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Case No.: ER-2014-0370
Date Testimony Prepared: October 30, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
October 2014**

***** [REDACTED] *** Designates "Highly Confidential" Information
Has Been Removed.**

DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2014-0370

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

2 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
3 64105.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L” or “Company”) as
6 Vice President – Regulatory Affairs.

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

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

9 **Q: What are your responsibilities?**

10 A: My responsibilities include oversight of the Company’s Regulatory Affairs Department,
11 as well as all aspects of regulatory activities including cost of service, rate design,
12 revenue requirements, regulatory reporting and tariff administration.

13 **Q: Please describe your education, experience and employment history.**

14 A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business
15 Administration with majors in Accounting and Marketing. I received my Master of
16 Business Administration degree from the University of Missouri-Kansas City in 2001. I
17 am a Certified Public Accountant. From 1992 to 1996, I performed audit services for the
18 public accounting firm Coopers & Lybrand L.L.P. I was first employed by KCP&L in
19 1996 and held positions of progressive responsibility in Accounting Services and was

1 named Assistant Controller in 2007. I served as Assistant Controller until I was named
2 Senior Director – Regulatory Affairs in April 2011. I have held my current position as
3 Vice President – Regulatory Affairs since August 2013.

4 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
5 **Commission (“Commission” or “MPSC”) or before any other utility regulatory**
6 **agency?**

7 A: Yes, I have testified before the Commission and the Kansas Corporation Commission
8 (“KCC”).

9 **Q: What is the purpose of your testimony?**

10 A: The purpose of my testimony is to provide an overview of the Company’s proposed rate
11 increase, including a description of the major drivers in the case and discussion of
12 regulatory mechanisms necessary for KCP&L to have a realistic opportunity to achieve
13 its authorized return going forward from this case. I will also address renewable energy
14 standard costs, KCP&L’s rate history, the continuing high value of electricity provided
15 by KCP&L and the Company’s rate design proposal in this case.

16 **PURPOSE AND REASON FOR THIS FILING**

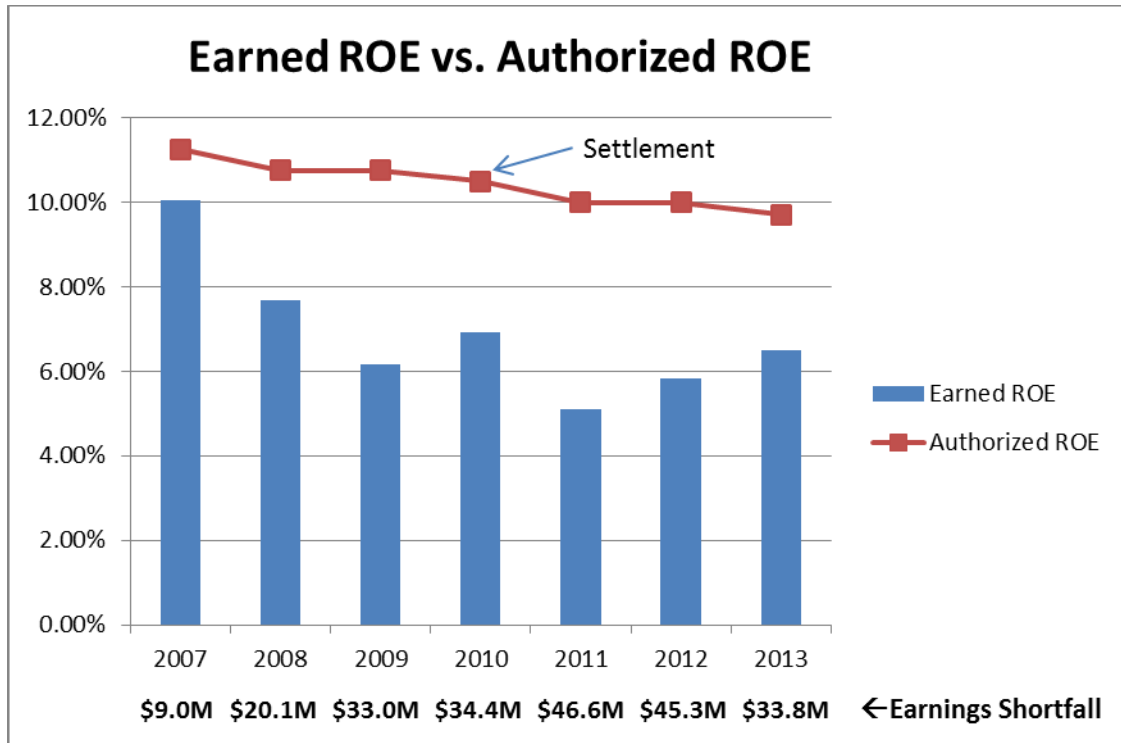
17 **Q: What is the Company asking for in this case and why?**

18 A: This case is a request for authority to implement a general rate increase for electric
19 service. While the Company raised rates January 26, 2013, in accordance with the
20 Commission’s order in Case No. ER-2012-0174, the Company has been unable to earn its
21 authorized rate of return. This case seeks to increase rates to recover new investments
22 made since Case No. ER-2012-0174, reset cost of service based upon the test year for this
23 case, and establish certain alternative regulatory mechanisms in order to provide the

1 Company a reasonable opportunity to earn its Commission-authorized return after this
2 case.

3 **Q: Please elaborate on factors impacting the Company's ability to earn its authorized**
4 **return.**

5 A: Consistent with my testimony in KCP&L's last general rate case, Case No. ER-2012-
6 0174, KCP&L has continued to experience extensive regulatory lag as has been
7 experienced, particularly in its Missouri jurisdiction, over the last several years. The
8 regulatory lag experienced prevents the Company from realizing an earned return on
9 equity that is reasonable and expected based on the allowed return on equity authorized
10 by the Commission in previous cases. While allowed returns do not represent a
11 guarantee of a return, investors in our Company certainly have an expectation that earned
12 returns will be reasonable in relation to the allowed returns. Investors have an
13 understanding of the limitations of the Missouri regulatory framework caused by the use
14 of historical test years and the lag that is inherent due to capital investments placed in-
15 service between rate cases; however, our recent experience in earned returns has not been
16 reflective of the expected relationship between earned and allowed returns. In fact, the
17 gap between earned returns and authorized returns from 2007 through 2013 as portrayed
18 below has resulted in an aggregate earnings shortfall to our shareholders over the period
19 in excess of \$220 million, which in no way is reflective of investors' expectations for
20 performance.



1 **Q: What factors contribute to regulatory lag for KCP&L in Missouri?**

2 A: There are several. First and foremost, the regulatory model in Missouri is built primarily
 3 on historical financial information. From a cost of service perspective, the process
 4 utilizes historical test year costs, trued-up for known and measurable changes.
 5 Regardless of the true-up period, this model results in rates being set on historical costs
 6 that were incurred in a range anywhere from 5 months to 27 months prior to the date rates
 7 are effective. This model not only ignores cost increases that have occurred between the
 8 historical test year used and the date rates are effective, it also ignores the fact that in a
 9 rising cost environment, costs to serve our customers continue to increase from the date
 10 rates are effective, with little ability to synchronize recovery with costs incurred other
 11 than to initiate another expensive and time-consuming rate case.

1 In certain cost of service categories, costs can vary significantly from year-to-year
2 and when such costs are a material cost of service component they can have a dramatic
3 impact to the Company as a result of regulatory lag. In this general rate case filing, in
4 addition to its current pension/other post-employment benefits (“OPEB”) tracker, the
5 Company has identified other cost of service components it believes warrant rider/tracker
6 treatment which I will elaborate more on later in this direct testimony.

