Exhibit No.:	
Issue:	Regulatory Lag; Property Tax Tracker; RES Tracker; Transmission Tracker; ORVS; DFITS
Witness:	Darrin R. Ives
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2012-0174
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
October 2012

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2012-0174

Q: Please state your name and business address.

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

Q: Are you the same Darrin R. Ives who pre-filed Direct and Rebuttal Testimony in this matter?

A: Yes, I am.

Q: What is the purpose of your Surrebuttal Testimony?

A: I will rebut the testimony of various Staff witnesses on the following issues:

- Regulatory lag
- Property Tax Tracker
- Renewable Energy Standards Tracker
- Transmission Tracker
- Organizational Realignment and Voluntary Separation ("ORVS") Program
- Distribution Field Intelligence and Tech Support ("DFITS")

REGULATORY LAG

Q: Do you agree with Mr. Hyneman's discussion on regulatory lag that he begins on page 2 of his Rebuttal Testimony?

A: I agree that regulatory lag is normal and recurring in the ratemaking process and that regulatory lag can be both positive and negative when looked at from either the vantage

point of the ratepayer or of Kansas City Power & Light Company ("KCP&L" or the "Company"). I also agree that the Commission has statutorily provided for or otherwise authorized certain mitigation processes such as fuel adjustment clauses, interim energy charges and pension and other trackers. However, there are many elements of his testimony with which I do not agree. I have addressed these below. I particularly disagree with his contention that the Company's commitment to controlling all costs to the greatest extent possible is reduced by the existence of such mitigating measures.

Q: What was your overall impression based on reading Mr. Hyneman's Rebuttal Testimony?

A: Mr. Hyneman spends a lot of time discussing the regulatory lag issue, covering pages 2 through 19 of his testimony. His overall message seems to be that regulatory lag that benefits the customers is a good thing, while at the same time attempts to mitigate regulatory lag could result in distortion and manipulation of the natural regulatory process.

Q: On page 4 and 5 of his Rebuttal Testimony, Mr. Hyneman indicates that "Once the revenue requirement is ordered and rates are set, a long list of variables come into play that will affect a utility's ability to earn at the authorized level established by the Commission." He continues

> **One example is when a utility is not engaged in a large amount of construction and adding a large amount of new plant additions to its rate base. During this period, due to rate recovery of its plant investment through depreciation expense and the resulting increases in depreciation reserve, shareholder investment in regulated rate base is constantly declining. However, its overall rate of return is based on the higher dollar amount rate base that was set in the previous rate case. This regulatory lag results in the utility's investors recovering more of a financial return on the rate base in rates than was determined reasonable and set in rates in the previous case.**

Do you agree with his contention?

A: I would agree with Mr. Hyneman only if the utility was incurring no new construction costs. However, this is never the case. Even absent major new capital programs such building a new generating plant or a significant retrofit, utilities such as KCP&L are constantly incurring construction costs for capital replacements. Generally, when one unit of property is replaced with a new unit of property, the cost of the new addition greatly exceeds the cost of the retired unit. The retirement of the prior plant actually has no impact on rate base in total because the retired plant is removed from both the Plant in Service accounts and the Reserve for Depreciation accounts at the same amount. Because of these capital replacements, the additions to plant in service generally equal or exceed the amount by which rate base is decreasing due to the provision for depreciation expense and associated increases in the depreciation reserve. Schedule DRI-6 shows the relationship of plant additions to the provision for depreciation for 2001 through 2005, the five years prior to the significant construction activities initiated under the Regulatory Plan. Consequently, I disagree that the Company benefits from regulatory lag due to declining rate base.

Q: Mr. Hyneman continues by saying that

> **But the normal operation of regulatory lag can provide a counterbalance to the impact of rising fuel costs through offsetting changes in other revenue requirement factors. For example, revenue levels are set at a fixed level in the rate case, but increasing revenues due to an increase in the number of customers or increases in usage per customer can compensate, and sometimes more than compensate, for any increase in fuel costs.**

Do you agree with this contention?

A: While customer growth and increasing off-system sales revenues helped offset rising costs in the past, those conditions have not occurred in recent years. The increases in

recurring operating and maintenance costs and the increases due to environmental requirements and other regulations have combined to prevent the Company from earning its authorized rate of return. As was demonstrated on page 3 in my Rebuttal Testimony, the Company has not earned its authorized return on equity at any time since 2007, the first year of rate increases under the Regulatory Plan. In fact, as I will show later in my testimony, the Company has not earned its authorized return on equity for many years preceding the Regulatory Plan.

Q: On page 7 of his Rebuttal Testimony, Mr. Hyneman expresses his concern that "manipulation or elimination of regulatory lag (could) result in a distorted regulatory process." He contends that improperly designed regulatory lag mitigation measures can result in a "guarantee of rate recovery of all prudently incurred costs and the burden of proof that utility management is not acting in the most efficient and effective manner possible to control costs is very difficult for even the most experienced regulator to meet." He continues "Utility management is keenly aware of this fact." Do you agree?

A: I strongly disagree with his implication that utility management purposely designs regulatory lag mitigation measures so as to hide or allow inefficiencies and ineffectiveness in their management practices. I believe that the ratemaking mechanisms listed by Mr. Hyneman, i.e. expense trackers, automatic adjustment clauses, IEC's and accounting authority orders, are used to manage regulatory lag, not manipulate it.

