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Case No.:	ER-2016-0285
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
July 2016

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DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2016-0285

Q: Please state your name and business address.

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

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

A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") and serve as Vice President – Regulatory Affairs for KCP&L and KCP&L Greater Missouri Operations Company ("GMO").

Q: On whose behalf are you testifying?

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

Q: What are your responsibilities?

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

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

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

1996 and held positions of progressive responsibility in Accounting Services and was named Assistant Controller in 2007. I served as Assistant Controller until I was named Senior Director – Regulatory Affairs in April 2011. I have held my current position as Vice President – Regulatory Affairs since August 2013.

Q: Have you previously testified in a proceeding before the Missouri Public Service Commission ("Commission" or "MPSC") or before any other utility regulatory agency?

A: Yes, I have testified before the Commission and the Kansas Corporation Commission. In addition, I have provided written testimony in front of the Federal Energy Regulatory Commission ("FERC") and have testified before a committee to the Missouri legislature.

Q: What is the purpose of your testimony?

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

I. PURPOSE AND REASON FOR THIS FILING

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

A: This case is a request for authority to implement a general rate increase for electric service. While the Company raised rates September 29, 2015, in accordance with the Commission's order in Case No. ER-2014-0370 ("2014 Rate Case"), the Company continues to operate with a revenue deficiency. This case seeks to increase rates to recover new investments made since the 2014 Rate Case, reset cost of service based upon the test year for this case as well as forecasted expenses for Southwest Power Pool ("SPP") transmission (net of SPP transmission-related revenues), state-assessed property taxes, and non-labor operations and maintenance ("O&M") for North American Electric Reliability Corporation ("NERC") critical infrastructure protection standards and cyber-security ("CIP/cyber"), in order to provide the Company a reasonable opportunity to earn its Commission-authorized return after this case. The Company is also experiencing periods in which their average use per customer is flattening out or even declining. From 2000 to 2007, KCP&L's average use per customer was increasing on average 1.4%, 0.1% and 2.2% per year for residential, commercial and industrial sectors. Yet, as discussed in more detail in the Direct Testimony of KCP&L's witness Albert R. Bass, Jr., since 2010 the average use per total customer base has declined on average (0.5)%. This makes it difficult for the Company to absorb any cost increases that are occurring to its cost of service. In addition, the Company is requesting to continue KCP&L's fuel adjustment clause ("FAC") mechanism that is currently in place with some modifications discussed in more detail in the Direct Testimony of KCP&L witness Tim M. Rush.

Finally, the Company is making a rate design proposal that the requested increase be applied to all metered classes on an equal percentage basis. Please see the Direct Testimony of KCP&L witness Marisol E. Miller for a more detailed discussion.

Q: Is there any request in this case related to Great Plains Energy Incorporated's ("Great Plains Energy") announcement of its agreement to acquire Westar Energy, Inc. ("Westar")?

A: No. On May 31, 2016, Great Plains Energy announced a definitive agreement to acquire Westar in a combined cash and stock transaction. Upon closing, expected in the spring of 2017, Westar will become a wholly owned subsidiary of Great Plains Energy. KCP&L is making no request regarding this announced transaction in this filing and has included no costs associated with the transaction in its filing in this case.

II. CASE OVERVIEW

Q: Please briefly summarize the Company's case.

A: The Company is requesting an increase before impacts of the rebasing of fuel for the FAC of $62.9 million or 7.52%. The Company's request for an aggregate annual increase including the rebasing of fuel for the FAC is $90.1 million or 10.77%. This is based on a current Missouri jurisdictional base retail revenue of $836.5 million. The revenue requirement schedules are based on a historical test year of the twelve months ending December 31, 2015, with known and measurable changes projected through December 31, 2016. Below is a graphical depiction of the case, including case drivers, significant elements of the case and other high level facts.

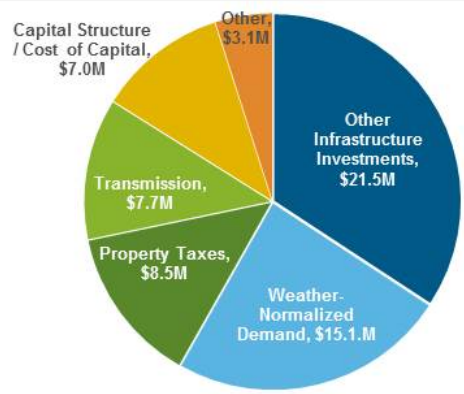
KCP&L – MISSOURI RATE CASE SUMMARY

CASE NUMBER	DATE FILED	REQUESTED INCREASE (IN MILLIONS)	REQUESTED INCREASE (PERCENT)	RATE BASE (IN MILLIONS)	ROE	COST OF DEBT	RATE – MAKING EQUITY RATIO	CAPITAL STRUCTURE ROR	REQUESTED EFFECTIVE DATE OF NEW RATES
ER-2016-0285	7/1/16	$62.9[1]	7.52%[1]	$2,576	9.9%	5.51%	49.88%	7.70%	4/30/17[2]

RATE CASE ATTRIBUTES

- Test year ended December 31, 2015 with a requested December 31, 2016 true-up date
- Primary drivers:
  - New infrastructure investments to ensure reliability, security and dependable service to customers
  - Average of projected 2017- 2018 expenses for both transmission costs and property taxes
  - Decline in weather-normalized retail sales primarily due to lower use per customer
- KCP&L standalone capital structure

$62.9 MILLION RATE INCREASE REQUEST[1]



1. Excludes net fuel and purchased power of $27.2 million that flows through a fuel recovery mechanism. Total requested increase including net fuel and purchased power is $90.1 million or 10.77%
2. KCP&L requested a ten-month procedural schedule consistent with the current GMO general rate case schedule – docket ER-2016-0156. Missouri has an eleven-month statutory requirement.

