Exhibit No.:	
Issue:	*Cost Allocation Manual*
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
File No.:	*EO-2014-0198*
Date Testimony Prepared:	*June 19, 2014*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

and

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. EO-2014-0189

Jefferson City, Missouri
June 2014

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

and

KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. EO-2014-0198

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

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

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

Q. Please describe your educational background and prior work experience.

A. Please see Schedule 1 attached to this testimony.

Q. Have you previously testified before this Commission?

A. Yes. Schedule 1 to this testimony also lists rate cases in which I have submitted testimony.

Q. In your work as an auditor with the Commission, have you obtained significant experience in the areas of utility affiliate transactions and corporate/holding company cost allocations?

A. Yes. I have extensive audit experience in the area of affiliate transactions and corporate allocations and have filed testimony with the Commission on these areas in several utility rate case audits and proceedings. I have led audits on affiliate transactions and corporate allocations on four separate major electric and natural gas utility companies operating in

Missouri, including Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations Company ("GMO") (collectively, the "Company").

I was the Staff expert witness in the Affiliate Transactions Staff Complaint (File No. GC-2011-0098) against Laclede Gas Company ("Laclede"). In that case, Laclede, Staff, and the Office of the Public Counsel filed a *Unanimous Partial Stipulation And Agreement And Waiver Request And Request For Approval Of Cost Allocation Manual* which, among other things, resolved certain affiliate transaction issues raised in that Staff complaint case. The Commission issued an order approving the partial stipulation and agreement on August 14, 2013.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the results of the Staff's examination of KCPL's and GMO's proposed Cost Allocation Manual ("CAM") as presented in the Staff's report of its examination attached as Highly Confidential Schedule 2 to this testimony.

On December 16, 2013 KCPL filed an Application and the Direct Testimony of KCPL witness Ronald A. Klote. This Application was for the approval of KCPL's CAM as required by the Commission's Affiliate Transactions Rule ("Rule"), 4 CSR 240-20.015. KCPL's filing in this docket is a result of the agreement reached by the parties in File No. EA-2013-0098, *In the Matter of the Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity Authorizing it to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects*.

The Stipulation and Agreement and the First Amendment to the Stipulation and Agreement in that case were approved and adopted by the Commission in its Report and Order issued on August 7, 2013. In its Report and Order the Commission ordered the signatory parties to comply with the terms of the agreements. Paragraph 13 of the Stipulation and Agreement states that:

> KCP&L and GMO shall file for Commission approval of their cost allocation manuals ("CAMs") before providing any information, assets, goods, and services to Transource or Transource Missouri after either the novation or transfer of the cost of the Projects, whichever occurs first, but KCP&L and GMO may provide to Transource or Transource Missouri information, assets, goods, and services in a manner consistent with the provisions of the Stipulation prior to Commission approval of their CAMs.

Q. What is the purpose of the Commission's Affiliate Transactions Rule?

A. The purpose of the Rule is to prevent regulated utilities from subsidizing their non-regulated operations. The Rule also contains a provision that specifically addresses the treatment of customer information by affiliated and unaffiliated entities. The Rule and its effective enforcement of these standards and requirements will provide the public the assurance that their rates are not adversely impacted by the utilities' non-regulated activities. However, it does not remove the risk that utilities will engage in improper affiliate transactions with affiliated entities.

Q. Does the mere existence of the Rule and its enforcement eliminate improper cross-subsidization of a regulated utility's non-regulated affiliates?

A. No. Even with the existence of the Rule and effective enforcement, the financial incentives for a regulated utility to improperly pass costs to its ratepayers to benefit a non-regulated affiliate are too strong to eliminate the risk of subsidizing non-regulated operations. Effective monitoring and enforcement of the Rule may lessen the risk, but it does not eliminate the risk.

Q. How does the Rule attempt to accomplish this objective?

A. Whenever a regulated utility participates in a transaction with any of its affiliated entities, the Commission put in place: 1) financial standards, 2) evidentiary standards and 3) record keeping requirements with which the utility and its affiliates must comply.

Q. Does the Staff believe that KCPL's and GMO's CAM as proposed in this case will minimize the risk of KCPL and GMO subsidizing their non-regulated operations?

A. No. As described in the Staff's Report, in the past KCPL and GMO have engaged in some significant transactions that have not been in compliance with the Rule. This noncompliance has been recognized by the Staff, KCPL, GMO and the Commission. The Staff has also found that KCPL and GMO are currently engaging in a significant number of affiliate transactions that are not in compliance with the Rule. The Staff does not believe that KCPL's and GMO's proposed CAM, as submitted in this case, includes the required policies, procedures and internal controls that are necessary, given KCPL's and GMO's organization structure, to minimize the potential for KCPL and GMO to subsidize non-regulated operations.

As Attachment 1 to Staff's Report, the Staff is proposing to the Commission that it approve and order KCPL and GMO to adopt Staff's alternate CAM to KCPL's and GMO's proposed CAM. The Staff's proposed CAM for KCPL and GMO includes additional controls over what is proposed by KCPL and GMO. The Staff's proposed CAM also includes stronger and more robust policies, controls and procedures that, if appropriately implemented and effectively enforced by KCPL and GMO, will improve KCPL's and GMO's Affiliate Transactions Rule compliance and thereby reduce the likelihood that KCPL and GMO will subsidize their non-regulated operations.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company's Application for Approval of Cost Allocation Manual	))))	File No. EO-2014-0189

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF JACKSON	)	

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of _____ pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Charles R. Hyneman

Subscribed and sworn to before me this 19th day of June, 2014.

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086