

Exhibit No.:
Issue: True-up
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-up Rebuttal Testimony
Case No.: ER-2014-0370
Date Testimony Prepared: July 15, 2015

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

TRUE-UP REBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

**Great Plains Energy, Incorporated
KANSAS CITY POWER & LIGHT COMPANY**

CASE NO. ER-2014-0370

*Jefferson City, Missouri
July 15, 2015*

**** Denotes Highly Confidential Information ****

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CARY G. FEATHERSTONE
KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2014-0370**

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1 **TRUE-UP REBUTTAL TESTIMONY**

2 **OF**

3 **CARY G. FEATHERSTONE**

4 **KANSAS CITY POWER & LIGHT COMPANY**

5 **CASE NO. ER-2014-0370**

6 Q. Please state your name and business address.

7 A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East 13th
8 Street, Kansas City, Missouri.

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

10 A. I am a Regulatory Auditor with the Staff of the Missouri Public Service
11 Commission (“Commission”).

12 Q. Are you the same Cary G. Featherstone who filed direct, rebuttal and
13 surrebuttal testimony in this proceeding?

14 A. Yes, I am. I filed direct testimony in this case on April 3, 2015, sponsoring
15 Staff's revenue requirement Cost of Service Report (“COS Report”) for Kansas City Power &
16 Light Company’s (“KCPL” or “Company”) rate case filed on October 30, 2014. I provided
17 testimony in the COS Report on various topics specifically identified in the report, and on the
18 topics of off-system sales, jurisdictional allocations and additional amortizations for Iatan 2.
19 I also filed rebuttal testimony on May 7, 2015, and surrebuttal testimony on June 5, 2015,
20 regarding regulatory lag, and the use of deferral mechanisms such as trackers and fuel clauses
21 and jurisdictional allocations.

1 On July 7, 2015, I filed True-up direct testimony on the results of the true-up through
2 May 31, 2015 performed by Staff. In that testimony, I sponsored the separately filed
3 Accounting Schedules.

4 Q. What is the purpose of your True-up rebuttal testimony?

5 A. The purpose of this testimony is to respond to KCPL's True-up
6 direct testimony concerning the Company's proposed revenue increase that includes
7 out-of-period adjustments for events that occur outside of the agreed upon and
8 Commission-approved true-up period that ended May 31, 2015, and to respond to Office of
9 the Public Counsel's (Public Counsel) proposal to consider amortizations out to September of
10 2015, also an out-of-period adjustment.

11 I also provide the results of Staff's updates to the revenue requirement
12 recommendation presented in the Staff's True-up direct filed on July 7, 2015. Staff has had
13 numerous discussions with KCPL personnel since the July 7th filing to discuss various
14 concerns. Through those discussions, (further review and new information), Staff has made
15 certain changes and updates to its revenue requirement model. I am sponsoring the Revised
16 True-up Accounting Schedules that are being filed concurrently with this testimony which
17 contain the updates to the revenue requirement results of the true-up conducted by Staff based
18 on the Commission ordered true-up through May 31, 2015. Those changes will be discussed
19 in my True-up rebuttal testimony.

20 **EXECUTIVE SUMMARY**

21 Q. Would you please summarize your True-up rebuttal testimony?

1 A. KCPL, through the True-up direct testimony of Ron Klote, is proposing a
2 revised true-up revenue requirement increase of \$112.7 million.¹ Staff has determined
3 KCPL's revenue requirement increase should be from \$76.0 to \$86.5, based on revisions
4 made to revenue requirement proposed in the True-up direct and an overall rate of return
5 range of 7.28% to 7.53%.

6 KCPL has made out-of-period adjustments in its true-up calculation for events that
7 occur outside the agreed upon and Commission approved true-up period that ended May 31,
8 2015.

- 9 • KCPL has removed two capacity agreements that do not expire until
10 September 30, 2015.
- 11 • KCPL has included the effects of uncertain potential cost increases for
12 transmission expenses from the recently approved membership of
13 Independence Power & Light ("Independence Power" or "IPL") into the
14 Southwest Power Pool ("SPP").