GREAT PLAINS ENERGY

This summary of the requested increase clearly depicts what I referenced earlier that the cost of service increases attributable to regional transmission organization ("RTO")-billed transmission costs and state-assessed property tax increases are significant impacts to the earnings of the Company. There have also been additional infrastructure investments since the 2014 Rate Case, which have been added to KCP&L's rate base and are included in this request. In addition, the average use per customer has remained flat or decreased among customer classes in recent years.

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

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

A: The tariffs bear an effective date of July 31, 2016. The Commission can suspend this filing up to an additional ten months beyond this effective date. This would place the expected effective date of new rates on or about May 31, 2017. However, the Company requests the Commission adopt a similar procedural schedule as was adopted for the current rate case on file for GMO. In Case No. ER-2016-0156, the Commission adopted a procedural schedule that provides an effective date of rates ten months from GMO's initial filing. The Company believes a ten month schedule is also appropriate in this KCP&L case for the same reasons articulated by the Commission in its decision to adopt the ten month schedule in GMO's case and requests the Commission consider such treatment for this case.

Q: What is the return on equity ("ROE") KCP&L is requesting in this case?

A: KCP&L is requesting an ROE of 9.9%. KCP&L witness Robert B. Hevert presents in his Direct Testimony his cost of capital study results and recommendations in support of an ROE range of 9.75-10.5%. KCP&L witness Kevin E. Bryant discusses the Company's requested ROE of 9.9% that is within the ROE range supported by Mr. Hevert. Mr. Hevert's recommended ROE range, and Mr. Bryant's specific 9.9% recommendation, reflect analytical results based on a proxy group of electric utilities, and takes into consideration the Company's risk profile, including the regulatory environment in which the Company operates and its generation portfolio.

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

A: KCP&L is requesting a capital structure comprised of 49.881% common equity based on the projected KCP&L capital structure as of December 31, 2016. The 49.881% requested in this case is a change from the consolidated capital structure of Great Plains Energy, KCP&L's parent company, which was used in KCP&L's prior Case No. ER-2014-0370. The reason for this change is to more closely align the financing of KCP&L with the investments and costs incurred by KCP&L. In addition, this will align KCP&L's Missouri jurisdiction with GMO as GMO requested a utility specific capital structure in Case No. ER-2016-0156. This is described in more detail in the Direct Testimony of Company witness Kevin E. Bryant. KCP&L witness Robert Hevert presents in his Direct Testimony his cost of capital study results and recommendations based on the Company's requested capital structure.

Q: With the cost of equity and capital structure described above, what is the resulting rate of return?

A: The requested rate of return in this rate case is 7.70%.

III. MAJOR CASE DRIVERS

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

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

First, since the May 31, 2015, true up date in KCP&L's last general rate case, the Company has made infrastructure investments in its works and systems to ensure the reliability, security, and service customers require and expect. While electricity is still delivered via poles and wires much as it has been for decades, the service customers expect has become in large part a function of technology, requiring significant investments in both new systems and upgrades/maintenance of existing systems. The Company is investing in its systems to maintain high levels of customer service and reliability as evidenced by current and contemplated upgrades to the customer information and billing system, system enhancements to be compliant with CIP/cyber, and upgrades to its Peoplesoft, Oracle and Meter Data Management systems. In addition to capital costs associated with new infrastructure investment, the Company is requesting new depreciation rates be established for generating stations that incorporate retirement costs in the net salvage component of the generating plant's depreciation rates. In fact, this rate case filing includes the 2016 retirement of KCP&L's Montrose 1 generating facility. See the testimony of Company witnesses Christopher "Chris" Robert Rogers and John J. Spanos for further discussion on retirement costs and generating plant depreciation rates that are being requested in this rate case.

Second, the Company continues to experience significant increases in transmission costs paid to RTOs, primarily SPP, year-over-year and continues to forecast increases post the effective date of rates in this case. SPP's regional transmission upgrade projects are being planned, constructed and billed to SPP members in order to expand and enhance the ability for the SPP transmission footprint. SPP's regional transmission plan provides for regional transmission expansion and a detailed list of projects in order to achieve the plan. As these projects are placed in service, KCP&L is paying its share of the costs of the expansion charged under SPP's FERC-approved tariff. Due to the continual increase in transmission cost levels during this expansion, the Company is requesting that a forecasted level of transmission of electricity by other costs be included in the Company's FAC. The Company requests, in the alternative, that if any of the transmission of electricity by others costs is not included in the FAC then the forecasted annual average of SPP-billed transmission costs for 2017 and 2018 be used in its cost of service and be tracked under a one-way tracker.

Third, the Company is continuing to see increases in state assessed property taxes. Property taxes are determined by state assessors, are a significant component of the Company's cost of service and amounts assessed are beyond the control of the Company to manage. Since the 2014 Rate Case, property taxes have continued to increase, and are expected to continue to increase, from the amounts that were included in rates in that case. As such, the Company is requesting that the average of projected 2017 and 2018 property taxes be used in its cost of service and be tracked under a one-way tracker. Please see the testimony of Company witnesses Tim M. Rush and Ronald A. Klote for more details on this issue.