7 From a capital investment perspective, when a utility is in a substantial capital
8 investment cycle, as is occurring at KCP&L and across the industry today, significant
9 regulatory lag is produced. This lag is a result of the same historical model that I
10 discussed regarding cost of service. Capital investments are generally reflected in a rate
11 case based on assets placed in-service as of the true-up date in the case. In this case, it
12 means capital assets will be five months outdated at the time rates from this case are
13 effective. Additionally, while utilities are allowed to record an Allowance for Funds
14 Used During Construction (“AFUDC”) to recover financing costs associated with
15 construction work in progress, assets placed in-service subsequent to the true-up of the
16 case, receive no financing cost recovery until the utility files another expensive and time-
17 consuming rate case to reflect the assets in rate base. During the entire time the assets are
18 in-service but not reflected in rates, the Company is also recording depreciation expense
19 for the utilization of the assets. Such depreciation expense is not reflected in rates and,
20 except for specific, infrequent circumstances in which construction accounting authority
21 has previously been provided for large generation investments, there is not currently a
22 mechanism in Missouri to routinely recover that lost depreciation expense. These
23 regulatory lag effects for capital investment are significant to KCP&L, and other similar

1 utilities, that are in a substantial capital investment cycle where annual capital additions
2 significantly exceed the annual depreciation expense of the company.

3 It should be noted that while we commonly refer to loss of return and depreciation
4 recovery as regulatory lag, it represents a permanent loss in recovery of both the return on
5 the investment and depreciation expenses (return of the investment) for the Company.
6 This gap, if it continues to go unmitigated, operates as a significant financial disincentive
7 for the Company to continue to proactively invest, and it creates a substantial obstacle in
8 addressing the sizable capital investments that the Company has in front of it.

9 **Q: Are there other factors that contribute to regulatory lag for KCP&L?**

10 A: Yes. Another factor significantly contributing to regulatory lag for KCP&L is that the
11 Company is experiencing little or no growth in its Missouri sales due to stagnation in the
12 population in its Missouri service territory, conservation measures, and other factors.
13 Historically, KCP&L, and other regional utilities experienced load growth (increased
14 kWh usage) in a range of 2% to 3% annually. In the historical-based regulatory model,
15 this increased kWh usage on the Company's system provided revenues that exceeded the
16 revenues that rates were based on. Utilities like KCP&L were able to utilize the
17 increased revenue to offset cost of service and capital investment regulatory lag. Today,
18 consistent with KCP&L's experience at the time of filing its 2012 rate case, the Company
19 has experienced flat to declining kWh and kW usage in its Missouri service territory
20 since rates were last set. This lack of load growth adds to and exacerbates the cost of
21 service and capital investment regulatory lag previously discussed.

1 **Q: Please provide some discussion of specific impacts from rates authorized in**
2 **KCP&L's last general rate case, ER-2012-0174. What was the KCP&L-MO**
3 **jurisdictional authorized return on equity ("ROE") granted in that case?**

4 A: The Company was authorized an ROE of 9.7% for its KCP&L-MO jurisdiction.

5 **Q: How does that compare with the Company's earned ROE for 2013?**

6 A: The earned ROE for KCP&L-MO was 6.5%.

7 **Q: The Company implemented rates in January 2013, based on an authorized ROE of**
8 **9.7%, yet the earned ROE was only 6.5%. Can you explain why?**

9 A: Simply put, KCP&L-MO has not earned its authorized ROE since new rates became
10 effective in early 2013 because actual experience for certain cost items was materially
11 higher than the amounts used for such items in the rate setting process in Missouri. The
12 most material of those items impacting KCP&L-MO's earned return in 2013 include the
13 following:

- 14 • Retail revenues were down nearly \$14.5 million and wholesale sales were down \$7.9
15 million;
- 16 • Fuel and purchased power costs were up \$13.7 million;
- 17 • Transmission costs were up \$6.9 million;
- 18 • Non-Fuel Operations and Maintenance expenses were up \$6.0 million;
- 19 • Depreciation expense was up \$3.3 million;
- 20 • General taxes (Property) were up \$3.9 million; and
- 21 • Rate base increased \$78.2 million.

22 Because KCP&L-MO revenues for 2013 were lower than rate case levels, KCP&L-MO
23 had little to no opportunity to offset or otherwise mitigate the higher amounts actually

1 experienced in 2013 for fuel and purchased power, transmission costs, property taxes,
2 rate base and other costs used in setting rates for KCP&L-MO that took effect in 2013.

3 **Q: How does the Company's experience compare to KCP&L Greater Missouri**
4 **Operations Company ("GMO")?**

5 A: GMO's rates were last set in Case No. ER-2012-0175 and became effective January 26,
6 2013. The Commission authorized ROE for both the MPS and L&P jurisdictions was
7 9.7%. The 2013 earned ROE for MPS was 9.76% and for L&P was 11.31%. The ROE
8 achieved by the MPS jurisdiction for 2013 was very close to, within six basis points of,
9 the Commission-authorized ROE for MPS. Although the ROE achieved by the L&P
10 jurisdiction for 2013 exceeded the Commission-authorized ROE for L&P, closer
11 examination of those results and application of only a small number of adjustments which
12 are typically made in rate proceedings eliminates the entirety of L&P's earnings above
13 the Commission-authorized level.

14 **Q: Given that the GMO and KCP&L-MO authorized returns were the same (9.7%)**
15 **and new rates for both businesses were implemented in January 2013, what do you**
16 **attribute the dramatically different results to?**

17 A: I attribute the difference between GMO and KCP&L-MO's earnings performance in
18 2013 to two principal factors: 1) GMO had a fuel adjustment clause ("FAC") in place in
19 2013 while KCP&L-MO did not; and 2) in 2013, GMO experienced growth in billing
20 determinants (that is, customer numbers and kWh sales) relative to rate case levels while
21 KCP&L-MO did not.

1 Q: **While GMO's 2013 earned return experience is better than KCP&L-MO's, do you**
2 **believe it is sustainable?**

3 A: No, I certainly don't think GMO earned returns can be sustained at 2013 levels.

4 Q: **Why not?**

5 A: While GMO has an FAC and has not experienced the pace of rate base growth since its
6 last case as KCP&L-MO has, it is still subjected to certain of the significant cost of
7 service increases that KCP&L-MO faces, which are mostly outside GMO's control to
8 manage and remain unmitigated in Missouri's current regulatory framework. In
9 particular, GMO continues to face significant increases in property taxes and in SPP-
10 billed transmission costs. GMO's growth in billing determinants, if sustained, and
11 continued cost management strategies will not be enough to keep pace with these rising
12 costs over an extended timeframe.

13 Q: **How does the Company's experience in Kansas compare to Missouri?**

14 A: The KCP&L-KS jurisdiction also implemented rates based on an authorized ROE of
15 9.5% in January 2013. The KS 2013 earned ROE was **[REDACTED]**.

16 Q: **Given that the Missouri and Kansas authorized ROEs were roughly similar (9.7%**
17 **vs. 9.5%) and new rates for both states were implemented in January 2013, what do**
18 **you attribute the dramatically different results to?**

19 A: The Company had more tools to manage regulatory lag in Kansas. In Kansas, KCP&L
20 was able to more timely recover increased fuel and purchased power, transmission, and
21 property tax costs through its authorized rider mechanisms. Additionally, the Company
22 was able to incorporate a portion of the La Cygne Generating Station ("La Cygne")
23 environmental costs in to rate base and begin recovery through the abbreviated rate case

1 process available in Kansas. KCP&L-MO had no such mechanisms available to adjust
2 rates in 2013.