15 Both of these events will occur beyond the agreed upon and ordered May 31, 2015 true-up
16 end date.

17 Similarly, Public Counsel witness William Addo makes a recommendation in
18 his True-up direct testimony to take various amortizations out through September, 2015.
19 Like KCPL's proposals, because May 31, 2015 is the true-up cutoff Staff opposes this
20 out-of-period proposal.

21 Staff witness Karan Lyons addresses the Independence Power matter in her True-up
22 rebuttal testimony. I respond to KCPL's exclusion of the capacity sale agreements in this
23 True-up rebuttal testimony.

¹ Klote True-up Direct, page 1.

1 **TRUE-UP RESULTS-- REVISED**

2 Q. What is Staff's current recommendation for KCPL's revenue requirement
3 increase?

4 A. Staff's updated revenue requirement increase for the May 31, 2015 true-up end
5 date based on certain revisions made to the true-up results filed on July 7, 2015, as reflected in
6 the Revised True-up Accounting Schedules that are being filed concurrently with this
7 testimony, based on Staff's rate of return range recommended by Staff witness Zephania
8 Marevangepo, is as follows:

9

Company	Revised True-up as of May 31, 2015		
	Low	Mid	High
Kansas City Power & Light Company	\$76.0 million	\$81.2 million	\$86.5 million

10 [Source: Staff's True-up Rebuttal Accounting Schedules filed on July 15, 2015]

11 Q. What changes have been made to the revenue requirement recommendation?

12 A. KCPL and Staff have been in discussions through the time between the
13 True-up direct and true-up rebuttal filing. As a result of those discussions, several areas have
14 been updated and revised to change the overall revenue requirement recommendation. Those
15 areas are:

16 **Rate Base:**

- 17
- Updated fuel inventories – Rate Base – Accounting Schedule 2

18 **Income Statement:**

- 19
- Updated firm capacity sales, Adjustment Rev-8 and Rev-9
 - 20 • Updated retail revenues, Adjustments Rev-2.2 and Rev-2.4
 - 21 • Updated bad debt (as a result of updated revenues), Adjustment E-168.1

- 1 • Updated Fuel Expense Coal and Gas and Purchased Power for changes to
2 customer loads and natural gas reservation payment relating to January 1, 2015
3 price changes, Adjustments E-7.2, E-93.1, E-109.1
- 4 • Transmission Expense update, Adjustment E-123.1 with the Independence
5 Power & Light matter still an unresolved issue
- 6 • CIPS/Cyber/IT Roadmap expense update, adjustment E-195.4, E-195.5
- 7 • Updated employee benefits adjustment E 205.2
- 8 • Updated several accounts for allocation factor changes

9 **PURPOSE OF A TRUE-UP**

10 Q. What is the purpose of a true-up?

11 A. A true-up is used to include the impacts of known material events that occur
12 after the update period and much closer to when rates are going to be in effect to be reflected
13 in the determination of rates. True-ups consider all the relevant and material cost components
14 making up the revenue requirement calculation, but several months past the update period.
15 The update period is the basis for the direct filing by the various non-utility parties. In this
16 case, the update period was established by the Commission as December 31, 2014. The
17 Commission, as KCPL agreed, established the true-up period to end May 31, 2015, in its
18 December 12, 2014, *Order Setting Procedural Schedule and Establishing Test Year and*
19 *Other Procedural Requirements.*

20 Q. How long has the Commission used true-ups?

21 A. The true-up concept was developed in the early 1980s by Staff to address the
22 ever increasing use of out-of-period adjustments. KCPL rate cases were early uses of the
23 true-up. As early as KCPL's 1980 rate case, the true-up concept was used to examine a

1 variety of cost components such as plant, fuel prices and payroll increases.² In KCPL's next
2 rate case—the 1981 rate case—the Company proposed a series of four adjustments for that
3 case's true-up, but Staff believed those were one-sided adjustments that only considered
4 increases to the revenue requirement. Staff proposed an additional eight adjustments to
5 balance the increases with decreases to the cost components considered in that case.³ In its
6 June 17, 1981 Order, the Commission stated:

7 The Commission finds that Staff's position should be adopted
8 in this case as to the items to be trued-up, because Staff's
9 approach will more accurately maintain the relationship among
10 revenues, plant and expenses established in the test year.⁴

11 The true-up, that was created to address isolated out of period adjustments, has been used
12 since to balance the revenue requirement by considering both increasing and decreasing cost
13 elements.