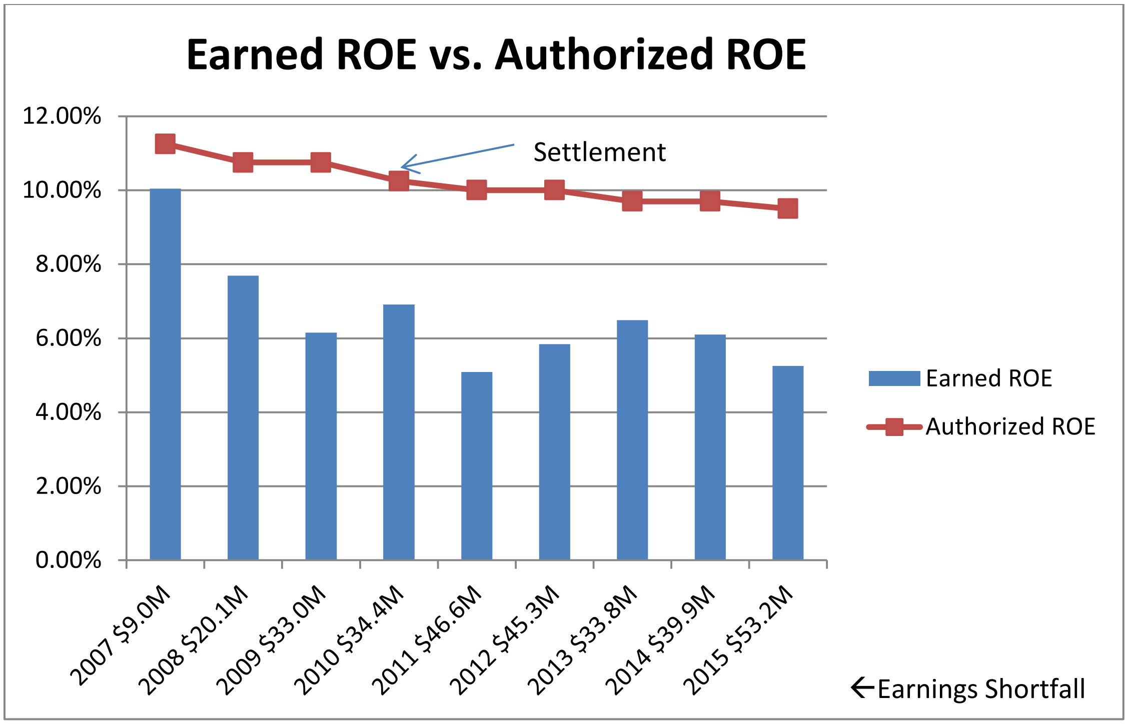
Fourth, as discussed in more detail in the Direct Testimony of KCP&L witness Albert R. Bass, Jr., KCP&L is experiencing flat to declining average use per customer since 2010 whereas in years prior to 2008, KCP&L's average use per customer was increasing per year. This fundamental change in KCP&L's operating environment means that revenue growth can no longer be relied upon as a means of offsetting future cost increases and requires a re-evaluation of the manner in which KCP&L's rates are set. Please see the testimony of Company witness Albert R. Bass, Jr. for more details on this issue.

Fifth, the Company is requesting the continuation of KCP&L's FAC with some modifications. As part of its request in this case the Company has re-based the amount of fuel and purchased power cost and included the re-based amount in base rates in this case. The fuel and purchased power costs that have been included in the cost of service for this case have increased over those amounts included in base rates in KCP&L's 2014 Rate Case. In addition, as discussed above, transmission of electricity by others costs are requested to be included in the FAC going forward. Please see the Direct Testimony of Company witness Burton L. Crawford for further explanation of fuel and purchased power costs and the Direct Testimony of witness Tim M. Rush for further explanation of the continuation of the FAC and associated modifications.

IV. REGULATORY LAG

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

A: Consistent with my testimony in the 2014 Rate Case, KCP&L continues to experience extensive regulatory lag, particularly in its Missouri jurisdiction, consistent with results over the last several years. The regulatory lag experienced prevents the Company from realizing an earned ROE that is reasonable and expected based on the allowed ROE authorized by the Commission in previous cases. While allowed returns do not represent a guarantee of a return, investors in our Company certainly have an expectation that earned returns will be reasonable in relation to the allowed returns. Investors have an understanding of the limitations of the Missouri regulatory framework caused by the use of historical test years and the lag that is inherent due to capital investments placed in-service between rate cases; however, our recent experience in earned returns has not been reflective of the expected relationship between earned and allowed returns. In fact, the gap between earned returns and authorized returns from 2007 through 2015 as portrayed below has resulted in an aggregate earnings shortfall to our shareholders over the period in excess of $315 million, which in no way is reflective of investors' expectations for performance.



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

A: There are several. First and foremost, the regulatory model in Missouri is built primarily on historical financial information. From a cost of service perspective, the process utilizes historical test year costs, trued-up for known and measurable changes. Regardless of the true-up period, this model results in rates being set on historical costs that were incurred in a range anywhere from 5 months to 27 months prior to the date rates are effective. This model ignores cost increases that have occurred between the historical test year used and the date rates are effective, and also ignores the fact that in a rising cost environment, costs to serve our customers continue to increase from the date rates are effective, with little ability to synchronize recovery with costs incurred other than to initiate another expensive and time-consuming rate case.