3 **Q: Given the comparisons to GMO and KCP&L-KS recent earned returns, and your**
4 **prior discussion regarding regulatory lag, what conclusions do you draw?**

5 A: The operating environment for KCP&L has changed and the regulatory model in
6 Missouri has not yet changed to keep up with the changing environment. By that I mean
7 that the ability for KCP&L-MO to have a realistic opportunity to earn its' Commission-
8 authorized return in a historical test year regulatory model was, in large part, dependent
9 on additional revenue from load growth (additional kWh usage) as I discussed earlier.
10 Over the last two general rate case cycles, KCP&L-MO has actually seen a decline in
11 kWh usage, not growth. Additionally, as discussed by KCP&L witness Scott Heidtbrink,
12 significant amounts of our recent capital investment and the vast majority of our recent
13 cost of service increases have been driven by governmental mandates or are cost
14 increases that are largely outside the control of KCP&L to manage. In these
15 circumstances, the capital investment is not generating new revenue, it is replacing aging
16 infrastructure or meeting environmental requirements (i.e., additional costs borne by the
17 same revenue providing customers). The same can be said for cost of service increases
18 driven by governmental mandates or in areas largely outside the control of KCP&L, such
19 as property tax increases and increases in SPP-billed transmission costs. These are
20 simply additional costs borne by the same revenue providing customers.

21 For KCP&L to have a realistic opportunity to earn its Commission-authorized
22 return, and continue to attract the capital necessary to make the investments required to
23 continue providing safe and reliable service to its customers, the Missouri Commission

1 must recognize this disconnect between the changing environment faced by KCP&L and
2 the historical regulatory construct in the state. It is essential that the Commission grant
3 alternative regulatory mechanisms such as riders and trackers necessary to help close this
4 gap and provide KCP&L a realistic opportunity to achieve its Commission-authorized
5 return.

6 **Q: Is the Company requesting such mechanisms in this case?**

7 A: Yes, in part. The Company is requesting an FAC which includes transmission costs, a
8 property tax tracker, a Critical Infrastructure Protection (“CIP”) Standards
9 (“CIPS”)/cybersecurity tracker and a vegetation management (“VM”) tracker. A simple
10 comparison of KCP&L-MO’s 2013 earnings to the 2013 earnings of KCP&L-KS and
11 GMO clearly shows that the presence of such mechanisms is essential for KCP&L-MO to
12 have a realistic opportunity to achieve its Commission-authorized return. I discuss these
13 mechanisms later in this testimony, and KCP&L witness Tim Rush discusses them in
14 detail in his Direct Testimony.

15 **Q: Is judicious use of these alternative regulatory mechanisms in the long-term best**
16 **interest of customers?**

17 A: Yes. As KCP&L witness Robert Hevert states in his Direct Testimony, Missouri’s
18 regulatory environment is currently ranked in the bottom quarter of 53 regulatory
19 jurisdictions as assessed by Standard and Poor’s Financial Services LLC (S&P) in a
20 January 2014 publication. Witness Hevert accurately summarizes that, given Missouri’s
21 ranking, the financial community appears to attribute higher regulatory risk to KCP&L
22 than to other utilities (on average). As I previously mentioned, the current regulatory
23 model in Missouri has not kept pace with the changing operating environment faced by

1 KCP&L and the other Missouri utilities. Over the last several years, KCP&L-MO has
2 not had a realistic opportunity to earn its Commission-authorized return. KCP&L, and
3 the industry, are faced with significant increases in costs due to governmental mandates
4 and imposed costs. Some of that cost is reflected in increased cost of service and some in
5 required infrastructure investment. Additionally, KCP&L faces continued infrastructure
6 investment to replace aging infrastructure (i.e., facilities that have reached the end of their
7 useful life).

8 Continued provision of safe and reliable service to Missouri customers requires a
9 financially strong utility. Judicious use of alternative regulatory mechanisms, such as
10 those requested by KCP&L in this case, is frequently cited by credit rating agencies and
11 utility investor publications when they assess the risk faced by a utility company. By
12 utilizing such alternative mechanisms judiciously, the Commission can have a positive
13 impact on KCP&L's ability to continue to enjoy access to low-cost capital to fund future
14 investments. These capital costs are passed on to customers, thus any reduction in the
15 cost of capital provided by recognition of these alternative mechanisms is a benefit to
16 customers.

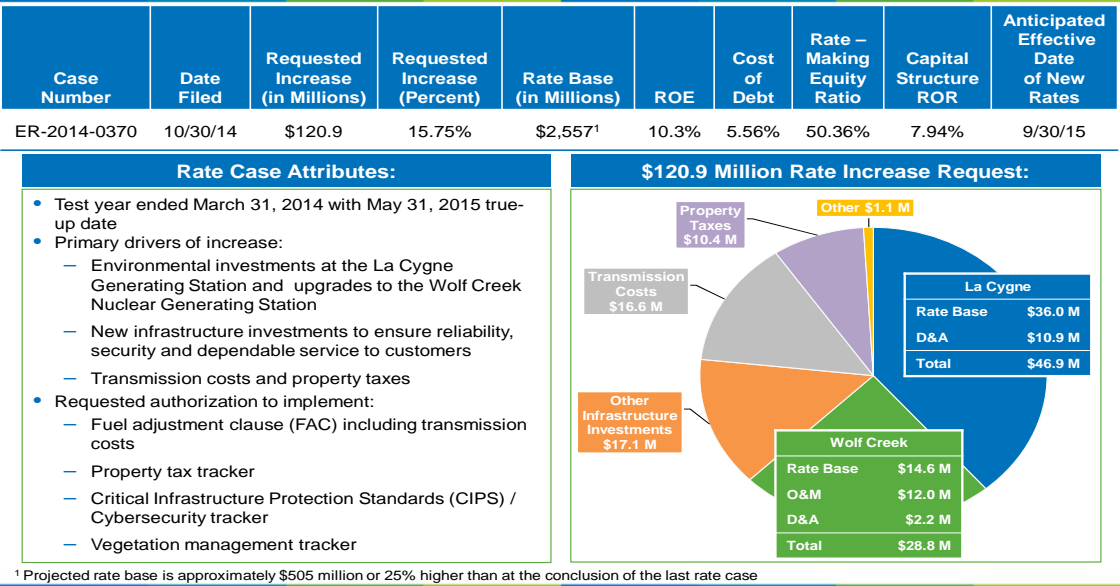
17 **CASE OVERVIEW**

18 **Q: Please briefly summarize the Company's case.**

19 A: The Company is requesting an increase of \$120.9 million or 15.75%, based on a current
20 Missouri jurisdictional base retail revenue of \$767.4 million. The revenue requirement
21 schedules are based on a historical test year of the twelve months ending March 31, 2014,
22 with known and measurable changes projected through April 30, 2015. Below is a

1 graphical depiction of the case, including case drivers, significant elements of the case
 2 and other high level facts.

KCP&L – Missouri Rate Case Summary



3 This summary of the requested increase clearly depicts that the increase addresses
 4 federally-mandated investments at La Cygne, reliability investments at Wolf Creek and
 5 across our system and cost of service increases attributable to SPP-billed transmission
 6 costs and state-assessed property tax increases.

7 It should be noted that the Company initially expected to file this rate case in
 8 early October of 2014, with an expected true-up date of April 30, 2015. As it turned out,
 9 however, the Company was not prepared to file in early October, and based on the actual
 10 filing date (October 30, 2014), we now expect the true-up date to be May 31, 2015. I do
 11 not expect material changes in our case to result from this change in filing and true-up
 12 dates. Additionally, because Staff and other parties to this proceeding will conduct their
 13 audits on the basis of actual historical experience of the Company, the fact that KCP&L’s

1 direct testimony filing is based on April 30, 2015 projections as opposed to May 31, 2015
2 projections should not be problematic. We expect to update the schedules as of the cut-
3 off date used by Commission Staff and then true up to May 31, 2015 actuals as part of the
4 true-up process.

5 Company witness Ronald Klote's Direct Testimony supports the cost of service
6 and revenue requirement determination, which is included in his Schedules RAK-1
7 through RAK-3.

8 **Q: What is the effective date of the Company's proposed tariffs filed in this case?**

9 A: The tariffs bear an effective date of November 29, 2014. We would expect the
10 Commission to suspend this filing up to an additional 10 months beyond this effective
11 date. This would place the expected effective date of new rates about September 30,
12 2015.

