

Exhibit No.:
Issue: LaCygne Construction Audit; IPL's
SPP Membership; Rate Case Expense
Witness: Darrin R. Ives
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2014-0370
Date Testimony Prepared: July 15, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2014-0370

TRUE-UP REBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

**Kansas City, Missouri
July 2015**

TABLE OF CONTENTS

LaCygne Construction Audit2
IPL’s SPP Membership.....3
Rate Case Expense11

TRUE-UP REBUTTAL TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2014-0370

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

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

4 **Q: Are you the same Darrin R. Ives who pre-filed Direct, Supplemental Direct,**
5 **Rebuttal and Surrebuttal Testimony in this matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your True-Up Rebuttal Testimony?**

8 A: I will briefly respond to Missouri Public Service Commission (“MPSC” or
9 “Commission”) Staff (“Staff”) witness Hyneman’s True-Up Direct Testimony regarding
10 Staff’s LaCygne construction audit. Additionally, I will address Staff’s failure to include
11 an allowance for recovery of net transmission expense increases resulting from
12 Independence Power & Light’s (“IPL”) recent membership as a transmission owner in
13 the Southwest Power Pool Inc. (“SPP”) and the acceptance of SPP tariff revisions by the
14 Federal Energy Regulatory Commission (“FERC”) effective June 1, 2015 on a subject to
15 refund basis. Finally, I will respond to Office of Public Counsel (“OPC”) witness Addo’s
16 True-Up Direct Testimony regarding rate case expenses to be included in KCP&L’s
17 revenue requirement in this case.

LaCygne Construction Audit

1
2 **Q: Is it your understanding that Staff’s true-up revenue requirement includes**
3 **approximately \$550.35 million (total Company) or approximately \$292.62 million**
4 **(Missouri jurisdictional) in rate base for the LaCygne Environmental project?**

5 A: Yes.

6 **Q: Is it also your understanding that these amounts represent the total cost of the**
7 **LaCygne Environmental project recorded in accounts 311, 312, 315, 316, 353, 355**
8 **and 356 on KCP&L’s books as of May 31, 2015?**

9 A: Yes.

10 **Q: And these amounts do not reflect any level of disallowance of costs actually recorded**
11 **to those accounts by Kansas City Power & Light Company (“KCP&L”) for the**
12 **LaCygne Environmental project as of May 31, 2015.**

13 A: That is my understanding.

14 **Q: Is it also your understanding that, even though the LaCygne Environmental project**
15 **is now in-service, that additional “punch list” work continues and that additional**
16 **LaCygne Environmental project costs will be recorded on KCP&L’s books after**
17 **May 31, 2015?**

18 A: Yes.

19 **Q: And will the LaCygne Environmental project costs recorded on KCP&L’s books**
20 **after May 31, 2015 be subject to review and rate recovery in KCP&L’s next general**
21 **rate case?**

22 A: Yes.

IPL's SPP Membership

1
2 **Q: Can you provide additional detail regarding the IPL matter discussed in KCP&L**
3 **witness Klote's True-Up Direct Testimony?**

4 A: Yes. As stated in KCP&L witness Klote's True-Up Direct Testimony, transmission
5 revenue and expense has been adjusted to reflect IPL's recent membership as a
6 Transmission Owner ("TO") in the SPP. By placing IPL's transmission system into the
7 SPP KCP&L Pricing Zone 6 ("KCP&L Zone") under the SPP Open Access Transmission
8 Tariff ("Tariff"), it allows for IPL's recovery of its claimed revenue requirement for its
9 transmission facilities as a TO in the KCP&L Zone. Specifically, the SPP filing
10 contained modifications to Attachment H, Section I, Table 1 of the Tariff to specify the
11 revenue requirement for IPL to be included as Line 6b in Zone 6, Zonal Annual
12 Transmission Revenue Requirement ("ATRR"). Table 1 was also revised to direct
13 interested parties to the Rates and Revenue Requirements ("RRR") File on SPP's website
14 which contains the allocations of ATRR consistent with the methodology established in
15 the Tariff.¹

16 **Q: Please describe how placing IPL's transmission facilities into the KCP&L Zone**
17 **impacts KCP&L customers.**

18 A: The Tariff specifies zonal rates for transmission service. For service to load located
19 within the SPP region, the transmission rates are based on the ATRR for the host zone
20 within which the load is located. The ATRR for each pricing zone for Network
21 Integration Transmission Service ("NITS") is set out in Attachment H of the Tariff. The
22 rates for Point-To-Point Transmission Service ("PTP"), which are based on the ATRR in

¹ *Southwest Power Pool, Inc.*, Docket No. ER15-1499-000, Submission of Tariff Revisions to Incorporate City of Independence Missouri as Transmission Owner (Apr. 13, 2015)

1 Attachment H, are set forth in Attachment T. Attachment L of the Tariff describes how
2 SPP distributes transmission service revenues to multi-owner zones. When placed in an
3 SPP pricing zone that accommodates multiple TOs, the Transmission Customer (“TC”)
4 pays its zonal load ratio share of the combined ATRR of the TOs in the pricing zone.