In certain cost of service categories, costs can vary significantly from year-to-year, and when such costs are a material cost of service component, they can have a dramatic impact to the Company as a result of regulatory lag. From a capital investment perspective, when annual capital additions exceed the annual depreciation expense, as is occurring at KCP&L, significant regulatory lag is produced. This lag is a result of the same historical model that I discussed regarding cost of service. Capital investments are generally reflected in a rate case based on assets placed in-service as of the true-up date in the case. In this case, it means capital assets will be five months outdated at the time rates from this case are effective. Additionally, while utilities are allowed to record an Allowance for Funds Used During Construction ("AFUDC") to recover financing costs associated with construction work in progress, assets placed in-service subsequent to the true-up of the case, receive no financing cost recovery until the utility files another expensive and time-consuming rate case to reflect the assets in rate base. During the entire time the assets are in-service but not reflected in rates, the Company is also recording depreciation expense for the utilization of the assets. Such depreciation expense is not reflected in rates and, except for specific, infrequent circumstances in which construction accounting authority has previously been provided for large generation investments, there is not currently a mechanism in Missouri to routinely recover that lost depreciation expense. These regulatory lag effects for capital investment are significant to KCP&L.

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

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

A: Yes. Another factor significantly contributing to regulatory lag for KCP&L is that the Company is experiencing little or no growth in its Missouri sales due to stable population numbers in its Missouri service territory, conservation measures and other factors. KCP&L witness Albert R. Bass, Jr. explains this in more detail in his Direct Testimony. Prior to 2008, KCP&L, and other regional utilities experienced load growth (increased kWh usage) in a typical range of 2% to 3% annually. In the historical-based regulatory model, this increased kWh usage on the Company's system provided revenues that exceeded the revenues that rates were based on. Utilities like KCP&L were able to utilize the increased revenue to offset cost of service and capital investment regulatory lag. Today, the Company has experienced flat to declining kWh and kW usage in its Missouri service territory since rates were last set. This lack of load growth exacerbates the cost of service and capital investment regulatory lag previously discussed.

Q: Please provide some discussion of specific impacts from rates authorized in KCP&L's previous rate cases. What was the KCP&L-MO jurisdictional authorized ROE granted in the previous two cases?

A: The Company was authorized an ROE of 9.7% for its KCP&L-MO jurisdiction in its 2012 rate case. The Company was authorized an ROE of 9.5% for its KCP&L-MO jurisdiction in its most recent 2014 Rate Case.

Q: How does that compare with the Company's earned ROE for 2013, 2014, 2015 and the 12 months ended March 2016??

A: The earned ROE for KCP&L-MO was 6.5% in 2013, 6.1% in 2014, 5.3% in 2015 and 6.9% for the 12 months ended March 2016.

Q: The Company implemented rates in January 2013 and October 2015, based on an authorized ROE of 9.7% and 9.5% respectively, yet the actual earned ROE continues to significantly lag behind the authorized amounts. Can you explain why?

A: Simply put, KCP&L-MO did not earn its authorized ROE during these periods because actual experience for certain cost of service items were materially different than the amounts used for such items in the rate setting process in Missouri because the cost levels continued to increase over amounts established in rates. The most material of those items driving KCP&L-MO's earnings shortfall during this period include the following:

- Retail revenues – continued flat to declining as discussed previously.
- Fuel and purchased power costs – This component impacted 2013, 2014 and majority of 2015. In the 2014 Rate Case, KCP&L-MO jurisdiction was granted the use of a FAC which should decrease its fuel and purchased power cost impact on regulatory lag on a going forward basis.
- Transmission costs – SPP base plan funding construction costs have caused this cost component to continually increase year-over-year.
- Rate Base and depreciation expense – The Company has needed to continue to make investments in infrastructure which have increased rate base in recent years. As depreciation on infrastructure investments exceeds annual depreciation expense included in rates regulatory, additional lag is created.

- General taxes (property) – Continued increases in state-assessed property taxes which are out of the Company's control.

Because KCP&L-MO revenues during this period have not experienced growth, KCP&L-MO had little to no opportunity to offset or otherwise mitigate the higher cost levels actually experienced during these periods for fuel and purchased power, transmission costs, property taxes, rate base and other costs used in setting rates for KCP&L-MO that took effect in 2013 and 2015.

Q: Do you expect KCP&L-MO to achieve its Commission-authorized earnings level in 2016?

A: No. Expenses for property taxes, SPP transmission (net of revenues) and CIP/cyber operation and maintenance ("O&M") actually incurred in 2016 are expected to exceed the rate allowance for those items authorized by the Commission in the 2014 Rate Case. Rate base has also continued to grow as evidenced by the fact that capital expenditures continue to exceed the level of annual depreciation expense. In addition, as explained in the Direct Testimony of KCP&L witness Albert R. Bass, Jr., average use per customer continues to be flat which means that growth in revenues is not offsetting the mismatch between cost levels used to set rates in the last rate case and the cost of service actually incurred while the rates are effective. These factors continue to be a significant regulatory lag issue that must be addressed if KCP&L is to be allowed to earn its authorized ROE.

Q: Given your prior discussion regarding regulatory lag, what conclusions do you draw?