Q: Mr. Hyneman mentions the use of ratemaking mechanisms such as expense trackers as one source of "distorted regulatory process." He specifically uses the Company's

pension tracker as an example where the elimination of regulatory lag may have led to excessive pension costs being charged to KCPL's customers. Do you agree?

A: No. A pension tracker is in place at each of Missouri's regulated electric utilities to ensure that ratepayers pay no more and no less than actual incurred pension costs. It was adopted for KCP&L in 2005 as part of the Regulatory Plan. A related tracker for Other Post-Employment Benefits ("OPEB") was adopted as part of Case No. ER-2010-0355 ("2010 Case"). These trackers were adopted to address the increasing volatility of these costs between rate cases. A tracker controls both positive and negative regulatory lag. When looking at the impact of the pension tracker since adoption, there were years when pension costs increased above amounts included in rates and other years when they decreased below those amounts. In fact, the OPEB tracker adopted as part of the 2010 Case has resulted in a reduction of cost of service in this case. The Company's goal is to control all of its costs and this commitment is not reduced simply because a tracker is in place.

Q: How do you address Mr. Hyneman's contention that "Clearly, there are indications that GPE's pension costs are out of control and this may be indicative of a lack of competitive pressures on KCPL's management to rein in and control these runaway pension costs"?

A: Members of the Company's Human Resources, Accounting and Regulatory Affairs departments, as well as representatives from the Company's actuary Towers Watson, met with Mr. Hyneman on several occasions. In those meetings, the Company discussed steps that the Company has and is taking to review and modify its pension and benefit plans to reduce costs. As discussed in those meetings, the Company considers its entire

compensation and benefit package as a whole and seeks to maintain a consolidated compensation package that is comparable with its peers.

Q: Are there other factors outside the Company's control that have resulted in increased pension costs in recent years?

A: The current environment of very low interest rates and volatility in markets has resulted in significant increases in the cost of the Company's defined benefit pension costs.

Q: Has the Company taken any steps to better control its pension and benefit costs?

A: Yes. Effective January 1, 2008, the Company reduced the portion of its non-union retirement benefits provided under its defined benefit pension plan, moving toward more reliance on a defined contribution plan using its 401(k) plan. New non-union employees were placed on the new plan while existing employees were given the one-time option of staying on the prior plan. Under the revised plan, the lump-sum payment option was eliminated. The lump-sum payment option was also not granted to non-union employees joining the Company as a result of the merger with Aquila. Currently, over one-half of non-union employees participate in the new plan.

Q: Is the Company considering the recommendations made in the report by Deloitte Consulting, a draft of which dated October 11, 2011 is attached as Schedule CRH-1 HC to Mr. Hyneman's testimony?

A: Yes. The recommendations made by Deloitte Consulting are being considered as part of the Company's ongoing review of the total compensation package.

Q: On page 11 of his Rebuttal Testimony, Mr. Hyneman lists a number of changes that the Company could have made to its pension plans to reduce ongoing costs "if it had appropriate incentives to control its pension costs." He continues that "What is a

concern to Staff is that the reason for this inaction may be the lack of the competitive incentive to keep pension costs as low as possible through the forces of regulatory lag." How do you respond to this contention?

A: The Company has in fact already made some of the changes that Mr. Hyneman lists. Effective January 1, 2008, it modified its non-union retirement plans to move more emphasis from a defined benefit plan to a defined contribution plan. It also eliminated the lump-sum payment option for new non-union employees. The report commissioned from Deloitte Consulting in 2011 was intended to help the Company identify other changes that should be considered. However, as expressed to Mr. Hyneman in various pension and compensation meetings, changes to benefit plans must be enacted carefully and frequent changes are very disruptive. Additionally, changes to pension plans can only be made prospectively and will not impact pension benefits and costs already earned by existing employees.

Q: On page 10 of his Rebuttal Testimony, Mr. Hyneman contends that "I believe that both the high number of trackers and specific design of the pension trackers that are currently in place, and have been in place for several years, has likely contributed to these excessive pension cost for KCPL." He indicates that there are 16 pension and OPEB expense trackers being included in the current rate case for KCP&L and GMO-MPS and GMO L&P. Do you agree?

A: No, I do not agree with either part of his statement. The Company's pension tracker in each jurisdiction is designed very similarly to the pension trackers in place at other Missouri utilities. Additionally, Mr. Hyneman is overstating the number of pension and OPEB trackers in place. Each jurisdiction has one pension tracker and one OPEB tracker

for ongoing costs. Each jurisdiction also has a prepaid pension tracker to identify pension contributions made to comply with legislated pension contribution requirements that exceed the contributions required for ratemaking. GMO-MPS also has one pension-related tracker and GMO-L&P has two pension-related trackers that are being amortized as a result of the pension method in place prior to the method adopted in the 2010 Case. These prior pension-related trackers are not ongoing and will only exist until the final amortizations have been completed.

Q: On page 12 of his Rebuttal Testimony, Mr. Hyneman states that "the Staff's current heightened concern about the elimination of the beneficial impact of regulatory lag is caused by the continuously increasing number of measures to eliminate what utilities believe to be the detrimental impact of regulatory lag, but effectively leave in place regulatory lag that is detrimental to customer interests." Please respond to this concern.