14 Q. What is trued-up in rate cases?

15 A. In the past various areas of the cost of service that often change materially over
16 short periods of time, such as plant additions, payroll increases, fuel and purchased power
17 price increases that increase the utility's revenue requirement were trued-up; however, offsets
18 to revenue requirement increases that existed, such as customer growth or declines in
19 employee levels, were also trued-up. At certain times, as plant construction cycles were
20 completed, rate base declined with increasing depreciation reserve and deferred tax
21 reserves—both used as offsets to rate base.

22 True-ups consider material components of cost of service, both those that cause an
23 increase to revenue requirement and those that cause a decrease. The Commission authorizes

² KCPL 1980 rate case designated as Case No. ER-80-48 – see 23 Mo. P.S.C. (N.S.) 479.

³ KCPL 1981 rate case designated as Case No. ER-81-42 – see 24 Mo. P.S.C. (N.S.) 392.

⁴ KCPL 1981 rate case designated as Case No. ER-81-42 – see 24 Mo. P.S.C. (N.S.) 392.

1 true-ups to maintain the proper relationship between revenues, expenses and rate base
2 investment.

3 In my direct testimony filed in this case, I stated it is important to maintain a
4 representative relationship between rate base, revenues and expenses at a point in time near to
5 when new prospective rates become effective in order for a public utility to have an
6 opportunity to earn a fair and reasonable return—the “matching principle.” An attempt is
7 made in the regulatory process to set rates to properly reflect the levels of investment and
8 expenses necessary to serve the retail customers who provide revenues to the utility.⁵

9 In my direct testimony, I noted the importance of selecting the proper periods to
10 develop the revenue requirement calculation. On page 21 of my direct testimony, I stated that
11 selecting a “known and measurable date” or “known and measurable period” is even more
12 important than the test year to synchronize and capture—“match”—all revenues and expenses
13 as this updated information will, along with the results of the true-up, form the basis for
14 changing rates. Just as with the test year, a proper determination of a utility’s revenue
15 requirement is dependent upon a consideration of all material components of the rate base,
16 return on investment, current level of revenues, along with operating costs, *at the same point*
17 *in time*, as stated by the Commission in KCPL’s 1983 general rate case, Case No. ER-83-49.
18 This ratemaking principle is common to all rate cases and common to how the Commission
19 has established rates using all material and relevant cost components to develop the revenue
20 requirement calculation. The December 31, 2014, date for the known and measurable period
21 was chosen to enable the parties and Staff an update period that provided sufficient time to
22 obtain actual information from KCPL upon which to perform analyses and make calculations

⁵ Featherstone Direct, page 19.

1 regarding various components to the revenue requirement and still base the revenue
2 requirement recommendation used for proposing new prospective rates on very recent
3 information.

4 In Case No. ER-83-49 regarding the need for a true-up, the Commission stated that it
5 would not "consider a true-up of isolated adjustments, but will examine only a package of
6 adjustments designed to maintain the proper revenue-expense-rate base match at a proper
7 point in time." [26 Mo P.S.C. (N.S.) 104, 110 (1983)] This concept of developing a revenue
8 requirement calculation based on a consideration of all relevant factors has been a
9 long-standing approach to ratemaking in this state, and is the approach Staff followed in
10 this case, including Staff's approach in the true-up. The Commission stated in KCPL's 1983
11 rate case:

12 By specifying a grouping of accounts that should be trued-up,
13 the Commission is not inferring that the parties should be
14 limited to those items. Thus far, the Company appears to have
15 proposed as many adjustments as possible to increase revenues.
16 The Staff's adjustments appear to generally result in revenue
17 decreases. **The Commission has no desire to entertain**
18 **isolated adjustments**, but seeks a "package" of adjustments
19 designed to maintain the proper revenue-expense-rate base
20 match at a proper point in time. **Evidence of "picking and**
21 **choosing" by a party with the intent of simply raising or**
22 **lowering revenue requirement will not be condoned.**⁶
23 [emphasis added]

24 Staff followed this fundamental ratemaking concept in constructing its revenue requirement
25 recommendation for KCPL in this true-up case. The results of the true-up are more important
26 than any other revenue requirement calculation made in this case because it is the costs from
27 the true-up that will actually be used to set KCPL's rates in this case. The December 31, 2014
28 update period used in the direct filing was necessary to process the case to identify the various

⁶ KCPL 1983 rate case designated as Case No. ER-83-49 - see [26 Mo P.S.C. (N.S.) 104, 110 (1983)].

1 positions by the parties to present at the time of hearings. But it is the true-up results that will
2 form the basis for any Commission decision determined in its Order. Consequently, all
3 relevant elements of the true-up cost of service must be correctly and properly determined to
4 set KCPL's just and reasonable rates that its customers will be expected to pay for electrical
5 service in the future.

6 Q. Was a list of true-up items agreed to in this case?

7 A. Yes. I identified in my True-up direct the list of items to be included in the
8 true-up through May 31, 2015.⁷ This true-up list was developed by KCPL and Staff to ensure
9 all material cost of service components was considered through the May 31, 2015 true-up
10 cutoff.

11 Q. Why is May 31, 2015 the true-up date?

12 A. This was a date KCPL needed for the then expected in-service date of the
13 environmental upgrades at its La Cygne station and plant addition at Wolf Creek Nuclear
14 Generating Station. The May 31, 2015 true-up date was also important for Wolf Creek's
15 refueling number 20 completion. The May 31, 2015 true-up date was chosen by KCPL to
16 ensure all its plant additions would be completed so that KCPL's investment in them would
17 be included in its revenue requirement and rates in this case.

18 With the in-service of environmental equipment at La Cygne Unit 1 on April 30, 2015
19 and La Cygne Unit 2 on March 24, 2015, and the completion Wolf Creek's plant additions
20 along with its refueling, all those items were included in the true-up result. Other additions to
21 plant included the advanced meters currently being installed by KCPL in its Missouri
22 jurisdiction—the Company included the installation of this new meter technology in Kansas

⁷ The true-up list is on pages 2-3 of the *Partial Non-Unanimous Stipulation and Agreement as to True-Up, Depreciation and Other Miscellaneous Issues* filed July 1, 2015, and Featherstone True-up Direct, pages 6 through 8.

1 in 2014—and other plant investment completed for service as of the May 31, 2015 true-up
2 cutoff date.

3 The true-up date of May 31, 2015 is as close to the issuance of an order by the
4 Commission—expected late August—as possible and still allow the Commission reasonable
5 time to decide the various issues presented in the hearings.

6 Q. Did KCPL propose a contingency date for the true-up?

7 A. Yes, but the Commission did not adopt it; however, it set May 1, 2015 as the
8 last day for seeking to amend the procedural schedule. As part of the procedural schedule
9 agreed to by various parties, KCPL proposed an alternative procedural schedule to extend the
10 operation of law date in this case should the La Cygne construction project change the in-
11 service dates. Since the La Cygne environmental in-service dates for both units were well
12 within the May 31, 2015 true-up date, it was not necessary to move that date. Consequently,
13 it was not necessary to move the effective dates of rates in this case—expected to be on
14 September 29, 2015.