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

For KCP&L to have a realistic opportunity to earn its Commission-authorized return, and continue to attract the capital necessary to make the investments required to continue providing safe and reliable service to its customers, the Commission must recognize this disconnect between the changing environment faced by KCP&L and the historical regulatory construct in the state. It is essential that the Commission make use of forecasted expenses where appropriate to help close this gap and provide KCP&L a realistic opportunity to achieve its Commission-authorized return.

V. FORWARD-LOOKING RATE TREATMENT

Q: Does the Company propose to use any forward-looking rate treatment as a part of this rate case in addition to the FAC?

A: Yes, on a limited basis, for three expense items: 1) transmission expenses paid by KCP&L to RTOs that are not flowed through the FAC, 2) state-assessed annual property taxes and 3) non-labor O&M expenses incurred by KCP&L to meet evolving requirements associated with CIP/cyber. The specifics of the Company's proposals in these areas are discussed in more detail in the Direct Testimony of KCP&L witness Tim M. Rush.

Q: Why does the Company propose forward-looking rate treatment for transmission expense, property tax expense and CIP/cyber O&M expense?

A: As discussed in more detail in the Direct Testimony of KCP&L witness John R. Carlson (for transmission expense), the Direct Testimony of KCP&L witness Joshua F. Phelps-Roper (for CIP/cyber O&M expense), the Direct Testimony of KCP&L witness Ronald Klote (for property tax expense) and the Direct Testimony of KCP&L witness Tim M. Rush, all of these expense items are rapidly changing such that historical cost information is not likely to be representative of future costs when the rates set by this case are in effect. It is important to note in this regard that, as discussed in more detail in the Direct Testimony of KCP&L witness Albert R. Bass, Jr., KCP&L's average use per customer is flat to declining on a forward looking basis such that future revenue growth cannot reasonably be expected to offset the significant future increases expected in transmission expense, property taxes expense and CIP/cyber O&M expense.

Q: Is judicious use of expense forecasts or forward-looking regulatory mechanisms in the long-term best interest of customers?

A: Yes. As KCP&L witness Robert B. Hevert states in his Direct Testimony, Missouri's regulatory environment is currently ranked in the bottom quarter of 53 regulatory jurisdictions as assessed by Standard and Poor's Financial Services LLC (S&P) in a January 2014 publication. Mr. Hevert accurately summarizes that, given Missouri's ranking, the financial community appears to attribute higher regulatory risk to KCP&L than to other utilities (on average). As I previously mentioned, the current regulatory model in Missouri has not kept pace with the changing operating environment faced by KCP&L. Over the last several years, KCP&L-MO has not had a realistic opportunity to earn its Commission-authorized return. KCP&L is faced with significant increases in costs due to governmental mandates and imposed costs. Some of that cost is reflected in increased cost of service and some in required infrastructure investment. Additionally, KCP&L faces continued infrastructure investment to replace aging infrastructure (i.e., facilities that have reached the end of their useful life).

Continued provision of safe and reliable service to KCP&L's Missouri customers requires a financially strong utility. Judicious use of forecasted expenses or other forward-looking regulatory mechanisms, as requested by KCP&L in this case, is frequently cited by credit rating agencies and utility investor publications when they assess the risk faced by a utility company. By utilizing such forward-looking treatment judiciously, the Commission can have a positive impact on KCP&L's ability to continue to enjoy access to low-cost capital to fund future investments that will be used to serve customers. These capital costs are passed on to customers, thus any reduction in the cost of capital provided by recognition of these mechanisms is a benefit to customers.

Q: The forward looking rate treatment alternatives discussed in the Direct Testimony of Tim M. Rush for transmission expense paid to RTOs, state-assessed property taxes and CIP/cyber expense involve, to varying degrees, the use of one-way trackers to record as regulatory liabilities on the balance sheet what would otherwise be recorded as revenues, expenses, gains or losses on the income statement. Would you briefly discuss the relevant provision of the FERC Uniform System of Accounts ("USOA")?

A: Yes. Definition 31 of the USOA states that "Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies." Definition 31 further provides that:

> Regulatory assets and liabilities arise from specific revenues, expenses, gains or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts, but for it being probable:
>
> A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
>
> B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.[1]

Q: Does General Instruction 7 of the USOA apply to the recording of regulatory assets and/or liabilities?

A: No. General Instruction 7 addresses whether items should be recorded in Account 434 (extraordinary income) or Account 435 (extraordinary deductions) on the income

[1] 18 C.F.R § 101 (2014).

statement, and has no applicability to the recording of regulatory assets and/or liabilities on the balance sheet.

Q: Is it reasonable for the Commission to authorize tracker treatment for transmission expense, property tax expense and CIP/cyber expense in this rate case even if these costs are not considered extraordinary?

A: Yes. In this general rate proceeding, the Commission should set rates that will recover KCP&L's cost of service as it exists during the period when rates will be in effect. The establishment of such a forward-looking revenue requirement can only be accomplished by making a reasonable forecast of conditions likely to prevail during the period when rates will be in effect. For KCP&L, it is clear that transmission expense, property tax and CIP/cyber non-labor O&M expense will be increasing after the test year and true-up period in this case. It is also clear that customer usage for KCP&L is not expected to grow after the test year and true-up period in this case. As such, reliance exclusively on historical costs to set the rate allowance for KCP&L's transmission expense, property tax and CIP/cyber expense will result in under-recovery for KCP&L and associated earnings shortfalls that will not be offset by revenue growth. That such costs are not considered extraordinary does not disqualify them under the USOA from being considered by the Commission for full recovery in a future rate case that tracker treatment would provide. It needs to be remembered that this is a general rate proceeding where KCP&L seeks forward-looking tracker treatment for normal, recurring and customary costs, necessary to provide electric service, that are expected to be higher in the years rates from this case are in effect than in the historical test year and true-up period that would otherwise be used to set cost of service in this proceeding. This is not a request made outside the context of a general rate proceeding for an accounting authority order to defer costs – that would most likely be of a type that do not recur regularly – based upon an isolated, non-recurring past event.