A: Some of the measures that the company seeks to implement, such as an interim energy charge, are authorized by statute. Other measures that the Company is seeking in this case are trackers, such as the property tax and transmission trackers. Trackers are symmetrical and capture amounts that are both more than and less than the amounts included in base rates. Consequently, both "beneficial" and "detrimental" regulatory lag is addressed for the areas in which trackers are adopted.

Q: On page 15 of his Rebuttal Testimony, Mr. Hyneman begins a discussion in which he addresses that "To achieve this level of balance and fairness, I believe it is important to approach the regulatory lag issue being raised by utilities today from a historical perspective." He contends that the company benefitted from regulatory

lag for almost 20 years from the mid-1980's through the mid-2000's when it did not file for any rate increases. Please respond.

A: Prior to the rate cases filed by the Company beginning with ER-2006-0314 as part of the Regulatory Plan, it is true that the next earliest rate case filed by the Company was ER-85-128, twenty years earlier, when the Wolf Creek Generating Station was placed in Service. The rate order in that case ordered a 7-year phase in plan. Only the first three years of the phase in plan were implemented through May 1987, with the final four years of the plan being cancelled, eliminating the remaining scheduled increases that were determined to be necessary in 1985. In addition, there were four separate rate reductions implemented between 1994 and 1999. Elimination of the final four increases under the phase-in plan and these additional rate reductions reduced or eliminated the "beneficial" regulatory lag that was accruing to the Company.

Q: Mr. Hyneman asks "What regulatory lag mitigation measures were put into place to protect KCPL's ratepayers from paying excessive and unreasonable rates from 1985 to 2005? The answer is none, with the possible exception that Staff would occasionally perform an earnings review and file an earnings complaint case against KCPL. However, these earnings reviews were infrequent and performed at a very high level." Do you agree?

A: No. The last four years of the 1985 7-year Wolf Creek phase-in plan were cancelled after the third increase in May 1987 and there were four additional rate decreases between 1994 and 1999. These are shown on Schedule DRI-7. Additionally, as part of the Wolf Creek order, the Company was required to file a Surveillance Report, first biennially and later annually. These Surveillance Reports clearly reflected the Company's earned return

on rate base ("ROR") and earned return on equity ("ROE") for the reported periods. Review of these reports did not require time-consuming effort on the part of the Staff in order to determine the status of the Company's earnings relative to it authorized levels. Based on the filed Surveillance Reports for each calendar year, Schedule DRI-8 reflects the Company's earned ROR and earned ROE as compared with its authorized Return on Equity for the years 1986 through 2011. As you can see on Schedule DRI-8, the Company failed to earn its authorized ROE in all of the 24 years presented.

Q: Are there any other observations that you would like to make regarding regulatory lag?

A: Yes. The Commission recently opened Case No. AW-2013-0110 to investigate the establishment of a rate stabilization mechanism to reduce the need for frequent rate case filings. The Commission expressed its concern that the circumstances of any general rate action include expense to the utility, the Commission, and the public, of litigating general rate actions with increasing frequency in recent years. It ordered the parties to the Ameren Missouri, KCP&L, KCP&L-GMO and Empire District Electric Company rate cases to file additional testimony regarding possible means of reducing the need for the utility to file frequent rate increases. The primary driver behind the need to file a rate increase request is the Company's inability to earn its authorized rate of return. Increased use of reasonable regulatory lag mitigation measures such as expense trackers will allow the utility a reasonable opportunity to earn its authorized rate of return and reduce the need to return to the Commission for rate relief on an increasingly frequent basis.

Q: Please summarize your position on regulatory lag.

A: Regulatory lag, both beneficial and detrimental, is a naturally occurring part of the regulatory process. However, certain mitigation measures such as those being requested in this case protect both the ratepayer and the Company from changes in large-dollar and volatile costs. The Company's commitment to controlling all costs to the greatest extent possible and practicable is in no way reduced by the existence of these mitigating measures. The Annual Surveillance Report is a systematic and routinely recurring means by which the Staff can easily monitor the Company on an annual basis to ensure that the Company is earning at levels consistent with and not in excess of its authorized levels. By putting in place measures to mitigate regulatory lag to help ensure that the Company has a reasonable opportunity to earn its authorized ROE, the ratemaking process is facilitated by a reduction in the need to file frequent requests for rate increases. The measures requested by the Company in this case seek to mitigate regulatory lag and ensure that the company has a reasonable opportunity to earn its authorized ROE.

PROPERTY TAX TRACKER

Q: What was Staff's position regarding use of a tracker for property tax expense?

A: Staff witness Karen Lyons did not support the use of a tracker for property tax expense. On page 14 of her Rebuttal Testimony, she indicated that trackers should be used in rare circumstances where it is extremely difficult to identify an amount of costs to be included in rates. She further indicated that while KCP&L's property taxes have increased, the significant increase in property taxes was attributable to significant plant additions. On page 15, she indicates that "Staff concludes that the increases in property taxes that KCP&L has experienced are related to plant additions".

Q: Do you agree with Staff's position regarding use of a tracker?