15 But various parties to this case identified as the Moving Parties in the motion filed by
16 KCPL as *Proposed Procedural Schedule* on December 3, 2014, indicated the possibility of
17 delay of the in-service of the La Cygne units' environmental upgrades. Footnote 2 of this
18 December 3rd filing contains the following language regarding possible delays in the
19 La Cygne environmental in-service as follows:

20 **The Moving Parties intend and understand that the End of**
21 **True-up Period is the date after which expenditures made**
22 **by KCP&L are not eligible for consideration in this general**
23 **rate case.** The Moving Parties agree that this does not mean,
24 however, that the La Cygne Environmental Project must meet
25 in-service criteria by May 31, 2015. So long as KCP&L can
26 establish in True-up Direct Testimony that in-service criteria for
27 the La Cygne Environmental Project have been met, and the

1 Commission determines that the La Cygne Environmental
2 Project is in in-service, the Moving Parties agree that capital
3 expenditures associated with the project recorded through
4 May 31, 2015 – whether recorded at May 31, 2015 in plant-in-
5 service or construction work in progress or retirement work in
6 progress accounts - will be eligible for inclusion in rate base in
7 this general rate case.⁸
8 [emphasis added]

9 KCPL was one of the Moving Parties and actually filed the above referenced
10 document with the Commission. KCPL filed the language in the footnote above that
11 indicated “...that the End of True-up Period is the date after which expenditures made by
12 KCP&L are not eligible for consideration in this general rate case.” So KCPL itself, fully
13 understood, as did the other parties including Staff, who supported the Proposed Procedural
14 Schedule that the date for which no further expenditures were to be considered in this case
15 was May 31, 2015—not September 30, 2015, which is the date for the expiring capacity
16 agreements, or some date in the future for transmission expenditures relating to the
17 Independence Power matter. May 31, 2015 was the true-up cutoff date proposed by KCPL
18 and various parties including Staff. The May 31, 2015 true-up date was the cutoff approved
19 by the Commission in its December 12, 2014, *Order Setting Procedural Schedule and*
20 *Establishing Test Year and Other Procedural Requirements*. As such, the Commission
21 approved the true-up cutoff of May 31, 2015 was contemplated by KCPL’s own agreement
22 “...that the End of True-up Period is the date after which expenditures made by KCP&L are
23 not eligible for consideration in this general rate case.”

24 On May 1, 2015, (EFIS No. 150), KCPL filed *Kansas City Power & Light Company’s*
25 *Notice Regarding May 1, 2015 Deadline* indicating it did not need to move the case 30 or

⁸ KCPL filed *Proposed Procedural Schedule* on December 3, 2014 (EFIS No. 63) - footnote 2.

1 60 days because it believed the environmental upgrades of the La Cygne units would be
2 “fully operational and used for service” by May 31, 2015.

3 **OUT OF PERIOD AJUSTMENTS**

4 Q. Has KCPL attempted to use isolated adjustments to increase its revenue
5 requirement increase with its true-up proposal?

6 A. Yes. KCPL has proposed to decrease its revenues from two firm capacity
7 agreements and to increase its costs for transmission expense relating to the Independence
8 Power matter. KCPL is proposing adjustments which are both isolated and beyond the
9 May 31, 2015 true-up cutoff date.

10 Q. Please identify the firm capacity agreements KCPL proposes to remove from
11 its true-up revenue requirement.

12 A. KCPL has two capacity sale agreements that will expire on September 30,
13 2015, four months beyond the May 31, 2015 true-up cutoff date. Both are with
14 Kansas Municipal Energy Agency (KMEA). By these agreements, KCPL agreed to provide
15 energy service to KMEA on a firm capacity basis. As such, KCPL is contractually obligated
16 to provide KMEA electric service on the same basis as it provides electric service to its retail
17 customers. The revenues and costs to provide electric service to KMEA and the other firm
18 customers KCPL has under capacity agreements are included in Staff’s recommendation for
19 KCPL’s revenue requirement used to determine its retail rates.