13 **Q: Is it possible that the Company might seek to extend the effective date of the new**
14 **rates?**

15 A: While it is unlikely, it is possible that the Company may experience delays in placing the
16 La Cygne Environmental Project in service. In that event, the Company would discuss
17 with the parties and the Commission a proposal to delay the procedural schedule and the
18 effective date of new rates by no more than 60 days to allow a reasonable amount of time
19 to address the delay in in-service. If this becomes necessary, KCP&L would advise the
20 Commission and the parties no later than May 1, 2015, the date for Rebuttal Testimony
21 proposed by KCP&L.

1 **Q: What is the ROE KCP&L is requesting in this case?**

2 A: KCP&L is requesting an ROE of 10.3%. KCP&L witness Robert Hevert presents in his
3 Direct Testimony his cost of capital study results and recommendations in support of the
4 Company's requested ROE. Mr. Hevert's recommendation reflects analytical results
5 based on a proxy group of electric utilities, and takes into consideration the Company's
6 risk profile, including the regulatory environment in which the Company operates and its
7 generation portfolio.

8 **Q: What is the equity ratio in the capital structure KCP&L is requesting in this case?**

9 A: KCP&L is requesting a capital structure comprised of 50.36% common equity based on
10 the projected consolidated capital structure of Great Plains Energy Incorporated ("GPE"),
11 KCP&L's parent company, as of May 31, 2015. The 50.36% requested in this case is a
12 decrease from the 52.25% authorized in KCP&L's last case. The actual GPE
13 consolidated capital structure as of August 31, 2014 is comprised of 50.24% common
14 equity. KCP&L witness Robert Hevert presents in his Direct Testimony his cost of
15 capital study results and recommendations in support of the Company's requested capital
16 structure.

17 **Q: Has the Company taken any steps to reduce the weighted average cost of capital?**

18 A: Yes. Although we are asking for an increase in our ROE from 9.7% to 10.3%, the
19 weighted average cost of capital that we are requesting to recover from customers in this
20 case is lower than the weighted average cost of capital approved in our last rate case
21 (Case No. ER-2012-0174). The weighted average cost of capital has decreased due to
22 having more debt and less equity in the capital structure and the cost of debt going down

1 to 5.555% from 6.425% in the last case. The Company has worked to reduce the
2 weighted average cost of capital, and customers receive the benefit of that reduction.

3 **Q: Is this impact of an equity ratio close to 50% and the Company's efforts to reduce**
4 **the weighted average cost of capital evidenced in the requested rate of return**
5 **("ROR")?**

6 A: Yes, the authorized ROR in the last case was 8.12%, while the request in this case is
7 7.94%. This means that the cost of capital is not a driver for the rate increase we are
8 requesting but rather helps to mitigate the increase.

9 MAJOR CASE DRIVERS

10 **Q: What are the major drivers underlying KCP&L's proposed rate increase?**

11 A: There are four primary drivers underlying this rate increase request.

12 First, KCP&L is completing a significant capital expenditure on environmental
13 controls at La Cygne ("La Cygne Environmental Project"), near La Cygne, Kansas. The
14 La Cygne Environmental Project, which will have been ongoing for more than four years
15 when it goes in-service as scheduled before June 1, 2015 is necessary to meet
16 governmentally-mandated environmental standards as described in the Direct Testimony
17 of Company witness Paul Ling. Although KCP&L has incurred substantial costs on the
18 La Cygne Environmental Project for several years, under Missouri law such costs cannot
19 be included in rates until the plant is fully operational and used for service so the
20 Company has not yet begun to recover such costs from customers. The Company is
21 seeking to recover the cost of this project in this case.

22 Second, the Company has also made significant infrastructure investments in its
23 works and systems to ensure the reliability, security, and service customers require and

1 expect. Many of these investments are technology and systems driven. The Company is
2 investing in its systems to maintain high levels of customer service and reliability as
3 evidenced by current and contemplated upgrades to the customer information and billing
4 system, Distribution and Outage Management System, and Energy Management System;
5 and installation of the next generation of automated metering and a Meter Data
6 Management system. Participation in SPP's Day 2 market necessitated technology
7 investments. While electricity is still delivered via poles and wires much as it has been
8 for decades, the service customers expect has become in large part a function of
9 technology, requiring significant investments in both new systems and
10 upgrades/maintenance of existing systems. KCP&L is seeking recovery of technology
11 and systems infrastructure expenditures necessary to maintain and ensure reliability,
12 security, and high levels of customer service.

13 In addition to these technology investments, infrastructure investments at Wolf
14 Creek will include three major modifications to the Essential Service Water system
15 during the 2015 spring refueling outage. The Essential Service Water system pumps lake
16 water into the plant and would ultimately cool the plant, the spent fuel pool and the
17 reactor in the event of an accident. Its operation would be critical to prevent a Fukushima
18 type of event. Because the Essential Service Water system is filled with lake water, there
19 is a large amount of corrosion on the original piping. These modifications are the next
20 portions of replacement for this aging, original plant system. The original exterior piping
21 of the Essential Service Water system has been replaced and was completed in the 2014
22 mid-cycle outage. The details of the Wolf Creek Essential Service Water modifications
23 are more fully discussed in the Direct Testimony of KCP&L witness Scott Heidtbrink.

1 This work is necessary to ensure the continued safe and reliable operation of the Wolf
2 Creek Nuclear Generating Station. The Company is seeking recovery of these critical
3 and necessary infrastructure investments.

4 Lastly, KCP&L is seeking recovery of costs—in large part mandatory costs—
5 imposed on the Company, which are largely uncontrollable. KCP&L has experienced
6 increased fuel and purchased power costs (more than offset by increases in off-system
7 sales margins), SPP-billed transmission costs, property tax costs, and Renewable Energy
8 Standard (“RES”) costs. These largely uncontrollable increased costs, in conjunction
9 with revenues that have decreased since rates were last set, have resulted in the
10 Company’s inability to earn its Commission-authorized ROE. In addition to resetting
11 these cost of service items in this case, KCP&L is requesting an FAC which includes
12 transmission costs charged by SPP, a property tax tracker, a CIP/cybersecurity tracker,
13 and a Vegetation Management tracker in this case to mitigate prospectively the resulting
14 regulatory lag associated with these rising and largely unmanageable costs.

15 **LA CYGNE ENVIRONMENTAL PROJECT INCLUDING CONSTRUCTION**
16 **ACCOUNTING**

17 **Q: Please describe the work the Company is completing at La Cygne.**

18 A: KCP&L is completing a significant capital expenditure on environmental controls at
19 La Cygne. The La Cygne Environmental Project includes a dual flue chimney for both
20 La Cygne 1 and La Cygne 2 and the following major additions by unit:

21 La Cygne 1:

- 22 • Flue Gas Desulfurization (scrubber) replacement primarily for SO₂
23 control.
- 24 • Pulse Jet Fabric Filter (baghouse) addition for particulate matter control.

1 • Activated carbon injection for mercury control.

2 La Cygne 2:

3 • Selective Catalytic Reduction system addition for NO_x control.

4 • Flue Gas Desulfurization (scrubber) addition primarily for SO₂ control.

5 • Pulse Jet Fabric Filter (baghouse) addition for particulate matter control.

6 • Activated carbon injection for mercury control.

7 • Low-nitrogen oxide (low NO_x) burners.

8 • Over-fire air system.

9 This equipment is required to be installed pursuant to the Kansas Regional Haze Rule and
10 the executed Regional Haze Agreement that KCP&L executed at the request of the
11 Kansas Department of Health and Environment. The Mercury and Air Toxics Rule and
12 the Cross-State Air Pollution Rule also require the installation of the emission control
13 equipment. In addition, there are various expected actions by the EPA of the designation
14 and pending recommendations of National Ambient Air Quality Standards non-
15 attainment of the Kansas City area, that will require the installation of some or all of the
16 emission control equipment in the near future in addition to the final rules listed above.
17 Additional information on the need for these environmental upgrades can be found in the
18 Direct Testimony of Company witness Paul Ling. The Project is on schedule and it is
19 currently expected that the cost of the La Cygne Environmental Project will be at or
20 below \$1.23 billion, which is the Definitive Cost Estimate. As KCP&L owns 50% of La
21 Cygne, the Company is responsible for 50% of that cost.