A: No. The Company does not dispute that increases in Plant in Service may impact property tax expense. However, there are many other factors that can cause increases in property tax expense. KCP&L has very little control and cannot predict the actual property tax assessments, the mill levy tax rates and thus the ultimate property taxes to be paid. Property taxes are determined on an annual basis and are due in part to budgetary issues of state and local governments. Such taxes can and have changed significantly over the past several years. A property tax tracker would capture the tax increases and decreases in property tax expense that are attributed to factors that are not under control of the Company.

Q: Please explain the fair market value that property tax assessments are based on for utilities in Kansas and Missouri.

A: As a public utility, the State appraisers use three standard appraisal methods for computing the fair market value of KCP&L, upon which the property tax assessments for KCP&L are based. The three methods used are the Cost Approach (based on the cost of plant placed in service), the Income Approach (based on an average of net operating income ("NOI") of the entity over a certain period of time) and the Market Approach (based on the stock value of the company). Once the three calculations are done, the Appraisers determine a fair market value that in their opinion is in line with these three calculations. Certainly the addition of plant in service directly impacts the calculation of fair market value for the Cost Approach. However, neither Missouri nor Kansas Appraisers rely solely on the Cost Approach to determine fair market value.

Q: Does Staff consider these other standard appraisal methods in their analysis of property taxes?

A: No, the Staff has ignored the impact that increases in the stock price or net operating income of the company may have on the amount of property taxes paid by KCP&L. Either one of these factors may occur without a corresponding increase in plant in service.

Q: Staff's witness Karen Lyons included a table on page 17 in her Rebuttal Testimony that identified actual plant in service values and actual property taxes paid by KCP&L as support to justify the increase in property taxes. Does KCP&L agree with these schedules?

A: KCP&L agrees that Plant In-Service and property taxes have increased significantly since 2008. Ms. Lyons' Plant in Service amounts for KCP&L tie to work paper CS-126. A copy of work paper CS-126 is attached as Schedule DRI-9.

Q: Ms. Lyons' table indicated that actual KCP&L property taxes have increased by $14.3 million from 2007 to 2011 and that taxes attributed to Plant in Service excluding new Iatan 1 and Iatan 2 property were virtually unchanged from 2010 to 2011. Ms. Lyons determined that the 2010 Property taxes excluding new Iatan 1 and Iatan 2 were $68.9 million and 2011 Property taxes excluding new Iatan 1 and Iatan 2 were $68.7 million. Do you agree with this?

A: No. In 2010, KCP&L's total property tax liability was $72.3 million and in 2011 KCP&L's total property tax liability was $75.3 million. In Data Request Q_0193 KCP&L reported property taxes related to Iatan 2 alone to be $9.6 million in 2010 and

$9.1 million in 2011. Please see table below summarizing the non-Iatan 2 Property taxes for 2010 and 2011

	2010	2011	Change
Total Property Taxes	72.3M	75.3M	
Iatan 2 Property Taxes DR193	9.6M	9.1M	
Property Taxes Excluding Iatan 2	62.7M	66.2M	3.5M

Ms. Lyons' Rebuttal Testimony stated on page 16 that "Absent KCPL's additions to its plant in service over the last several years property taxes paid by KCPL would not have increased". Based on the above information, I do not agree with Ms. Lyons' conclusion; in fact KCP&L's taxes absent Iatan 2 alone would have increased $3.5 million or 5.58%.

Q: Do the tables support Ms. Lyons' analysis that increases in Plant in Service is the sole driver of property tax expense increases?

A: No. To assume that the increase in plant is the only driver of the increase in property taxes is incorrect. From the table Ms. Lyons provided on page 17 of her Rebuttal Testimony it is clear that Plant in Service has increased each year since 2007, and that property taxes have also increased. However, property taxes have not increased at the same level or rate as the plant in-service has increased and the level of plant in-service is only one factor that should be considered.

Q: How do mill levy rates impact property tax expense of KCP&L?

A: The property tax mill levy rates are set and then applied to the assessments by the various taxing authorities. These mill levy rates are adjusted up or down annually depending on the revenue needed by the taxing jurisdictions. Over the last couple of years, the average company-wide mill levy rates have increased as taxing jurisdictions have needed to

increase their property tax revenues to offset other sources of revenue that have decreased due to the economy. In fact the effective company-wide tax levy rates increased by 3% in 2011 over 2010, accounting for an increase of over $2 million in property taxes.

Q: Does Staff consider the increase or decrease in mill levy rates in their analysis of property taxes?

A: No. The increases in mill levy rates as set by the taxing authorities have been excluded from the analysis done by the Staff as to whether or not a property tax tracker is appropriate.

Q: Are there elements of regulatory lag that occur because the Staff's method calculates normalized property tax expense based on the most recent assessed plant value?

A: Yes. Staff's method, which has been adopted by the Company for its True Up case, calculates normalized property tax expense by applying the property tax ratio from the latest calendar year to the taxable property as of the most recent January 1, the assessment date. Payments in Lieu of Property Taxes (PILOTs) and associated property are first excluded before calculating the ratio. In this case, that means that a ratio is developed based on property taxes paid for 2011 divided by taxable property as of January 1, 2011. That ratio is applied to taxable property as of January 1, 2012 and PILOTS are added.

Q: Why does this cause regulatory lag?