VI. TRANSMISSION EXPENSES

Q: What is the Company's proposal regarding the recovery of transmission costs?

A: The Company is requesting modification to its FAC mechanism to include the recovery of forecasted transmission costs, specifically the transmission costs associated with the charges and revenues from SPP billings and transmission costs to buy and sell energy. KCP&L's generators commit their electricity to be sold in the SPP market. As a load-serving entity, KCP&L is a buyer and takes electricity from out of the SPP market without regard to its generation source. SPP controls which generation facilities operate at any given time, not KCP&L or its individual generators. Inclusion of transmission costs in the FAC will provide for a direct link between transmission associated with the sale and purchase of energy and ensure appropriate recovery of transmission costs billed by SPP. Transmission capital investments and O&M costs incurred for the operation of KCP&L will not be included in the FAC, but will be recovered through base rates.

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

A: Transmission costs can vary significantly from year-to-year, and such costs are a material operating cost to the Company's overall cost of service. These transmission costs are primarily out of the Company's control and currently escalating on an annual basis under SPP's FERC-approved tariffs. Historically, transmission costs have fluctuated due to load variations, both native and off-system. But what makes the current environment of transmission costs extraordinary in nature is that currently the SPP's regional transmission upgrade projects are being planned, constructed and billed to SPP members in order to expand and enhance the regional transmission grid. In addition, the associated SPP administrative fees contribute to KCP&L's transmission costs rising over historical norms. SPP's regional transmission plan provides for regional transmission expansion and a detailed list of projects in order to achieve the plan. SPP employs a cost allocation methodology to provide fair and equitable sharing of costs for base-plan transmission additions across its regional territory. Transmission costs are directly linked to the Company's fuel and purchased power requirements, particularly because of the SPP Day 2 market. As a member of SPP, KCP&L is required to pay for service set out in the SPP tariff. While there are a variety of charges resulting from that tariff, KCP&L cannot pick and choose which services it will pay for. Even though they exist as distinct schedules, they are required charges under SPP's FERC-approved tariff, and as a member of SPP, KCP&L must pay them to serve load. It is appropriate they be recovered in a similar manner as fuel and purchased power costs.

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

A: KCP&L is not the ultimate decision-maker with regard to SPP transmission costs that are allocated to the Company. SPP's independent Board of Directors retains the authority to decide which transmission projects are undertaken for construction. In addition, the Regional State Committee determines the manner in which the costs of those projects are allocated to transmission customers, subject to approval by the FERC. However, KCP&L exercises a degree of influence on such decisions through its participation in the

SPP stakeholder process. KCP&L has voting membership on a number of SPP stakeholder committees including the Members Committee, the Markets and Operations Policy Committee ("MOPC"), the Market Working Group, the Transmission Working Group, and the Regional Tariff Working Group, among others. In addition, KCP&L has personnel who participate in discussions of other stakeholder groups in which they do not have voting membership. Due to the independence of the SPP Board and Regional State Committee, the decisions of the stakeholder committees and working groups are not binding. However, as a result of the subject matter expertise and focus of these stakeholder groups, their decisions and recommendations carry substantial weight in the formulation of final decisions by SPP. This is particularly true of the MOPC, which is a large committee in which all SPP members have representation and to which most of the stakeholder committees report. The MOPC's recommendations are taken up by the SPP Board and are approved by the Board in most cases. In addition, KCP&L personnel participate in stakeholder review of SPP planning activities and cost-benefit analyses and provide both input and feedback to improve the studies and the resulting decision-making processes. Although KCP&L does not have final decisional authority in SPP, it actively exercises its influence and voting rights through the SPP stakeholder process as described above.

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

A: In the 2014 Rate Case, the Company requested that all net transmission costs paid by KCP&L to RTOs be flowed through the FAC. The Commission did not approve the request and instead allowed 7.3% of KCP&L's net transmission costs paid to RTOs to be flowed through the FAC. KCP&L asks that the Commission include all net transmission costs in the FAC on a forecasted basis in this case. Including transmission costs in KCP&L's FAC to be implemented and utilized by KCP&L as a result of this case is essential for the Company to have any realistic opportunity to achieve its Commission-authorized return. Additionally, to the extent that transmission costs decline in the future, adoption of an FAC that includes transmission costs will protect KCP&L customers from overpaying for transmission costs. KCP&L witness Tim M. Rush supports the FAC mechanism request and the inclusion of transmission costs in the FAC in his Direct Testimony.

Q: Discuss the impact of the SPP/Independence Power & Light settlement on transmission costs going forward?

