIEC WITNESS JAMES R. DAUPHINAIS**

3 **A. *Transmission Revenues***

4 **Q. What do you wish to respond to regarding Mr. Dauphinais’ Rebuttal testimony**
5 **related to Transmission Revenues?**

6 A. I will respond to Mr. Dauphinais’ discussion of KCP&L Adjustment R-80, which, as
7 I previously noted, was initially addressed in the Direct testimony of Company
8 witness Klote.

9 **Q. You noted in your response to OPC witness Hyneman’s discussion of KCP&L**
10 **Adjustment R-80 that you believe that your Rebuttal testimony adequately**
11 **addresses any response regarding KCP&L Adjustment R-80. Is that also true as**
12 **it relates to Mr. Dauphinais’ Rebuttal testimony discussion of KCP&L**
13 **Adjustment R-80?**

14 A. That is largely true. My Rebuttal testimony adequately explains why KCP&L
15 Adjustment R-80 is appropriate and necessary and why retail customers should not,
16 as Mr. Dauphinais states, “be entitled to all FERC-jurisdictional transmission
17 revenues that the Company is able to earn as an offset against the Company’s
18 transmission cost built into revenue requirement [emphasis added].”

19 **Q. You stated that it is “largely” true that your Rebuttal testimony adequately**
20 **addresses any response regarding KCP&L Adjustment R-80? Is there**
21 **something else in Mr. Dauphinais’ Rebuttal testimony to which you would like to**
22 **respond that was not previously addressed in your Rebuttal testimony?**

23 A. Yes. Mr. Dauphinais, at page 9 lines 9-12 of his Rebuttal testimony, suggests that:
24 “(t)he Company’s proposal would be akin to allowing the Company to retain the

1 difference between its non-firm off-system energy revenues received at market prices
2 and the Company's fuel cost to produce that energy." He seems to express concern
3 that if the Commission allows KCP&L Adjustment R-80, it would establish precedent
4 that could lead to the retention of off-system sales margins.

5 **Q. How do you respond to Mr. Dauphinais' concerns?**

6 A. Mr. Dauphinais' concerns are unfounded, because the circumstances are profoundly
7 different. The Transmission of Electricity for Others revenues to which KCP&L
8 Adjustment R-80 are applied are derived from cost-based rates that are calculated in
9 KCP&L's FERC-approved TFR and are charged to other transmission customers
10 under the FERC-approved SPP OATT. These rates are based on a full Annual
11 Transmission Revenue Requirement ("ATRR") calculation, which includes the
12 FERC-approved return on equity ("ROE"). Because these cost-based FERC-
13 approved rates are based on a full ATRR, these Transmission of Electricity for Others
14 revenues are much more like revenues from a separate jurisdiction than they are like
15 market-based off-system sales. Non-firm off-system energy is sold at rates that are
16 set by the market, not by FERC or any other regulatory body, and, as such, do not
17 include any "authorized" ROE component. In addition, non-firm off-system energy
18 sales are not intended to be a full revenue requirement recovery. These non-firm off-
19 system energy sales are made if the market price exceeds the marginal cost of making
20 those sales (i.e., fuel and other variable operating and maintenance ("O&M")
21 expenses). If the market price is barely above the marginal cost, the non-firm off-
22 system energy sales contribute a small amount to the recovery of fixed costs.
23 Likewise, if the market price is greatly above the marginal cost, it could conceivably
24 be more than what a full revenue requirement rate would be. In neither of these

1 scenarios; however, is there any “authorized” ROE that is a component of
2 establishing that market-based rate. The circumstances and rationale for any proposal
3 (by any party) regarding the retention of any non-firm off-system energy sales
4 margins would be completely different than those for KCP&L Adjustment R-80 and,
5 thus, there should be no precedential value.