A: The Company will start recovering a normalized level of property tax expense on January 27, 2013, the anticipated effective date of new rates in this case. However, there will be a new assessed value of taxable property based on the three-factor test as of

January 1, 2013. The Company will pay property taxes on this new assessed value for 2013. However, under the current ratemaking process, the Company's rates will not be impacted by increases in taxable plant subsequent to January 1, 2012 until the effective date of new rates in the next case.

Q: On page 18 of her Rebuttal Testimony, Ms. Lyons indicated that because property taxes are known and measurable costs, the Staff's method of calculating property taxes is an effective way to ensure an appropriate level of property taxes are included in the Company's cost of service in a timely manner and that there is no reason to support carrying costs or rate base treatment. Do you agree?

A: No. For all of the reasons stated above, the level of property taxes included in rates result in regulatory lag. The Company has very little control over and cannot predict the actual property tax assessments, the mill levy tax rates and thus the ultimate property taxes to be paid. The tracker method proposed by the Company would capture the tax increases and decreases in property tax expense that are attributed to factors that are not under control of the Company. Including in rate base both the increases and decreases from the ongoing level of property taxes included in rates will protect both the ratepayers and shareholders from future volatility.

Q: Are there any additional comments you would like to make?

A: Yes. The Commission has indicated that it is reviewing the possibility of a plan to stabilize rates and to limit the frequency, and related expenses of utility rate cases. A property tax tracker is one mechanism that may be used to offset the uncertainty surrounding property tax expense recovery and address potentially beneficial or detrimental regulatory lag.

RENEWABLE ENERGY STANDARDS ("RES") TRACKER

Q: What is Staff's position on the use of a tracker for RES costs?

A: The Staff, in its position put forward by Ms. Lyons on page 23 of her Rebuttal Testimony, believes a RES tracker is not necessary due to the nature of the RES rule and an electric company's ability to defer costs for recovery in a later rate case[1].

Q: Is there a regulatory impact for adopting Staff's recommendation?

A: Yes. By continually deferring costs to subsequent rate cases the Company would experience negative cash regulatory lag during the period of time from when the cost was incurred until the cost is built in rates.

Q: Do the RES regulations provide for or disallow the use of a tracker for RES costs?

A: No. The RES regulations are included in Mo. Rev Stat.3860.250 and 393.140 and 4 CSR 240-2.060 ("RES regulations"). 4 CSR 240-20.100(6)(D) states that "all questions pertaining to rate recovery of the RES compliance costs in a subsequent general rate proceeding will be reserved to that proceeding". KCP&L believes that a tracker is not only allowed for RES costs, but is an appropriate method of rate recovery for this rapidly expanding program. While a tracker does not mitigate cash regulatory lag in a rising cost environment such as KCP&L is facing with RES costs, it does mitigate earnings regulatory lag for the RES costs, thereby providing KCP&L a more reasonable opportunity to earn its authorized ROE.

Q: Does the Accounting Authority Order ("AAO") granted by the Commission in Case No. EU-2012-0131 provide for or disallow the use of a tracker for RES costs?

A: No. The AAO approved for RES costs authorizes the Company to defer incremental RES costs, including carrying costs, in a separate regulatory asset with the disposition to

be determined in the company's next general rate case. This current case is that "next general rate case." The Company is requesting both the recovery of costs deferred under the AAO and establishment of a tracker mechanism to address ongoing costs.

Q: Does KCP&L agree with Ms. Lyons' proposal on page 22 of her Rebuttal Testimony to set rates for an on-going level of normalized expense but to defer future costs for consideration in a future rate case?

A: KCP&L agrees with setting rates for an on-going level of expense. However, KCP&L disagrees with the proposal to defer future costs for consideration in a future rate case. KCP&L requests establishment of a tracker in this case to ensure the future recovery of prudently incurred incremental costs above or below the base on-going level of costs as determined in the True Up process in this case, including carrying costs. KCP&L requests the establishment of a 5-year amortization period to be used to recover such prudently incurred incremental costs in each future case. Under this tracker, the level of ongoing RES costs in base rates would be reset in each future rate case, similar to how ongoing pension costs are reset each case. This tracking mechanism would allow recovery of these volatile expenses of a new program with customers paying no more or no less than the actual cost the Company incurs.

Q: Please respond to Ms. Lyons' contention on pages 19-20 of her Rebuttal Testimony that inclusion of deferred RES costs in rate base is not appropriate.

A: The Company agrees that deferred RES costs are not capital in nature. However, there are many costs included as both increases and decreases to rate base that are not capital in nature, including deferred customer program costs and deferred gains on the sale of emission allowances. For RES costs, we believe it is more appropriate to focus on the

fact that the incurred costs are mandated by the RES regulations, including payment to retail customers for new or expanded solar electric systems and funding of administrative software and support for the management of renewable energy credits throughout the state. The Company believes that it is reasonable to include the incremental costs resulting from these mandates in rate base until they can be recovered. Carrying costs would be incurred only between the time of expenditure until inclusion in rate base.

Q: Is there another reason that it is proper to include deferred RES costs in rate base?

A: Yes. As stated in the Rebuttal Testimony of Tim Rush in this case:

> The primary objective of Missouri's Renewable Energy Standard Law is to increase the use of renewable energy and thereby reduce future coal generation. Therefore, and particularly as it relates to solar renewable energy, the deferred RES costs are similar in nature to deferred DSM costs. Since both the Staff and the Company have consistently included deferred, unamortized DSM costs in rate base, KCP&L has included deferred RES costs in rate base in this case. Amortization will not begin until the effective date of new rates in this case; therefore, the entire deferral RES balance should be included in rate base.