5 By placing IPL into the KCP&L Zone, the KCP&L Zone ATRR has increased
6 from \$33.8 million to \$41.0 million (based on the KCP&L ATRR of \$33.8 million and
7 the IPL ATRR of \$7.2 million). As a TC, KCP&L is allocated roughly 88% of the
8 KCP&L TO ATRR (\$29.8 million) and 88% of the IPL TO ATRR (\$6.4 million). This is
9 based on the fact that KCP&L load of 2,662.3 MW represents 88% of the combined load
10 (3,020.7 MW) of the KCP&L Zone when the IPL load (197.6 MW) is included. The
11 Kansas Municipal Energy Agency (“KMEA”), Kansas Electric Power Cooperative, Inc.
12 (“KEPCo”), and grandfathered agreements make up the remaining load in the KCP&L
13 Zone.²

14 Given that IPL load represents about 6.5% of the combined KCP&L Zone, IPL as
15 a TC pays only 6.5% of the ATRR for each TO. This means that IPL will pay
16 approximately \$2.2 million of KCP&L’s ATRR and approximately \$473,000 of IPL’s
17 ATRR.

18 KCP&L does not pay SPP Schedule 9 (NITS) charges for the use of its own
19 legacy transmission system, but it will have to pay SPP Schedule 9 charges to IPL. The
20 net result is that KCP&L, as a TC, will now have to pay approximately \$6.4 million for
21 its allocated share of the IPL ATRR. KCP&L, as a TO, will now receive Schedule 9

² The loads shown here for the existing KCP&L Zone TCs are based on 2013 load data. The 2013 load data for the existing KCP&L Zone TCs was utilized in this analysis in order to be consistent with 197.6 MW load estimate for IPL, which was provided to the Company by SPP and IPL and was based on 2013 data.

1 revenues of approximately \$2.2 million for IPL's allocated share of the KCP&L ATRR.
2 KCP&L's Schedule 9 revenues from KMEA's and KEPCo's allocated load share will
3 now also be reduced by more than \$100,000, because a portion of their Schedule 9
4 charges will be allocated to IPL. This results in a net detrimental impact to KCP&L of
5 about \$4.3 million.

6 **Q: What is causing this net detrimental impact to KCP&L customers from IPL being**
7 **placed into the KCP&L Zone?**

8 A: By placing IPL into the KCP&L Zone, the KCP&L Zone now reflects the incremental
9 IPL ATRR of approximately \$7.2 million and the incremental IPL load of 197.6 MW.
10 The incremental IPL ATRR divided by the incremental IPL load is more than \$36,000
11 per MW-year, which is more than three times the existing KCP&L ATRR divided by the
12 existing load in the KCP&L Zone ($\sim \$33.8 \text{ million} / \sim 2823 \text{ MW} = \sim \$12,000 \text{ per MW-}$
13 year). The addition of IPL to the KCP&L Zone effectively increases the price of
14 transmission service to existing TCs in the KCP&L Zone from approximately \$12,000
15 per MW-year to approximately \$13,500 per MW-year (or more than a 13% increase).
16 Conversely, the price that IPL is paying for transmission service has effectively been
17 reduced from the approximately \$36,000 per MW-year for the use of their own system to
18 the approximately \$13,500 per MW-year for the new combined KCP&L/IPL zone (or
19 more than a 60% decrease). IPL being placed in the KCP&L Zone essentially results in a
20 cost shift of approximately \$4.3 million from IPL customers to KCP&L customers.

1 **Q: Are there other detrimental impacts to KCP&L customers from IPL becoming a**
2 **NITS TC in SPP?**

3 A: Yes, prior to becoming a NITS TC, IPL previously purchased PTP transmission service
4 under the Tariff. KCP&L, as a TO, previously received over \$500,000 per year in PTP
5 revenue from IPL. With IPL now taking NITS service under the Tariff, those PTP
6 revenues will now go away.