A: On April 13, 2015, SPP filed at FERC in Docket No. ER15-1499, on behalf of Independence Power & Light ("IPL"), the necessary revisions to the SPP Open Access Transmission Tariff ("OATT"), to implement IPL's stated transmission service rate to accommodate the recovery of IPL's annual transmission revenue requirement ("ATRR"). The SPP/IPL filing proposed the placement of IPL and its ATRR into the KCP&L pricing zone (Zone 6) under the SPP OATT. The placement of IPL into Zone 6 created a pricing zone that now combines the IPL ATRR and load with KCP&L's legacy zonal ATRR and the prior Zone 6 load.

Transmission Customers in Zone 6 are charged for their zonal load ratio share of the KCP&L and IPL legacy zonal ATRRs. KCP&L's native system zonal load ratio share in Zone 6 is approximately 90%. KCP&L's native system load includes the Missouri retail load, the Kansas retail load, and the FERC-jurisdictional load for KCP&L's full requirements wholesale customers.

The IPL ATRR that was included in the April SPP/IPL FERC filing was approximately $7.2 million. The $7.2 million IPL ATRR is the basis for what has been charged to KCP&L and other Zone 6 Transmission Customers since June 1, 2015. Thus, KCP&L has been paying approximately $6.4 million related to IPL's ATRR for its native system load.

Under the terms of the IPL settlement, IPL's ATRR will be phased in over three periods:

- Period 1: For rates effective from June 1, 2015, through December 31, 2016, the IPL ATRR will be $3,000,000;
- Period 2: For rates effective from January 1, 2017, through December 31, 2017, the IPL ATRR will be $3,750,000; and
- Period 3: For rates effective from January 1, 2018, through May 31, 2019, and continuing thereafter until changed, the IPL ATRR will be $5,000,000.

Thus, KCP&L will be paying approximately $2.7 million annually for Period 1, approximately $3.4 million annually for Period 2, and approximately $4.5 million annually for Period 3 for its native system zonal load ratio share of IPL's ATRR. The request for interim rate relief was granted subject to refund, so these settlement amounts are being charged as of May 1, 2016. Resettlement of charges retroactive to June 1, 2015 will not occur until the settlement has been approved by FERC. Although this settlement was reached after completion of the revenue requirement calculation in this case, it is anticipated that once approval of the settlement is obtained it will be included in the true-up revenue requirement in this rate case proceeding.

VII. VALUE OF ELECTRICITY

Q: Specific to KCP&L, what is the long-term value of higher rates for customers?

A: The Company's Comprehensive Energy Plan was the focus of our efforts for many years. The Company made sizable investments in new coal generation, environmental upgrades, demand-side management, renewable wind energy, and transmission & distribution reliability investments. These are tangible investments made over a relatively short period of time that provide long-term value to customers in the form of low-cost environmentally responsible generation for decades to come; renewable wind energy; programs to help customers control their usage and their bills; and reliable service.

Q: Given these increases, do Missouri customers receive good value for their electricity dollars?

A: Yes, our customers receive excellent value for their electricity dollars. Using current prices, an average residential general service KCP&L-MO customer pays about $1,313 per year, $109.42 per month, $3.60 per day for electricity. If a household earns $40,000 in annual income, that household spends just over 3% of their income for electricity. Broken down to a daily basis, for $3.60 a day a residential customer heats and cools their home, refrigerates their food, washes and dries their clothes, charges their cell phones, plays their televisions, has light and much more. Using estimated usage provided by Energy Star, it costs customers about $0.21[2] a day for electricity to keep their food cold

[2] Energy Star rated 21.9 cu ft refrigerator using 604 kwh/year at KCP&L's average residential general service rate of $0.1241/kwh. Energy Star, *Energy Star Certified Residential Refrigerators* (7/1/2016), https://www.energystar.gov/productfinder/product/certified-residential-refrigerators/details/2218176.

and about $0.09[3] a day to run the dishwasher. The cost of the electricity to wash and dry clothing is about $0.28 a day[4]. A recent internet search on Dish TV indicated service availability for $49.99 per month.[5] The cost of the electricity to run a 40-inch LED television for a month is about $0.87[6]. When compared to other expenditures, both in terms of magnitude and impact, electricity remains an excellent value.

Q: How do energy rates compare against other typical expenses?

A: According to the U.S. Bureau of Labor Statistics[7], when comparing the change in price for common everyday necessities such as ground beef, eggs, or gasoline, the cost of powering a home has risen at a slower pace. For example, when comparing the price of a gallon of unleaded gasoline to electric price per kWh from 2002-2012, gasoline has risen by 11.1 percent, whereas electricity has risen only 3.2 percent.