TRANSMISSION TRACKER

Q: What is the purpose of this portion of your Surrebuttal Testimony?

A: My testimony addresses the recommendations by Staff witnesses Charles R. Hyneman and Karen Lyons regarding trackers as a regulatory mechanism, specifically the Company's request for a Transmission Tracker.

Q: Please describe the Company's proposed Transmission Tracker.

A: The Company proposed that transmission costs, as defined in this tracker, be set as a baseline in the true-up process in this rate proceeding. The actual charges would be tracked on an annual basis against the baseline, with the Missouri jurisdictional portion of any excess treated as a regulatory asset and the Missouri jurisdictional portion of any shortfall treated as a regulatory liability. The regulatory asset or liability would be

included in rate base. The carrying costs would be calculated monthly and the regulatory asset or liability would be amortized to cost of service in the Company's next rate proceeding, over the same length of period as costs are accumulated with the unamortized balance included in rate base. The Company would reset the baseline level for transmission costs included in base rates during the next rate case, similar to how ongoing pension costs are reset in each case.

Q: Does the proposed Transmission Tracker harm the Customer?

A: No. The requested Transmission Tracker would benefit the customer by better matching actual transmission costs to effective rates. This process would insure there is no over or under recovery of actual transmission costs.

Q: Why is a tracker appropriate for KCP&L's transmission costs?

A: As previously stated in my Direct Testimony, transmission costs vary significantly from year-to-year, and such costs are a material component to cost of service. A Transmission Tracker in this situation would mitigate the material and volatile transmission cost pressure on a key component of cost of service, and allow the Company's return to more closely reflect the Commission authorized return, as well as provide a mechanism for rate stability.

Q: Does the Missouri Staff's Rebuttal Testimony recommend the Transmission Tracker?

A: No. The Staff's objection referenced in Mr. Hyneman's Rebuttal Testimony in his regulatory lad discussion on pages 2 through 19 is more philosophical in approach to the Transmission Tracker rather than factual. Mr. Hyneman states that it is the Missouri Staff's concern that as an increasing number of regulatory lag mitigation measures are

being requested by the utility companies, there is a very real and significant potential for the distortion of the basic ratemaking principles (page 6-7 and 18). In Staff witness Karen Lyons Rebuttal Testimony (page 14) associated with Company requested property tax tracker, she states that trackers are only to be used as a last resort when other techniques fail to capture costs in rates, and only to be used in those rare circumstances where it is extremely difficult to determine a level of costs to include in rates. One can infer from Staff's Rebuttal Testimony that it is Staff's opinion that a tracker, Transmission Tracker in this case, is so rarely to be used in Missouri that the mechanism would seldom if ever be used to mitigate volatile costs pressures, absent a rate case.

Q: Please summarize your position?

A: I recommend the Commission adopt the Company's proposed Transmission Tracker to allow recovery of volatile transmission costs with the customer paying no more or less than actual costs incurred, for those transmission costs largely outside of the of the Company Managements' discretion. The Transmission Tracker will mitigate the volatility of transmission costs for a key component of cost of service, and allow the Company's earned return to more closely reflect the Commission authorized return, as well as provide a mechanism for rate stability.

ORGANIZATIONAL REALIGNMENT AND VOLUNTARY SEPARATION ("ORVS") PROGRAM

Q: What is the Staff's position regarding ORVS?

A: As stated by Mr. Hyneman on page 21-22 of his Rebuttal Testimony, Staff's position is that the Commission should not allow KCP&L to defer ORVS severance costs on its

balance sheet and amortize the deferred expense over a five year future period as requested by the Company.

Q: Why does Mr. Hyneman take this position?

A: Mr. Hyneman believes that the Company has already recovered the costs of the ORVS. He indicates that because the Company eliminated 140 positions, primarily as of April 30, 2011, the Company will retain the costs related to those positions in base rates until the effective date of new rates in this case through regulatory lag.

Q: Do you agree with this position?

A: No. As I point out above in my discussion on regulatory lag and as is shown in both my Rebuttal Testimony and in Schedule DRI-8 attached to this testimony, the Company earned a return on equity of 5.94% for calendar year 2011 compared with its authorized return of 10.0%. It is not reasonable to focus on isolated instances of positive regulatory lag without looking at the overall impact of regulatory lag. I also do not agree that it is appropriate to isolate a specific instance of positive regulatory lag to address recovery of one-time program costs that will result in long-term benefits to customers.

DISTRIBUTION FIELD INTELLIGENCE AND TECH SUPPORT ("DFITS")

Q: What is the purpose of this portion of your Surrebuttal Testimony?

A: My testimony addresses the recommendations by Staff witness Charles R. Hyneman regarding the Company's request for a new technical work group, the DFITS group.

Q: Please describe the Company's proposed new technical work group.