20 Q. How is KCPL proposing these agreements be treated for purposes of
21 determining its revenue requirement?

1 A. KCPL is proposing they be treated as if they no longer exist, i.e., KCPL is
2 proposing that its revenues and costs associated with these agreements be removed from its
3 revenue requirement.

4 Q. Should the revenues and costs to provide firm energy to KMEA be removed
5 from KCPL's true-up revenue requirement calculation?

6 A. No. KCPL is receiving revenues from KMEA at May 31, 2015—the true-up
7 cutoff in this case that KCPL proposed and the Commission approved—and will continue to
8 collect through the end of the contract period of September 30, 2015. That KCPL is
9 proposing to exclude these revenues and related costs amounts to an out of period adjustment.
10 As such, this proposal by KCPL should be rejected, and the revenues from KMEA should be
11 included in the true-up rate determination.

12 Q. Do KCPL and Staff agree on the treatment of revenues from these capacity
13 agreements?

14 A. No. The difference between KCPL and Staff for these capacity sales
15 revenues is ** _____ ** total company which, on a Missouri jurisdictional basis is
16 ** _____ ** (see table below). This difference is for the two KMEA capacity
17 agreements ending September 30, 2015. The first contract, a wind capacity agreement
18 relating to Spearville, is the only difference between KCPL and Staff regarding demand
19 charges. The second contract, a system firm energy agreement, is the primary difference
20 between KCPL and Staff regarding energy charges. The relevant contractual information
21 follows:

1

Product / Type of Contract	Wind Capacity Demand Charges	System Firm Energy Charges
Term of Contract	Jan. 1, 2015 thru Sept. 30, 2015	Dec. 1, 2014 thru Sept. 30, 2015
Contract Amount (Total Co.)	** _____ **	** _____ **
Jurisdictional Allocator	53.17%	57.23%
Jurisdictional Amount	** _____ **	** _____ **

2

3 Q. You stated that the second contract is the primary difference between KCPL
4 and Staff regarding energy charges. Please explain.

5 A. The only other difference between KCPL and Staff regarding revenues from
6 capacity agreements is due to miscellaneous differences in other KMEA energy agreements.
7 The cumulative difference is \$229,228 total company or \$131,187 Missouri jurisdictional.

8 Q. Did you sponsor the original adjustments for firm capacity sales in this case?

9 A. No. Staff witness V. William Harris originally supported the adjustments
10 relating to these sales. However, Mr. Harris is having medical issues so I am supporting the
11 capacity sales levels included in the true-up. Mr. Harris and I worked on this area in the
12 true-up, and I supervised his work in the direct filing.

13 Q. Who on Staff is addressing the Independence Power matter you mentioned
14 earlier?

15 A. Staff witness Karen Lyons.

16 Q. Does Staff have any issues with positions parties other than KCPL have taken
17 in their True-up direct testimony?

True-up Rebuttal Testimony of
Cary G. Featherstone

1 A. Yes. Public Counsel witness William Addo makes a recommendation in his
2 True-up direct testimony to take various amortizations out through September, 2015.⁹ Staff is
3 opposed to this proposal for the same reasons discussed above relating to KCPL's out of
4 period adjustments. May 31, 2015 is the true-up cutoff date, not September, 2015.
5 No adjustments should be considered beyond the true-up date. Public Counsel's proposal to
6 take the amortizations out to September 2015 should be rejected.

7 Q. Does this conclude your True-up Rebuttal testimony?

8 A. Yes.

⁹ Public Counsel witness William Addo, True-up Direct page 6.

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

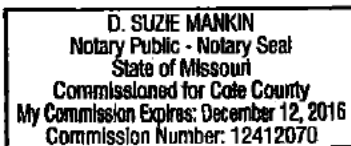
COMES NOW Cary G. Featherstone and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached True-Up Rebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

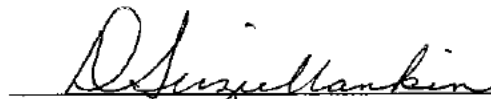
Further the Affiant sayeth not.


Cary G. Featherstone

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of July, 2015.




Notary Public