1 **Q: Does the Company have any requests outstanding with this Commission regarding**
2 **the La Cygne Environmental Project?**

3 A: Yes, on June 12, 2014, in Case No. EU-2014-0255, the Company filed an application,
4 seeking an order that would allow KCP&L to treat the La Cygne Environmental Project
5 under “Construction Accounting”. Construction Accounting would provide for the use of
6 a regulatory asset for the deferral of Missouri jurisdictional carrying costs calculated on
7 the La Cygne plant addition, as well as the Missouri jurisdiction monthly depreciation
8 expense on the La Cygne Environmental Project from the date the La Cygne plant
9 addition is placed in-service until the date rates become effective in the Company’s next
10 general rate case.

11 **Q: Has the Commission ruled on KCP&L’s application at this time?**

12 A: No, it has not, although I expect the Commission will address KCP&L’s request for
13 Construction Accounting in that docket.

14 **REGULATORY MECHANISMS NECESSARY FOR KCP&L TO HAVE A REALISTIC**
15 **OPPORTUNITY TO ACHIEVE ITS AUTHORIZED RETURN**

16 **Q: Do you believe that when rates were last set for KCP&L in early 2013 that KCP&L**
17 **had a realistic opportunity to achieve its Commission-authorized return?**

18 A: No. As discussed earlier in this testimony, KCP&L’s earnings performance in 2013 fell
19 well short of its Commission-authorized return. KCP&L’s 2013 earnings performance
20 also fell well short of the 2013 earnings performance of GMO and KCP&L’s Kansas
21 operations both of which had the ability to make use of certain regulatory mechanisms to
22 better match revenues to costs that were not available to KCP&L-MO in 2013. It is clear
23 to me, therefore, that in the absence of additional regulatory mechanisms that are able to
24 more closely match KCP&L-MO’s revenues to its costs, KCP&L-MO will continue to

1 have no realistic opportunity to achieve its Commission-authorized return on a going
2 forward basis.

3 **Q: What regulatory mechanisms does KCP&L believe are necessary to provide it with**
4 **a realistic opportunity to achieve its Commission-authorized return?**

5 A: To have a realistic opportunity to achieve its Commission-authorized return, KCP&L-
6 MO needs the ability to use: 1) an FAC which includes recovery of SPP-billed
7 transmission costs and addresses volatility in off-system sales margins; 2) a property tax
8 tracker; 3) a tracker for costs associated with CIP and Cybersecurity; and 4) a tracker for
9 Vegetation Management costs. I will discuss each of these mechanisms in more detail
10 below. In addition, Company witness Tim Rush discusses these mechanisms in more
11 detail in his Direct Testimony.

12 **FUEL ADJUSTMENT CLAUSE**

13 **Q: Does the Company currently have an approved FAC?**

14 A: No, the Company does not, and is asking the Commission to approve an FAC in this
15 filing.

16 **Q: Please explain why the Company does not have an FAC, while the other Missouri**
17 **utilities all have FAC's in place?**

18 A: In 2005, in Case No. EO-2005-0329 *In the Matter of a Proposed Experimental*
19 *Regulatory Plan of Kansas City Power & Light Company* (referred to as the
20 “Comprehensive Energy Plan” or “CEP”), the Company entered into a Stipulation and
21 Agreement (“S&A”) with a number of the parties to that case. That S&A included a
22 provision that the Company would not seek to utilize an FAC or single issue ratemaking
23 prior to June 1, 2015. In this case, the Company is seeking to utilize an FAC effective

1 with new Commission authorized rates, well after June 1, 2015 and expected to about be
2 September 30, 2015.

3 **Q: Absent that agreement, would the Company have requested an FAC in a previous**
4 **case?**

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

15 **Q: How is this different from any other cost increases that the Company experiences?**

16 A: To a large extent, the cost of fuel, purchased power, and transmission are not manageable
17 simply because they are necessary, prices are generally established in competitive
18 markets and the Company has limited options to secure these resources. While the
19 Company works to keep these costs down by using prudent purchasing and planning
20 practices, the Company is obligated to serve electricity to those customers in its service
21 territory requiring it, when and where they require it. Power plants simply will not run
22 without fuel, and power cannot be moved without transmission. Even though the
23 Company's last rate increase was effective January 26, 2013, in 2013 KCP&L-MO

1 operations experienced increases over the amount in rates in fuel and purchased power
2 costs of nearly \$14 million and transmission costs increased just under \$7 million. These
3 costs were not included in the rates that went into effect in January 2013 and additional
4 increases are expected in both 2014 and 2015. The Company is seeking Commission
5 approval of an FAC in this case to address continuing uncertainty and volatility in fuel,
6 purchased power (offset by off-system sales) and transmission costs expected in coming
7 years. Adoption of an FAC to be implemented and utilized by KCP&L as a result of this
8 case is essential for the Company to have a realistic opportunity to achieve its
9 Commission-authorized return. An FAC will also protect KCP&L's customers from
10 over-paying on fuel costs actually experienced by the Company in the event of fuel cost
11 reductions in the future, and provide customers the benefit of off-system sales in the
12 event of higher off-system sales. KCP&L witness Tim Rush discusses the need for and
13 the specific mechanism sought by the Company in his Direct Testimony.

14 **TRANSMISSION EXPENSES**

15 **Q: Your testimony regarding the FAC includes discussion of transmission costs. What**
16 **is the Company's proposal regarding the recovery of transmission costs?**

17 **A:** The Company is requesting an FAC mechanism that includes the recovery of
18 transmission costs, specifically the transmission costs associated with the charges and
19 revenues from Southwest Power Pool ("SPP") billings and transmission costs to buy and
20 sell energy. This will provide for a direct link between transmission associated with the
21 sale and purchase of energy and ensure appropriate recovery of transmission costs billed
22 by SPP. Transmission costs incurred for the operation of KCP&L will not be included in
23 the FAC, but will be recovered through base rates.

1 **Q: Why is it important that the FAC mechanism includes recovery of these**
2 **transmission costs?**

3 A: Transmission costs can vary significantly from year-to-year, and such costs are a material
4 operating cost to the Company's overall cost of service. These transmission costs are
5 primarily out of the Company's control and currently escalating on an annual basis.
6 Historically, transmission costs have fluctuated due to load variations, both native and
7 off-system. But what makes the current environment of transmission costs extraordinary
8 in nature is that currently the SPP's regional transmission upgrade projects are being
9 planned, constructed and billed to SPP members in order to expand and enhance the
10 ability of the SPP transmission footprint. In addition, the associated SPP administrative
11 fees are increasing contributing to KCP&L's transmission costs extraordinarily rising
12 over historical norms. SPP's regional transmission plan provides for regional
13 transmission expansion and a detailed list of projects in order to achieve the plan. SPP
14 employs a cost allocation methodology to provide fair and equitable sharing of costs for
15 base-plan transmission additions across its regional territory. Transmission costs are
16 directly linked to the Company's fuel and purchased power requirements, particularly
17 because of the new Day 2 market established at the SPP. As members of SPP, KCP&L is
18 required to pay for service set out in the SPP tariff. While there are a variety of charges
19 resulting from that tariff, KCP&L cannot pick and choose which services it will pay for.
20 Even though they exist as distinct schedules, they are required charges and as members of
21 SPP KCP&L must pay them to serve load. It is appropriate they be recovered in a similar
22 manner as fuel and purchased power costs and is consistent with the current treatment of
23 transmission costs at AmerenUE Missouri as ordered in Case No. ER-2012-0166.