A: As provided in the direct testimony of Company witness, William P. Herdegen, III, the requested recovery of costs associated with DFITS includes the cost of establishing, training, and sustaining a new technical work group that focuses on the increasing

amount of Distribution Automation in the field. KCP&L has been investing in Distribution Automation and Smart Grid technologies for more than a decade. The Company has been progressive in the application of new and smarter technologies to improve safety and reliability of service, while reducing overall costs to deliver service to our customers. It also has been very prudent in applying technologies to the distribution grid by using pilot programs and demonstrations prior to system wide deployments. KCP&L was one of the first utilities in the nation to deploy Automated Meter Reading ("AMR") technology in the mid-1990s, among the first to leverage AMR communications for Capacitor Automation, the first to deploy 2-way cellular communications to our entire Underground Network in Kansas City, Missouri, one of the most aggressive in deploying 2-way cellular communications to a wide array of distribution equipment, and is one of the few recipients for a U.S. Department of Energy Regional Smart Grid Demonstration Grant. These upgrades have served our customers and KCP&L very well. In order to continue deployment and to maintain this specialized, high-tech equipment, a new work group creating ten new jobs that focuses on this Distribution Automation equipment in the field is necessary. The Company requests that the Commission include the cost of establishing, training, and sustaining this new technical field group in this rate case.

Q: Do you agree Mr. Hyneman's characterization on page 25 of his Rebuttal Testimony of the costs associated with DFITS as neither known nor measurable?

A: No. The Company has been clear and straight forward in stating that the estimated program costs are for the development, staffing, training, and supporting equipment for the new DFITS work group. While the program costs are based on estimates, the

Commission has allowed estimated program costs in the past. Mr. Hyneman's recommendation to disallow the DFITS program costs comes from a very limited ratemaking view point, as the Commission has allowed similar estimated program costs in the past.

Q: Please provide examples of when the Commission has allowed similar estimated program costs in the past.

A: The Commission recently allowed estimated program costs in Ameren-Missouri Case No. ER-2012-0166. In that case, the Commission added an estimate of $1.2 million to Ameren's cost of service to fund training. Another example of when the Commission allowed estimated costs to be included was in ER-2010-0355 and ER-2010-0356, the last KCP&L and GMO rate cases. In those cases, the Commission authorized recovery of estimated operations and maintenance expenses related to the Iatan 2 generating station placed in service in August 2010 and associated Iatan Common plant.

Q: Why has the Company provided estimated costs for the DFITS program?

A: The Company has provided cost estimates for a new program that currently does not exist, and Company is asking the Commission to allow the DFITS program in rates. Recovery of the costs of the program through rates relieves some of the regulatory lag pressures associated with development the new DFITS program. While Mr. Hyneman is correct that the costs for this new program are not historically known or measurable, as costs reflected in a rate case generally are, the Company's estimation of DFITS costs is similar to the estimations of costs of other new training programs that the Commission has allowed.

Q: Please summarize your position.

A: I recommend the Commission allow recovery of estimated DFITS program costs. Establishing, training, and sustaining this new technical work group addresses a growing need in the area of distribution automation. Additionally, as I described above, the DFITS program is similar to new training programs that the Commission has recently authorized.

Q: Does that conclude your testimony?

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 A General Rate Increase for Electric Service	)))	Case No. ER-2012-0174

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 Senior Director – Regulatory Affairs.

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 twenty-five (25) 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, 2012.

Notary Public

My commission expires: April 16, 2016

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KAREN M. SMITH
My Commission Expires
April 16, 2016
Jackson County
Commission #12446957

Kansas City Power & Light Company
Comparison of Plant Additions with Provision for Depreciation Expense

Source: Plant Additions - PowerPlant Asset 1061kcp-Missouri Basis
Provision for Depreciation Expense - PowerPlant Depr-1033 MO

	Missouri Basis			
Year	Plant Additions	Provision for Depreciation Expense	Increase (Decrease) Rate Base	
2001	513,159,286	131,776,528	381,382,758	Hawthorn 5 Boiler
2002	143,818,551	139,754,632	4,063,919	
2003	151,715,615	132,962,091	18,753,524	
2004	172,205,042	143,319,701	28,885,341	
2005	284,500,470	145,170,201	139,330,269	

Kansas City Power & Light Company
Rate Decreases After 1986 Initial Wolf Creek Phase in Plan

Case No.	Effective Date	Authorized Incr (Decr)	Comments
ER-85-128	5/5/1985	$41.6 Million	First of a 7-year annual phase-in of Wolf Creek Generating Station
	5/5/1986	$7.7 million	Second year of Wolf Creek phase-in plan increases.
	5/5/1987	$8.7 million	Third year of Wolf Creek phase-in plan increases. EO-85-185 - Final 4 years of phase-in plan dropped in exchange for approval of certain accounting issues.
ER-94-197	1/1/1994	($12.5 Million)	Expiration of amortization of Wolf Creek deferral accounting
EO-94-199	7-9-1996	($9.0 million)	Phase 1 stipulated earnings reductions from Staff's earnings investigation. Included major rate design and revised depreciation rates.
	1/1/1998	($11.0 million)	Phase II stipulated earnings reduction.
ER-99-313	3/1/1999	($14.7 million)	Stipulated earnings reduction from Staff's 1998 earnings investigation.