7 **Q: How much of the detrimental impacts will be borne by KCP&L's Missouri**
8 **customers?**

9 A: KCP&L's Missouri customers pay approximately 57% of these costs when allocated
10 across Missouri, Kansas, and wholesale full-requirements customers.

11 **Q: Does KCP&L agree with the result of these newly effective rates?**

12 A: No. IPL becoming a TO in the KCP&L Zone has resulted in a significant and
13 unreasonable cost shift from IPL customers to KCP&L and its customers. KCP&L
14 believes that IPL customers should pay for IPL's legacy transmission system and
15 KCP&L customers should pay for KCP&L's legacy transmission system. KCP&L
16 believes that SPP had the authority to take a more equitable approach by placing IPL in
17 its own separate pricing zone or, in the alternative, finding another way to hold KCP&L
18 and its customers harmless from paying the costs of IPL's existing transmission system.
19 KCP&L does not dispute the approximate \$500,000 revenue loss from PTP credits
20 because this would have occurred whether IPL was placed in the KCP&L Zone or
21 another pricing zone.

1 **Q: Does IPL becoming a TO in the KCP&L Zone also impact KCP&L Greater**
2 **Missouri Operations Company (“GMO”)?**

3 A: No. GMO has its own separate SPP pricing zone, so it is not impacted by the placement
4 of IPL into the KCP&L Zone versus a separate zone. SPP looked at potentially placing
5 IPL in the SPP GMO Pricing Zone 9 (“GMO Zone”), but determined that KCP&L was
6 more appropriate considering the geographical location and number of interconnections
7 with KCP&L. However, in the event that IPL would have been placed in the GMO Zone,
8 GMO would have seen a net cost shift of approximately \$3.4 million using the same
9 methodology used in calculating the KCP&L Zone impacts.

10 **Q: Does IPL becoming a NITS TC in SPP also impact GMO?**

11 A: Yes. GMO is impacted by IPL now taking NITS rather than PTP transmission service.
12 GMO, as a TO, previously received over \$300,000 per year in PTP revenue from IPL.
13 With IPL now taking NITS under the SPP Tariff, those PTP revenues will go away
14 similar to the impact for KCP&L.

15 **Q: Are there any benefits to KCP&L and its customers based on this change?**

16 A: Yes. KCP&L formerly paid approximately \$286,000 per year to IPL for facilities
17 charges on an IPL-owned transmission line related to a 15 MW load that is served by
18 KCP&L at its Blue Mills Substation and connected to the IPL-owned transmission line.
19 This charge to KCP&L was suspended when IPL placed its transmission facilities under
20 the SPP Tariff and will be cancelled subject to the conclusion of the ongoing FERC
21 proceeding ER15-1499-000.

1 **Q: What has KCP&L done to advocate that its customers should not have to pay for**
2 **IPL's legacy transmission system?**

3 A: Although SPP and IPL had been evaluating the rate effects of different scenarios for IPL
4 since at least October 2014, KCP&L was not informed until February 2015 about any
5 details of the integration plan of IPL into the KCP&L Zone, after such decision was made
6 to place IPL into the KCP&L Zone. Since being informed by IPL in February 2015 that
7 it had decided to join SPP as a TO in the KCP&L Zone and learning of the potential cost
8 shift to KCP&L customers, KCP&L has aggressively reached out to both Independence
9 and SPP through numerous conversations, meetings and emails to express our concerns
10 with the approach and consequential impact to KCP&L customers. These conversations
11 ultimately proved unfruitful and SPP filed at FERC on April 13, 2015 its Tariff revisions
12 to incorporate IPL as a TO in the KCP&L Zone. KCP&L put together an aggressive
13 response and protested the FERC filing. KCP&L continues to vigorously fight these new
14 rates in the proceeding for FERC Docket No. ER15-1499-000.

15 **Q: Are these new rates now in effect?**

16 A: Yes. On June 12, 2015, FERC issued an order accepting the SPP Tariff revisions to
17 implement IPL's stated transmission service rate to accommodate recovery of its ATRR
18 to be included in the KCP&L Zone under the Tariff with an effective date of June 1,
19 2015, as requested, subject to refund, pending the outcome of the hearing and settlement
20 proceedings. As such, SPP published its new RRR File showing the IPL ATRR of
21 \$7,237,454 effective June 1, 2015. KCP&L will receive Schedule 9 charges on invoices
22 from SPP going back to June 1, 2015, once the SPP billing system is uploaded with the
23 IPL load and ATRR details.