6 **IV. TRANSMISSION REVENUES AND TRANSMISSION EXPENSES –**
7 **RESPONSE TO THE REBUTTAL TESTIMONY OF STAFF WITNESS**
8 **KAREN LYONS**

9 **A. *Summary of FERC Dockets Referenced by Ms. Lyons regarding***
10 ***Transmission Revenues and Transmission Expenses***

11 **Q. Ms. Lyons references a number of FERC dockets in her discussion of**
12 **transmission revenues and transmission expenses. Can you provide a brief**
13 **summary of these referenced FERC dockets?**

14 **A.** Yes. Ms. Lyons discussed several FERC dockets because they have impacts on the
15 transmission revenues and transmission expenses that are included in the test year
16 amounts and/or will be included in the True-up amounts. Ms. Lyons made a couple
17 of misstatements about these FERC dockets in her Rebuttal testimony, which I will
18 respond to in my Surrebuttal testimony. The brief docket descriptions below will aid
19 in that discussion:

- 20 • FERC Docket No. ER14-1174
- 21 ○ This docket resulted in a settlement under which Midcontinent
- 22 Independent System Operator, Inc. (“MISO”) will compensate SPP
- 23 for Available System Capacity Usage (“ASCU”). This
- 24 compensation from MISO to SPP is distributed by SPP to
- 25 Transmission Owners in SPP. MISO began compensating SPP on
- 26 a monthly basis for ASCU effective February 1, 2016. Under the
- 27 terms of the settlement, MISO also made a lump sum payment to
- 28 SPP to reflect ASCU for the historical period from January 29,
- 29 2014 through January 31, 2016. This lump sum payment was
- 30 distributed to SPP Transmission Owners in May 2016.

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- FERC Docket No. ER16-791
 - In this docket SPP filed for approval of the distribution methodology (Attachment AU of the SPP OATT) to be used to distribute the MISO compensation (as established in the settlement in Docket No. ER14-1174) to SPP Transmission Owners. A couple of SPP members protested the Attachment AU methodology. A settlement among the parties has been reached and filed at FERC, but FERC has not yet approved the settlement. Once approved by FERC this settlement in Docket No. ER16-791 will reduce the amount of the historical period lump sum amount that KCP&L receives. It will not impact the on-going monthly amounts distributed to KCP&L under Attachment AU.

 - FERC Docket No. ER15-1499
 - In this docket SPP filed on behalf of the City of Independence, Missouri and the city's municipal electric utility, Independence Power & Light ("IPL"), for FERC approval of IPL's requested stated rate ATRR of approximately \$7.2 million and placed IPL's ATRR and load into the SPP KCP&L (Zone 6) transmission pricing zone. The placement of IPL into the KCP&L zone creates a comingling of the ATRRs and load and results in the Transmission Customers in the zone paying a rate that reflects the combined KCP&L and IPL ATRRs and loads. The settlement in Docket No. ER15-1499 resulted in a reduced and phased-in ATRR for IPL.

28 **Q. You mentioned that Ms. Lyons made several misstatements regarding these**
29 **FERC dockets. Do you believe that the misstatements will impact Staff's**
30 **proposed rate-making treatment in this proceeding?**

31 A. No. Ms. Lyons' has suggested in her Rebuttal testimony that Staff intends to address
32 both transmission revenues and transmission expenses in the True-up. The Company
33 believes that we will be able to clarify these issues with Staff during True-up. My
34 purpose in addressing the misstatements here is simply to aid in that clarification.

1 **Q. Are there any clarifications that you would like to make regarding Ms. Lyons’**
2 **statements about Docket No. ER14-1174?**

3 A. Yes. In her discussion of transmission expenses at page 7 lines 20-22 of her Rebuttal
4 testimony, she states that:

5 ...The cases brought before the FERC can result in changes, increases
6 and decreases, to the level of transmission expense incurred by KCPL.
7 For example, in FERC Docket No. ER14-1174-000, KCPL received
8 allocated revenues...

9
10 The MISO compensation to SPP under Docket No. ER14-1174 is distributed as
11 transmission revenue to SPP Transmission Owners, including KCP&L. There are no
12 transmission expenses to KCP&L resulting from Docket No. ER14-1174.

13 **Q. Are there any clarifications that you would like to make regarding Ms. Lyons’**
14 **statements about Docket No. ER15-1499?**

15 A. Yes. In her discussion of transmission revenues at page 22 lines 6-9 of her Rebuttal
16 testimony, she states that:

17 ...Staff’s recommended level of transmission revenue, as of the
18 update period, is based on the IPL’s original filed ATRR which is at a
19 higher level than agreed to in the settlement agreement. The reduced
20 level of transmission revenue agreed to in the settlement agreement
21 will be included in Staff’s recommended level of transmission revenue
22 at the true-up...