1 **Q: How does the Company exert influence through participation in the SPP**
2 **stakeholder process?**

3 A: KCP&L is not the ultimate decision-maker with regard to SPP transmission costs that are
4 allocated to the Company. SPP's independent Board of Directors retains the authority to
5 decide which transmission projects are undertaken for construction. In addition, the
6 Regional State Committee determines the manner in which the costs of those projects are
7 allocated to transmission customers, subject to approval by the FERC. However,
8 KCP&L exercises a degree of influence on such decisions through its participation in the
9 SPP stakeholder process. KCP&L has voting membership on a number of SPP
10 stakeholder committees including the Members Committee, the Markets and Operations
11 Policy Committee ("MOPC"), the Market Working Group, the Transmission Working
12 Group, and the Regional Tariff Working Group, among others. In addition, KCP&L has
13 personnel who participate in discussions of other stakeholder groups in which they do not
14 have voting membership. Due to the independence of the SPP Board and Regional State
15 Committee, the decisions of the stakeholder committees and working groups are not
16 binding. However, as a result of the subject matter expertise and focus of these
17 stakeholder groups, their decisions and recommendations carry substantial weight in the
18 formulation of final decisions by SPP. This is particularly true of the MOPC, which is a
19 large committee in which all SPP members have representation and to which most of the
20 stakeholder committees report. The MOPC's recommendations are taken up by the SPP
21 Board and are approved by the Board in most cases. In addition, KCP&L personnel
22 participate in stakeholder review of SPP planning activities and cost-benefit analyses and
23 provide both input and feedback to improve the studies and the resulting decision-making

1 processes. Although KCP&L does not have final decisional authority in SPP, it actively
2 exercises its influence and voting rights through the SPP stakeholder process as described
3 above.

4 **Q: How was transmission cost reflected in KCP&L's last general rate case?**

5 A: In the last rate case, Case No. ER-2012-0174, the Company requested a transmission
6 tracker mechanism. The Commission did not approve the request. Subsequently in Case
7 No. EU-2014-0077, the Company filed an application for an Accounting Authority Order
8 to track the increases in transmission costs since that case. The Commission denied the
9 application, but indicated that the Company could ask for inclusion through the FAC in
10 the Company's next rate case. Including transmission costs in KCP&L's FAC to be
11 implemented and utilized by KCP&L as a result of this case is essential for the Company
12 to have any realistic opportunity to achieve its Commission-authorized return.
13 Additionally, to the extent that transmission costs decline in the future, adoption of an
14 FAC including transmission costs will protect KCP&L customers from overpaying for
15 transmission costs in the event they decline in the future. KCP&L witness Tim Rush
16 supports the FAC mechanism request and the inclusion of transmission costs in the FAC
17 in his Direct Testimony.

18 **PROPERTY TAX TRACKER**

19 **Q: Is the Company proposing a property tax tracker?**

20 A: Yes. The Company requests that a property tax tracking mechanism be authorized in this
21 case to ensure the appropriate recovery of rising property tax expenses. Without such a
22 mechanism, the Company expects to continue incurring significant regulatory lag due to

1 increasing property taxes, which in turn impacts the Company's ability to earn returns
2 reasonably close to returns authorized by this Commission.

3 **Q: Why is a tracker appropriate for KCP&L's property tax expenses?**

4 A: Property tax expenses have been escalating over the past five years as described more
5 fully by Company witness Ronald Klote. Property taxes are determined by Missouri state
6 assessors, are a significant component of the Company's cost of service, and amounts
7 assessed are out of the control of the Company to manage. Cost of service components,
8 such as property taxes, that are out of Company management's control to contain or
9 manage, are significant contributors to regulatory lag, and impact the Company's ability
10 to earn returns reasonably close to returns allowed by this Commission while also
11 protecting customers from overpaying for property taxes in the event the Company
12 experiences declining property tax levels in the future. Property taxes, like pension costs,
13 are costs best addressed through regulatory mechanisms such as riders and trackers.
14 KCP&L witness Tim Rush describes the property tax tracker mechanism request in his
15 Direct Testimony.

16 **CRITICAL INFRASTRUCTURE PROTECTION STANDARDS AND**
17 **CYBERSECURITY TRACKER**

18 **Q: What are CIPS and what is the importance of CIP in this case?**

19 A: As background, in 2007, the Federal Energy Regulatory Commission ("FERC")
20 designated the North American Electric Reliability Corporation ("NERC") the Electric
21 Reliability Organization in accordance with Section 215 of the Federal Power Act,
22 enacted by the Energy Policy Act of 2005. Upon FERC's approval, NERC's Reliability
23 Standards became mandatory within the United States. These mandatory Reliability
24 Standards include CIPS, which address the security of cyber assets essential to the

1 reliable operation of the electric grid. To date, these standards (and those promulgated by
2 the Nuclear Regulatory Commission) are the only mandatory cybersecurity standards in
3 place across the critical infrastructures of the United States. Subject to FERC oversight,
4 NERC and its Regional Entity partners enforce these standards. The Company is subject
5 to these reliability standards which include the CIPS.

6 **Q: What is “CIP Version 5”?**

7 A: CIPS represent the portion of the full NERC reliability standards library focused on
8 security of the infrastructure supporting reliable operation of the Bulk Electric System
9 (“BES”). Due to the fluid nature of security threats to critical infrastructure, the
10 standards have continued to evolve to strengthen the industry’s approach in response to
11 those threats. These responses are compliance obligations as well as additional protective
12 measures that may not be mandated. Version 5 (“V5”) of CIPS includes ten new or
13 modified Reliability Standards, which expand the scope of the cyber systems that the
14 current standards protect, as well as strengthen protections required for assets that are
15 currently in scope. Under V5, all cyber systems impacting the BES will be subject to
16 CIPS.

17 **Q: What is the effective date of CIP V5?**

18 A: The standard is effective April 1, 2016.

19 **Q: What is the Company requesting regarding CIP and cybersecurity in this case?**

20 A: Security is a top priority for the Company. KCP&L is committed to and required to
21 comply with the standards set out in CIP V5. The standards to be implemented in 2016
22 are much more aggressive in broader coverage of the Company’s assets and systems
23 supporting the BES. These cyber systems, as they are referenced in the V5, will require

1 additional actions as well as resources for both physical and logical protection in support
2 of reliability of the BES. CIPS represent only a portion of Company efforts around
3 strengthening physical and cyber security in protection of the Company's assets. This
4 protection is necessary to ensure KCP&L is positioned to provide services to customers
5 reliably given the emerging threats to the United States and her infrastructure. The cost
6 to comply is undetermined, but will be substantial. The Company has already committed
7 significant resources toward compliance. Going forward, those efforts and resources will
8 be increasing. The Company is asking the Commission to authorize it to establish a
9 tracker for these costs. The amounts above those costs that will be included in base rates
10 will be tracked for recovery consideration in a future rate case. KCP&L witness Tim
11 Rush describes the CIPS/cybersecurity tracker mechanism request in his Direct
12 Testimony.

13 **VEGETATION MANAGEMENT TRACKER**

14 **Q: Please describe the Company's request for a VM tracker.**

15 A: The Company complies with the Commission's VM rules under 4 CSR 240-23.030 and
16 the National Electric Safety Code Vegetation Management Section 218 (2007), and
17 believes VM mitigates service interruptions and reduces potentially dangerous
18 conditions, like downed power lines. In addition to compliance, the Company
19 continually evaluates its VM practices and strives to improve them to reduce risk and
20 enhance reliability for our customers. The rate increase in this case includes the cost to
21 implement three new VM initiatives during the fourth quarter of 2015. They are
22 1) Emerald Ash Borer mitigation efforts, 2) Triplex circuit tree trimming, and 3) urban
23 and rural trim cycle alignment. James "Jamie" Kiely is the Company's Director,

1 Resource Management, and is responsible for VM. He provides detailed information
2 regarding each of these enhancements in his Direct Testimony.