1 **Q: Has the Commission recognized in revenue requirement revenues and/or expenses**
2 **based on events occurring immediately after the relevant test year or true-up**
3 **period, whether the event occurs on the last day of the period or the first day of the**
4 **immediately following month?**

5 A: Yes. For example, in this current case, the KMEA load following contract expired on
6 May 31, 2015. A new contract became effective June 1, 2015 and extends through May
7 31, 2018. The per-unit cost of the contract increased. Consistent with the Company,
8 Staff has used the increased costs in its adjustment for the annualization of firm
9 wholesale revenue. This is one example of where Staff has gone out beyond the firm cut-
10 off date of a true up period.

11 **Q: Have there been other instances where Staff have gone out beyond the true-up date?**

12 A: Yes, in Case No. ER-2010-0355 Staff witness Cary Featherstone stated the following on
13 pages 5-6 of his True-Up Direct Testimony:

14 Staffs true-up also includes increased fuel costs due to actual price
15 increases for the commodity and for delivery, i.e., freight costs escalated
16 for a January 1, 2011 contract increase. Although the change in freight
17 costs is beyond the true-up period cut-off date of December 31, 2010,
18 Staff included this material cost change in its calculation of its revenue
19 requirements for KCPL, MPS and L&P in its true-up filing. Doing so
20 comports with past Commission practice of recognizing material events
21 that occur very shortly after the end of a true-up period, here, December
22 31,2010. Consequently, Staffs true-up covers reasonable and prudent cost
23 increases through the end of the year that are not specifically included in
24 Staff's direct filing.

25 **Q: Why is it reasonable for the Commission to recognize in KCP&L's revenue**
26 **requirement in this case the FERC's acceptance of the SPP tariff reflecting IPL as a**
27 **transmission owning member of SPP?**

28 A: The impact of IPL's membership in SPP as a TO is significant to KCP&L, and failure to
29 recover the associated costs through rates will reduce KCP&L's Missouri jurisdictional

1 earnings by approximately \$2.4 million annually. Because KCP&L is operating in a no
2 to low load growth environment and fully expects to see cost increases in other areas of
3 its business (i.e., rate base is expected to continue to grow), there will only be minimal
4 opportunities for KCP&L to offset the earnings shortfall related to IPL if no such revenue
5 requirement adjustment is made.

6 **Q: Please briefly discuss KCP&L's intentions regarding its challenge to the SPP**
7 **transmission cost increases currently being imposed on KCP&L as a result of**
8 **FERC's acceptance of the SPP tariff filing reflecting IPL as a transmission owning**
9 **member of SPP?**

10 A: KCP&L does not believe that it or its customers should be required to pay for the costs of
11 IPL's legacy transmission system. As KCP&L stated in the protest it filed with FERC,
12 "Independence has previously operated as an independent system, interconnected with
13 KCP&L and other systems but not as part of the KCP&L zone." Accordingly, KCP&L
14 argues before FERC that it should not be required to pay the increased net transmission
15 expenses to SPP that have resulted from IPL's membership in SPP, SPP's associated
16 tariff filing and FERC's acceptance, on a subject to refund basis, of that SPP tariff filing.
17 FERC has not yet ruled on the merits of KCP&L's arguments but has determined that,
18 "SPP's proposed Tariff revisions on behalf of [IPL] raise issues of material fact that
19 cannot be resolved based on the record before us and are more appropriately addressed in
20 the hearing and settlement judge procedures ordered below."³ KCP&L intends to
21 challenge the assignment of IPL's costs to KCP&L at FERC up to and including a final
22 non-reviewable FERC order, provided that a settlement cannot be reached by the parties.

³ *Southwest Power Pool, Inc.*, FERC Docket No. ER15-1499-000, 151 FERC ¶ 61,211 at P 42 (issued June 12, 2015) available at <http://elibrary.ferc.gov/idmws/search/fercensearch.asp>.

1 This Commission and the Kansas Corporation Commission (“KCC”) are parties to this
2 FERC proceeding, and KCP&L would expect that any discussions of settling that
3 proceeding would necessarily involve both this Commission and the KCC.

4 Rate Case Expense

5 **Q: Do you agree with OPC witness Addo’s rate case expense adjustments?**

6 A: No, for the reasons set forth in my previously filed testimony, I do not agree with OPC’s
7 arbitrary disallowance of 50 percent of rate case expense.