23
24 The settlement in Docket No. ER15-1499 resulted in a reduced and phased-in ATRR
25 for IPL. This impacts the amounts of Transmission of Electricity by Others expense
26 that KCP&L incurs related to the IPL ATRR. The Transmission of Electricity for
27 Others revenue that KCP&L receives is based on KCP&L’s ATRR, not IPL’s ATRR,
28 and, thus, is not impacted by the settlement in Docket No. ER15-1499.

1 **B. *Transmission Tracker for Transmission Expenses***

2 **Q. Are there statements in Ms. Lyons' Rebuttal testimony regarding a transmission**
3 **tracker for transmission expenses to which you would like to respond?**

4 A. Yes. At page 17 lines 24-28 and continuing on page 18 lines 1-6, Ms. Lyons'
5 provides the following Q&A:

6 Q. In his Direct Testimony, Mr. Ives suggests that KCPL transmission
7 expense is beyond the Company's control. [Ives Direct, page 17]
8 Does Staff agree?
9

10 A. No. Although Staff agrees that KCPL's transmission expense has
11 increased in recent years, Staff does not agree that KCPL has no
12 control over reducing the impact of increasing transmission expense.
13 As one example, KCPL could have mitigated increased transmission
14 expense with increases in transmission revenue by constructing the
15 regional transmission projects that were instead constructed by
16 Transource Missouri, an affiliate of KCPL, pursuant to a Stipulation
17 and Agreement in Case Nos. EA-2013-0098 and EO-2012-0367. In
18 addition, as previously discussed, KCPL is a participant in several
19 FERC dockets that may impact the level of transmission expense it
20 incurs in the future and is an active participant in SPP planning and
21 decision-making processes.
22

23 **Q. How do you respond to Ms. Lyons' suggestion regarding Transource Missouri**
24 **projects?**

25 A. Ms. Lyons' suggestion that KCP&L could have "mitigated increased transmission
26 expense with increases in transmission revenue by constructing the regional
27 transmission projects that were instead constructed by Transource Missouri" is
28 incorrect. The novation of these projects was the subject of a lengthy and thorough
29 approval process in Case Nos. EA-2013-0098 and EO-2012-0367, which ultimately
30 resulted in a Stipulation and Agreement among the parties in those cases, which
31 included Staff and OPC. That Stipulation and Agreement was approved by the
32 Commission. As part of that Stipulation and Agreement, KCP&L makes rate case

1 adjustments to reflect MPSC rate-making treatment for the charges for those projects.
2 Ms. Lyons' assertion does not reflect the realities of the agreements and approval
3 processes in Case Nos. EA-2013-0098 and EO-2012-0367.

4 **Q. How do you respond to Ms. Lyons' suggestion regarding participation in FERC**
5 **dockets?**

6 A. KCP&L has been, and will continue to be, an active participant in dockets at FERC
7 that have the potential to impact the Company. These efforts help to minimize the
8 transmission charges that KCP&L incurs on behalf of its retail customers. These
9 FERC dockets are generally for new or changing issues. The vast majority of the
10 Transmission of Electricity by Others expenses and the increases in these expenses,
11 however, are incurred for existing transmission service under the provisions of the
12 current FERC-approved SPP OATT. The Company has no ability to pay any other
13 amounts for these lawfully incurred charges. Ms. Lyons' implication overstates the
14 potential impact that the Company's active participation in FERC dockets can have
15 on the level of transmission expense increases, because most of the increases occur
16 under currently approved rates and are not the result of the new or changing issues in
17 the FERC dockets.

18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement) Case No. ER-2016-0285
A General Rate Increase for Electric Service)

AFFIDAVIT OF DON A. FRERKING

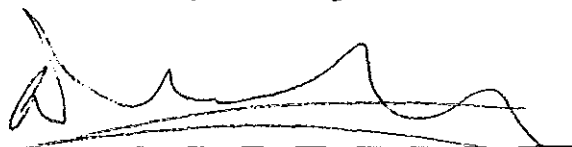
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Don A. Frerking, being first duly sworn on his oath, states:

1. My name is Don A. Frerking. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Regulatory Analyst – Lead.

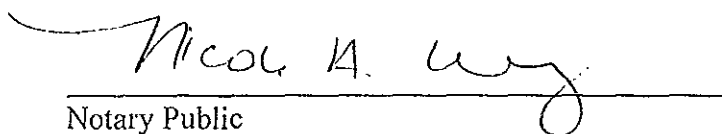
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company consisting of thirteen (13) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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



Don A. Frerking

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



Notary Public

My commission expires: Feb. 4, 2019