3 **Q: If the cost of these programs is included in this request, why is the Company**
4 **requesting a tracker for VM costs?**

5 A: KCP&L operates its VM program to achieve the best reliability possible across all of its
6 jurisdictions. Each jurisdiction is unique in its composition of rural versus urban circuits,
7 tree population, tree species, tree growth rates, and circuit condition. Weather can and
8 does impact each jurisdiction differently. It is not uncommon to experience heavy rain,
9 storms, ice, snow, wind, heat or cold in one area of the combined territory but not all
10 areas. Because of this variability it is sometimes necessary to concentrate VM efforts in a
11 certain jurisdiction in a given year, and less so in the following year. This makes the cost
12 of VM by jurisdiction volatile year-over-year. KCP&L-MO is requesting a tracker for
13 VM in order to maximize the benefit of each dollar spent, and to ensure all of our
14 customers are not over- or under-charged for VM efforts. The Company intends to
15 request a VM tracker in all of its electric jurisdictions for just this reason. Company
16 witness Tim Rush describes the tracker mechanism in his Direct Testimony.

17 **RENEWABLE ENERGY STANDARD**

18 **Q: Earlier in your testimony you mentioned costs incurred by the Company to meet**
19 **Missouri's RES as one of the drivers of this rate case. Can you describe the**
20 **Company's actions taken to comply with Missouri's RES statute?**

21 A: The Company has complied with the mandates set out in the statute and has incurred
22 significant costs to do so. The statute establishes renewable energy standards for
23 Missouri investor owned electric utilities. Those standards require utilities to provide

1 electricity from renewable energy resources either through generation or the purchase of
2 renewable energy credits, and provide solar rebates to customers who install solar
3 systems. KCP&L meets the requirement to provide electricity from renewable energy
4 resources primarily with wind. KCP&L has wind resources at its Spearville wind
5 generating station and the cost of that wind generation was incorporated into rates at the
6 conclusion of Case No. ER-2006-0314 on January 1, 2007. Since that time, KCP&L has
7 entered into purchased power agreements (“PPAs”) for additional wind resources.

8 **Q: Does the Company’s request for the recovery of RES costs include the cost of these**
9 **wind PPAs?**

10 A: No, it does not. As PPAs, the costs associated with that wind generation will be
11 recovered as a function of the FAC requested in this case, and are not included in the
12 Company’s recovery request specific to the RES.

13 **Q: What are the RES costs the Company is seeking recovery of?**

14 A: The request is primarily for the recovery of rebates paid to customers who installed solar
15 systems.

16 **Q: How are you proposing to recover the cost of the required solar rebates paid to**
17 **customers who installed solar systems?**

18 A: As described in the Direct Testimonies of Company witnesses Ronald Klote and Tim
19 Rush, KCP&L has been accumulating and deferring the solar rebate costs by vintage
20 consistent with the *Second Non-Unanimous Stipulation and Agreement As To Certain*
21 *Issues* in Case No. ER-2012-0174 by vintage. An annual amortization of these costs was
22 calculated and included in the revenue requirement for this case. Consistent with the

1 RES, the Company limited the total amount of annual amortization of RES costs to 1% of
2 retail revenues from KCP&L's previous rate case.

3 RATE HISTORY

4 **Q: When did the Company last increase rates?**

5 A: The Company implemented new rates as ordered in its last rate case (Case No. ER-2012-
6 0174) on January 26, 2013.

7 **Q: Haven't KCP&L-MO rates been steadily increasing?**

8 A: Yes. Including the 2013 increase, the Company's Missouri rates have increased five
9 times since 2007. Four of those five increases were associated with the Company's CEP
10 which included the construction of Iatan 2, environmental upgrades for Iatan 1 and
11 La Cygne 1, Spearville wind, demand-side management and asset management
12 initiatives, as discussed in the Direct Testimony of Company witness Scott Heidtbrink.

13 **Q: What has the impact been on customer rates?**

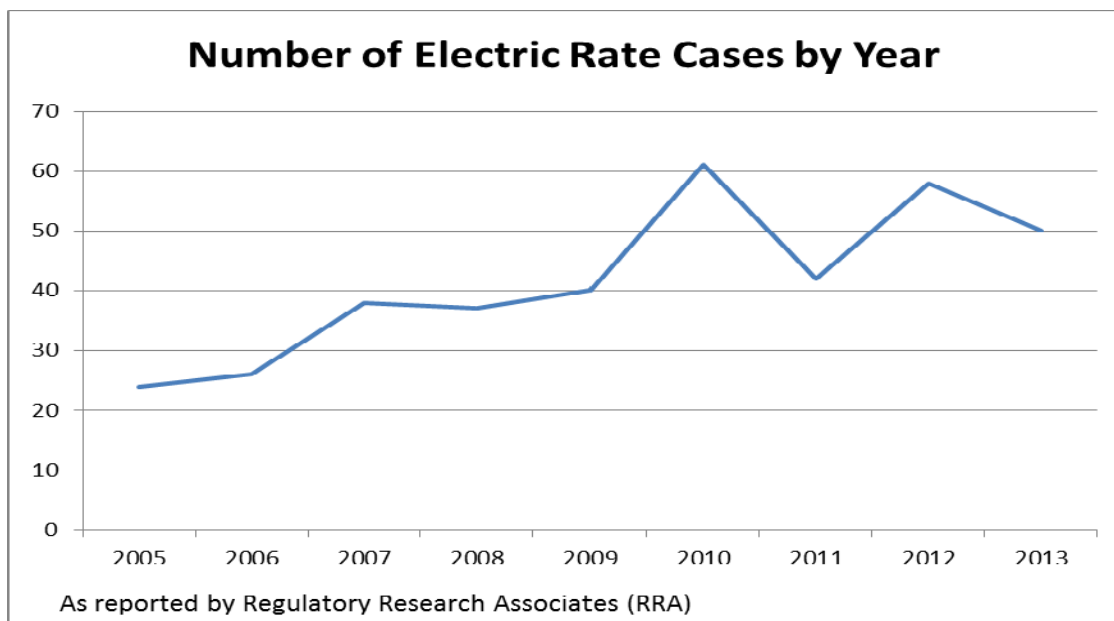
14 A: In 2005, the Company's Missouri rates were 31.27% below the national average and
15 8.43% below the region. Today, the Company's Missouri average rates are 15.33%
16 below the national average and 2.57% above the region. The table below compares
17 KCP&L-MO's 2013 rates to those of other investor-owned electric utilities in the state of
18 Missouri, the region and the nation.

2013 Average Cents per kWh¹

<u>Utility</u>	<u>Total Retail</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
KCPL - MO	8.78	10.82	8.37	6.46
AmerenUE - MO	8.12	10.11	7.81	5.45
KCP&L GMO - MPS	9.51	11.17	8.57	6.40
KCP&L GMO - SJL&P	9.10	10.81	9.12	6.96
EDE - MO	10.65	11.90	10.58	8.07
Average of 5 Utilities	9.23	10.96	8.89	6.67
Regional Avg.	8.56	10.82	8.60	6.10
National Avg.	10.37	12.43	10.52	6.91

1 **Q: What should the Commission conclude from this rate history?**

2 A: KCP&L-MO rates are not outliers today. According to SNL Energy affiliate Regulatory
 3 Research Associates in the United States during 2005, 24 electric rate case proceedings
 4 were pending. In 2013 that number was 50.