Kansas City Power & Light Company
Earned Return on Rate Base (ROR) and Return on Equity (ROE)

Source: Annual Missouri Surveillance Reports

Year	Earned ROR	Earned ROE		Authorized ROE		
				Effective Date	Case No.	ROE
1988	10.288%	12.973%		4/23/1986	EO-85-185	15.000%
1989	10.044%	12.202%				15.000%
1990	9.544%	10.478%				15.000%
1991	9.040%	10.848%				15.000%
1992	7.962%	9.644%				15.000%
1993	8.840%	12.304%				15.000%
1994	8.629%	11.670%				15.000%
1995	8.648%	not available				15.000%
1996	not available					15.000%
1997	9.210%	12.900%	revised			15.000%
1998	9.879%	14.130%				15.000%
1999	8.051%	10.073%				15.000%
2000	7.309%	8.264%				15.000%
2001	8.01%	11.17%				15.000%
2002	8.89%	13.55%				15.000%
2003	8.36%	12.20%				15.000%
2004	8.69%	11.57%				15.000%
2005	7.54%	9.32%				15.000%
2006	6.92%	7.67%				15.000%
2007	8.17%	10.04%		1/1/2007	ER-2006-0314	11.250%
2008	6.99%	7.69%		1/1/2008	ER-2007-0291	10.750%
2009	6.80%	6.15%				10.750%
2010	7.15%	6.91%		9/1/2009	ER-2009-0089	Settlement
2011	6.22%	5.09%		5/4/2011	ER-2010-0355	10.000%

Reflects cancellation of the final four years of the Wolf Creek phase-in plan after 5-5-1987 and earnings reductions effective 1-1-1994, 7-9-1996, 1-1-1998 and 3-1-1999.

Kansas City Power & Light Company
2012 RATE CASE - True-up Filing
TY 9/30/11; Update TBD; K&M 8/31/12

CS-126 Property Tax Expense
Accounts 708

	From KCPL True Up Wrkprs ER-2010-0355			Based on DR 27R	From KCPL True UP Wrkprs ER-2010-0355			
	1/1/2009 Plant Original Cost	1/1/2010 Plant Original Cost	1/1/2011 Plant Original Cost	1/1/2012 Plant Original Cost	2009 Property Taxes Paid	2010 Property Taxes Paid	2011 Property Taxes Paid	
Property Taxes Paid Account 708	$ 5,633,953,538	$ 6,221,168,368	$ 7,500,433,422	$ 7,789,557,837	$ 58,655,315	$ 62,670,703	$ 72,118,171	(b)
Remove Spearville - paid by PILOT	(144,191,877)	(157,842,621)	(256,142,580)	(262,786,429)	(347,820)	(357,090)	(763,220)	(a)
Add Unit Trains					248,227	209,789	167,887	
Remove Vehicles/Pwr Oper Equip-tax not charged to A/C 708	(54,024,606)	(57,178,379)	(64,658,630)	(68,370,450)			0	
Remove Iatan 2 CWIP taxes booked to expense						(1,581,785)	0	
Add correction made by Company (see note)						183,333	0	
Add Iatan 2 2011 MO juris prop taxes deferred to Reg Asset							1,623,828	
Total Plant & Total A/C 708 Prop Tax Exp, excl PILOTs	$ 5,435,737,055	$ 6,006,147,368	$ 7,179,632,212	$ 7,458,400,958	$ 58,555,722	$ 61,124,950	$ 73,146,666	Ratio
Pilots					347,820	357,090	763,220	
					$ 58,903,542	$ 61,482,040	$ 73,909,886	
Tax as a Percentage of Cost (without PILOTs)					1.0772%	1.0177%	1.0188%	

(a) Wind PILOTs for tax year 2011:

	Spearville 1 PILOT	Spearville 2 PILOT	Total
PILOT Agreement	$ 244,636	$ 274,636	$ 519,272
Donation/Contribution with School District	$ 121,974	$ 121,974	$ 243,948
Total for Spearville Wind	$ 366,610	$ 396,610	$ 763,220

(b) 2011 Property Taxes Recap:

Total Property Taxes Billed - including PILOTs	$ 75,303,149
Amount charged to Fleet A/C 184 (Vehicles & Pwr Oper Equip)	$ (716,329)
Amount charged Capital	$ (566,930)
Amount charged to Fuel Inv (Unit Train)	$ (167,887)
Amount charged to Non-Utility	$ (110,004)
O&M - Before MO juris Iatan 2 deferral to Reg Asset	$ 73,741,999
Amount of MO portion of Iatan 2 deferred to Reg Asset	$ (1,623,828)
Expected Prop Tax to be booked to A/C 708 - 2011	$ 72,118,171

(c) Wind PILOTs for tax year 2012:

	Spearville 1 PILOT	Spearville 2 PILOT	Total
PILOT Agreement	$ 250,752	$ 281,502	$ 532,254
Donation/Contribution with School District	$ 125,633	$ 125,633	$ 251,266
Total for Spearville Wind	$ 376,385	$ 407,135	$ 783,520

	Test Year 12 mo ended 9/30/11	1/1/2012 Projected Prop Tax	
Actual Plant 12-31-2011		$ 7,458,400,958	
2011 Ratio of Taxes Paid		1.0188%	
Prop Tax (based on ratio)		$ 75,986,784	
Add: Spearville Wind		783,520	(c)
		0	
Total	$ 71,316,232	$ 76,770,304	

Company-Adjustment	$ 5,454,073

Account 708
CS-126