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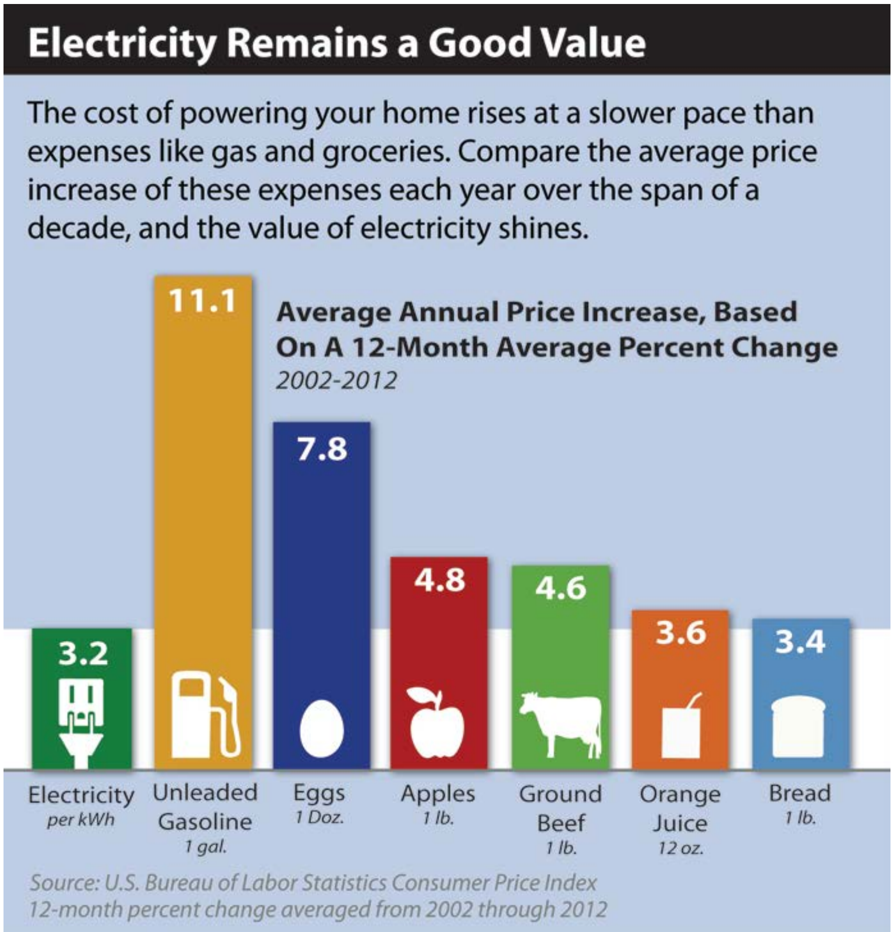
[3] Energy Star rated dishwasher using 260 kwh/year at KCP&L's average residential general service rate of $0.1241/kwh. Energy Star, *Energy Star Certified Residential Dishwashers* (7/1/2016),https://www.energystar.gov/productfinder/product/certified-residential-dishwashers/details/2256752.

[4] Energy Star rated clothes washer using 150 kwh/year and clothes dryer using 687 kwh/year at KCP&L's average general service residential rate of $0.1241/kwh. Energy Star, *Energy Star Certified Residential Clothes Dryers* (7/1/2016), https://www.energystar.gov/productfinder/product/certified-clothes-dryers/details/2264355. Energy Star, *Energy Star Certified Residential Clothes Washers* (7/1/2016), https://www.energystar.gov/productfinder/product/certified-clothes-washers/details/2223859.

[5] Dish Network, L.L.C. (7/1/2016), http://www.dish.com/.

[6] Energy Star rated 40 inch LED TV using 84.2 kwh/year at KCP&L's average general service residential rate of $0.1241/kwh. Energy Star, *Energy Star Certified Televisions* (7/1/2016), https://www.energystar.gov/productfinder/product/certified-televisions/details/2265272.

[7] U.S Bureau of Labor Statistics Consumer Price Index 12 month percent change averaged from 2002 through 2012.



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

A: Yes, as described in the Direct Testimony of Scott H. Heidtbrink, KCP&L has undertaken significant cost control efforts including the supply chain transformation project, benchmarking initiatives in the generation, delivery and supply chain areas, and disciplined management of employee headcount. The Company's cost control efforts have enabled it to limit its (total GPE) increase in controllable non-fuel operation and maintenance expenses by approximately $17.2 million from 2011 to 2015, for a rate of increase of approximately 0.69% per year, during a time when inflation in the overall economy increased by 1.49% per year and wages paid to employees have increased as well.

VIII. RATE DESIGN

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

A: The Company is proposing a 10.8% rate increase request inclusive of 3.3% for the effect of re-basing the FAC costs, the effect of which would have been reflected on customers' bills through the FAC line item, had KCP&L not filed this general rate increase request. The Company is proposing that the requested increase be applied to all metered classes on an equal percentage basis, with the exception of the Lighting class. In other words, each customer class, with the exception of Lighting class, in total would receive the 10.8% increase. The Company's rate design proposal is addressed in the Direct Testimony of KCP&L witness Marisol E. Miller.

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

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

a. Approve the proposed rate schedules and tariffs for electric service, and order that they become effective April 30, 2017, as proposed;

b. Approve the FAC modification proposed by KCP&L to include forecasted net transmission costs paid to RTOs, primarily SPP;

c. Set rates using the expense forecasts proposed by KCP&L for property taxes, RTO transmission costs (net of revenues) (to the extent forecasted net transmission expense paid to RTOs is not included in the FAC) and CIP/cyber efforts, including adoption of the requested one-way trackers for the forecasted expenses;

d. Approve continued use by KCP&L of the Pension/OPEB tracker approved by the Commission in the 2014 Rate Case; and

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

f. Approve the continuation of the Economic Relief Pilot Program as expanded in KCP&L's 2014 rate case.

g. Approve the Company's new tariff for electric vehicle charging stations resulting from KCP&L's Clean Charge Network program as discussed in the Direct Testimony of KCP&L witness Tim Rush.

h. Approve the Company's requested ROE and capital structure as proposed in the Direct Testimony of Kevin E. Bryant.

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-2016-0285

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-one (31) 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

Darrin R. Ives

Subscribed and sworn before me this 1st day of July, 2016.

Nicole A. Wehry

Notary Public

My commission expires: Feb 4, 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200