5 On July 7, 2014, SNL Energy issued a special report entitled *Average Regulated Retail*
 6 *Price of Electricity: 2013 & Comparative Historical Data:*

¹ Edison Electric Institute, Typical Bills and Average Rates Report Winter 2014 at 179, 181, 196, 212, 213, 228,

1 In 2013, the average price/kwh to ultimate customers rose 3.3% to 10.41¢.
2 When adjusted for inflation, ultimate rates increased 1.9%, making 2013
3 the first year since 2009 that the rate of change in electric prices exceeded
4 inflation. Over the last decade real prices have risen by 13.2%. One of
5 the driving forces behind this upward trend has been the robust level of
6 rate case activity, spurred by rising capital expenditures to meet more
7 stringent environmental standards, address reliability and congestion
8 issues, and deploy innovative grid and metering technologies. Increased
9 operating expenses, which have included rising employee healthcare and
10 post-employment-benefit costs, have also been a major factor in recent
11 rate cases. Over the years 2009 through 2012, many companies focused
12 on limiting the magnitude of rate increases owing to the weakened
13 recessionary economy. Upward pressure on customer rates was also
14 considerably mitigated by the precipitous decline in market based power
15 prices largely attributable to lower gas prices that resulted from the rapid
16 proliferation of shale-gas production, as well as declining interest rates
17 and the resultant drop in authorized equity returns. We note that the recent
18 rise in forward power-looking power prices in some regions point toward
19 higher commodity prices on the horizon. This factor, in combination with
20 expectations for continued robust levels of new infrastructure spending
21 throughout the industry suggests higher retail prices in the future.²

22 **Q: What region of the United States was the focus of this *Special Report*?**

23 A: The report covered the entire United States, and all of the major investor-owned electric
24 utilities.

25 **Q: Does this reported view reflecting activities of all major investor-owned electric
26 utilities in the United States resonate with KCP&L's experience?**

27 A: Yes. The report could have been covering only KCP&L and it would have been nearly
28 the same. The driving forces behind the upward trend in KCP&L's retail rates "...has
29 been the robust level of rate case activity, spurred by rising capital expenditures to meet
30 more stringent environmental standards, address reliability and congestion issues, and
31 deploy innovative grid and metering technologies. Increased operating expenses, which
32 have included rising employee healthcare and post-employment-benefit costs have also

245, 246, 261, 278, 279, 294 (2014).

1 Star, it costs customers about \$0.19³ a day for electricity to keep their food cold and
2 about \$0.08⁴ a day to run the dishwasher. The cost of the electricity to wash and dry
3 clothing is about \$0.23 a day⁵. A recent internet search on Dish TV indicated service
4 availability for \$19.99 per month.⁶ The cost of the electricity to run a 40-inch LED
5 television for a month is about \$0.94⁷. When compared to other expenditures, both in
6 terms of magnitude and impact, electricity remains an excellent value.

7 **Q: Has KCP&L taken steps to control costs during the test year for this case?**

8 A: Yes, as described in the Direct Testimony of Scott Heidtbrink, KCP&L has undertaken
9 significant cost control efforts including the supply transformation project, benchmarking
10 initiatives in the generation, delivery and supply chain areas, and disciplined management
11 of employee headcount. The Company's cost control efforts have enabled it to reduce its
12 (total Great Plains Energy) controllable non-fuel operation and maintenance expenses by
13 approximately \$2.6 million from 2011 to 2013, for a rate of *decrease* of approximately

³ Energy Star rated 22.2 cu ft refrigerator using 606 kwh/year at KCP&L's average residential general service rate of \$0.115/kwh. Energy Star, *Energy Star Certified Residential Refrigerators* (Sept. 24, 2014), <http://www.energystar.gov/productfinder/product/certified-residential-refrigerators/details/2214696>.

⁴ Energy Star rated dishwasher using 260 kwh/year at KCP&L's average residential general service rate of \$0.115/kwh. Energy Star, *Energy Star Certified Residential Dishwashers* (Sept. 24, 2014), <http://www.energystar.gov/productfinder/product/certified-residential-dishwashers/details/2204486>.

⁵ Energy Star rated clothes washer using 146 kwh/year and clothes dryer using 608 kwh/year at KCP&L's average general service residential rate of \$0.115/kwh. Energy Star, *Energy Star Certified Residential Clothes Dryers* (Sept. 24, 2014), <http://www.energystar.gov/productfinder/product/certified-clothes-dryers/details/2216912>. Energy Star, *Energy Star Certified Residential Clothes Washers* (Sept. 24, 2014), http://www.energystar.gov/productfinder/product/certified-clothes-washers/results?scrollTo=0&search_text=MHW7100D&sort_by=modified_energy_factor_mef&sort_direction=desc&load_configuration_filter=&brand_name_isopen=0&markets_filter=United+States&page_number=1&lastpage=0&brand_name_filter=Maytag.

⁶ Dish Network, L.L.C. (Sept. 24, 2014), [http://www.dish.com/redirects/promotion/offer50/?WT.srch=1&KBID=8887808958&WT.mc_id=BSBNPCPDTVB_5549&utm_medium=CPC&utm_source=\[*EngineAccountType*\]&utm_campaign=\[*Campaign*\]&utm_content=\[*searchterm*\]](http://www.dish.com/redirects/promotion/offer50/?WT.srch=1&KBID=8887808958&WT.mc_id=BSBNPCPDTVB_5549&utm_medium=CPC&utm_source=[*EngineAccountType*]&utm_campaign=[*Campaign*]&utm_content=[*searchterm*]).

⁷ Energy Star rated 40 inch LED TV using 97.9 kwh/year at KCP&L's average general service residential rate of \$0.115/kwh. Energy Star, *Energy Star Certified Televisions* (Sept. 24, 2014), <http://www.energystar.gov/productfinder/product/certified-televisions/details/2209264>.

1 (0.21%) per year, during a time when inflation in the overall economy increased by
2 1.68% per year and wages paid to employees have increased as well.

3 **RATE DESIGN**

4 **Q: What is the Company's rate design proposal?**

5 A: First, The Company is proposing to apply its 15.75% rate increase request to each
6 customer class on its pro rata share. In other words, each customer class in total would
7 receive the 15.75% increase. At the customer class level, the Company's rate design
8 proposal varies between the Residential classes and the Commercial and Industrial
9 classes. The Residential proposal incorporates an alignment of fixed costs recovery with
10 fixed charges. That alignment results in an increase to the customer charge to \$25 per
11 month from \$9 per month. The proposed Commercial and Industrial rate design reflects
12 the requested average increase applied to all rate components, resulting in no significant
13 change to the Commercial and Industrial rate design. The Company's rate design
14 proposal is addressed in the Direct Testimony of KCP&L witness Tim Rush.

15 **Q: Can you briefly summarize KCP&L's requests in this case?**

16 A: Yes. Through this rate case filing, KCP&L requests that the Commission:

- 17 a. Approve the proposed rate schedules and tariffs for electric service, and order that
18 they become effective as proposed;
- 19 b. Approve the FAC proposed by KCP&L;
- 20 c. Approve the trackers proposed by KCP&L for property taxes, vegetation
21 management costs and CIP/Cybersecurity efforts;
- 22 d. Approve continued use by KCP&L of the Pension/OPEB tracker approved by the
23 Commission in Case No. ER-2012-0174;

1 e. Approve discontinuation of KCP&L's use of the Iatan 2 and Common tracker
2 approved by the Commission in Case No. ER-2012-0174; and

3 f. Approve KCP&L's use of revised depreciation rates as set forth in the Direct
4 Testimony of KCP&L witness John Spanos.

5 **Q: Does that conclude your testimony?**

6 **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-2014-0370
A General Rate Increase for Electric Service)

AFFIDAVIT OF DARRIN R. IVES


STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President – Regulatory Affairs.

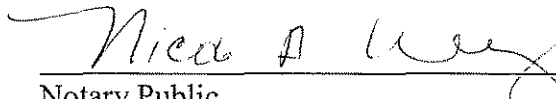
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company consisting of thirty-eight (38) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



Darrin R. Ives

Subscribed and sworn before me this 30th day of October, 2014.



Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY Notary Public - Notary Seal State of Missouri Commissioned for Jackson County My Commission Expires: February 04, 2015 Commission Number: 11391200