8 **Q: Do you agree with Mr. Addo’s proposal to deny KCP&L’s recovery of outside
9 counsel costs above \$200/hour?**

10 A: No. Mr. Addo’s adjustment was first made in Surrebuttal Testimony so the Company
11 was not able to address it in written testimony prior to true-up. Mr. Addo claims that the
12 hourly rates charged by Messrs. Fischer and Zobrist are excessive but the comparison he
13 makes does not prove his point. First, the two pages from the 2013 Missouri Bar survey
14 attached to Mr. Addo’s Surrebuttal Testimony do not reflect what attorneys that
15 specialize in regulatory law charge for their services. I note that page i of the survey
16 cautions against using only portions of the study:

17 This survey report is a snapshot of the economic performance of the legal
18 profession in Missouri as of December 31, 2012. **The information from
19 this survey should be used as a guide and not as an absolute standard.**
20 *The Missouri Bar Economic Survey Report* should be considered and used
21 in its entirety.

22 Second, I disagree with Mr. Addo’s use of the rates of Ameren’s outside counsel
23 as a proxy for the rates that KCP&L’s outside counsel charge. I do not believe that the
24 rates charged by Ameren’s outside counsel can serve as a proxy because a comparison of
25 rates alone does not provide sufficient information on which to base a disallowance.
26 Specifically, the total hours to which the rates are applied is necessary to understand the

1 work being done and the total costs being incurred. It's quite possible that Ameren uses
2 their outside counsel very differently than KCP&L does. That certainly appears to be the
3 case, as Ameren's total rate case expense in its recent case was approximately \$2.4
4 million while KCP&L expects to incur less than \$1.4 million, and through the true-up has
5 incurred less than \$700,000. There is simply no basis to conclude that KCP&L has
6 incurred an unreasonable level of attorney fees in this case. Additionally, the rate case
7 expense level to be borne by customers is also significantly affected by the length of the
8 normalization period utilized, with a longer normalization period producing lower
9 customer impacts. Ameren's rate case expense is being normalized over a two-year
10 period while KCP&L's rate case expense is being normalized over a period of three
11 years. Moreover, Ameren's counsel at the hearing indicated that his rate for Ameren
12 work is less than some of the standard rates he charges other clients. (Tr. 968)

13 **Q: Mr. Addo also raised questions regarding the use of outside counsel (the Topeka law**
14 **firm of Cafer Pemberton, LLC) to prepare witnesses in this case. How do you**
15 **respond?**

16 A: Mr. Addo's adjustment and testimony demonstrate his lack of experience and expertise in
17 evaluating legal expenses. In certain situations, it can make sense to hire new counsel
18 with a particular expertise rather than using existing counsel to undertake a task that they
19 have less familiarity with. The Company believed that the issue of decisional prudence
20 regarding the LaCygne environmental upgrades would be raised by the Sierra Club in this
21 case based upon the positions that the Sierra Club took in the Company's last rate case
22 (ER-2012-0174). Sierra Club also challenged the prudence of the LaCygne
23 environmental upgrades in the predetermination case at the Kansas Corporation

1 Commission. Cafer Pemberton, LLC assisted in preparing witnesses Robert Bell, Burton
2 Crawford and Paul Ling for the Missouri hearing as they already had familiarity with
3 them based on the experience from the Kansas predetermination case. It was more cost
4 effective to use Cafer Pemberton, LLC for this preparation as no other counsel working
5 on Case No. ER-2014-0370 had been involved in the LaCygne predetermination case.
6 As it turned out, Sierra Club filed testimony similar to their position in the Kansas
7 predetermination case. The use of Cafer Pemberton, LLC was a cost effective way to
8 prepare for the hearing of the LaCygne issue.

9 **Q: Mr. Addo also appears to fault the Company for preparing for this issue too soon.**
10 **Do you agree?**

11 A: No. The Company knew that it was very likely that the LaCygne environmental upgrade
12 issue would be an issue in this case. It made sense to enlist the assistance of the counsel
13 who represented the Company the last time it was tried. The Company also knew that
14 due to the deadlines for Rebuttal and Surrebuttal Testimony in this case, and the
15 deadlines in the Kansas rate case, that preparation time would be hard to schedule close
16 to the time of hearing. It made sense to prepare the witnesses early given the schedule
17 that the Company faced.

18 **Q: Does that conclude your True-Up Rebuttal Testimony?**

19 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light)
Company's Request for Authority to Implement)
A General Rate Increase for Electric Service) Case No. ER-2014-0370

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 True-Up Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of thirteen (13) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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



Darrin R. Ives

Subscribed and sworn before me this 15th day of July, 2015.



Notary Public

My commission expires: Feb. 4, 2019

