

Exhibit No.:
Issue: Overview and AAO Request
Witness: Darrin R. Ives
Type of Exhibit: Direct Testimony
Sponsoring Party: Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Case No.: EU-2014-____
Date Testimony Prepared: September 20, 2013

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EU-2014-____

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY
AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
September 2013**

DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. EU-2014-_____

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Vice President –
6 Regulatory Affairs.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company
9 (“GMO”) (collectively referred to as the “Companies”).

10 **Q: What are your responsibilities?**

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

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

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

1 1996 and held positions of progressive responsibility in Accounting Services until named
2 Assistant Controller in 2007. I served as Assistant Controller until I was named Senior
3 Director – Regulatory Affairs in April 2011. In August 2013, I was named Vice
4 President – Regulatory Affairs.

5 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
6 **Commission (“MPSC” or “Commission”)?**

7 A: I have testified on several occasions before the MPSC on a variety of issues affecting
8 regulated public utilities. I have also testified before the Kansas Corporation
9 Commission.

10 **Q: What is the purpose of your testimony?**

11 A: The purpose of my testimony is to provide an overview of the Accounting Authority
12 Order (“AAO”) application, which is requesting the deferral into a regulatory asset of
13 certain incremental transmission costs above amounts included in base rates. These
14 incremental transmission costs are substantial and mostly out of the Companies’ control.
15 In addition, I will discuss the treatment in the past Commission rate case Report and
16 Order (Case Nos. ER-2012-0174 and ER-2012-0175) regarding transmission costs and
17 the impact that these costs have on regulatory lag that currently is having a very
18 significant impact on the Companies.

19 **Q: Please provide an overview of this AAO request.**

20 A: The AAO request details in its application the need to defer certain incremental
21 transmission costs which are increasing year over year into account 182.3 of the Uniform
22 System of Accounts for the Federal Energy Regulatory Commission (“USOA”). In order
23 for the Companies to record certain incremental transmission costs into account 182.3,

1 the Commission must specifically find and order that the Companies are authorized by
2 the Commission to record as a regulatory asset (account 182.3) the excess amount of
3 transmission expense compared to the amount that is currently included in base rates in
4 order to be addressed in the Companies' next general rate proceeding. The Companies
5 are requesting that incremental transmission costs on an annual basis be calculated
6 beginning with the effective date of rates in the Companies' last general rate case
7 proceedings, which was January 26, 2013. In essence, the incremental transmission costs
8 will be "tracked" from the effective date of rates until the next general rate case
9 proceeding in which recovery of "tracked" transmission costs will be addressed. In
10 addition, the Company is requesting to include carrying costs based on the Companies'
11 latest approved weighted average cost of capital on the balances in this regulatory asset.
12 Although transmission costs are expected to significantly increase and thus with approval
13 of this AAO application be deferred in regulatory asset account 182.3, in the event that
14 transmission costs do not exceed the amount established in base rates in the last general
15 rate case, this difference will be tracked symmetrically in regulatory liability account 254.

16 **Q: Why is a tracker needed for the Companies' incremental transmission costs?**

17 A: Transmission costs can vary significantly from year-to-year, and such costs are a material
18 operating cost to the Companies' overall cost of service. These transmission costs are
19 primarily out of the Companies' control and currently escalating on an annual basis.
20 Historically, transmission costs have fluctuated due to load variations, both native and
21 off-system. But what makes the current environment of transmission costs extraordinary
22 in nature is that currently the Southwest Power Pool's ("SPP") regional transmission
23 upgrade projects are being planned, constructed and billed to SPP members in order to

1 expand and enhance the ability of the SPP transmission footprint. In addition, the
2 associated SPP administrative fees are increasing contributing to KCP&L's transmission
3 costs extraordinarily rising over historical norms. SPP's regional transmission plan
4 provides for regional transmission expansion and a detailed list of projects in order to
5 achieve the plan. SPP employs a cost allocation methodology to provide fair and
6 equitable sharing of costs for base-plan transmission additions across its regional
7 territory. SPP's regional transmission upgrade plans, cost allocation methodology and
8 their expected impact on KCP&L and its customers are discussed further in John
9 Carlson's testimony.

10 **Q: Please explain how transmission costs are proposed to be defined and tracked for**
11 **this AAO application.**

12 A: Transmission costs include standard point-to-point transmission charges and base plan
13 funding transmission charges that are recorded to FERC account 565. In addition, other
14 transmission costs which include SPP Schedule 1-A fees charged to accounts 560, 561
15 and 575, and FERC Schedule 12 fees charged to account 928.

16 **Q: How do the forecasted transmission costs in 2013 compare to the transmission costs**
17 **established in rates in the prior rate case?**

18 A: The table below shows a comparison of the transmission costs established in the last
19 general rate case versus the costs that are currently forecasted to occur in 2013. The
20 forecasted 2013 amounts include actual costs for the first eight months of the year and
21 forecasted costs for the remaining four months. I emphasize, as outlined by John Carlson
22 in his testimony, transmission costs are expected to significantly increase in 2014 and
23 beyond from the 2013 forecasted levels.

KCPL-MO			GMO		
Account	In Rates	2013 Forecast	Account	In Rates	2013 Forecast
560	628,412	567,950	560	1,105,587	848,748
561.4	2,643,460	1,936,632	561.4	2,228,699	1,444,116
561.8	349,582	809,135	561.8	278,902	657,951
565	13,481,759	18,366,595	565 *	7,728,677	12,244,060
575.7	1,879,006	2,282,952	575.7	1,499,165	1,957,296
928	745,176	637,703	928	580,203	553,590
Total	19,727,395	24,600,967	Total	13,421,233	17,705,761

*Note-GMO account 565 does not include transmission associated with Crossroads Energy Center.

Q: If the results forecasted for 2013 occur as depicted in the chart, what would the Companies record as a regulatory asset if this AAO request is approved by the Commission?

A: At the end of 2013, transmission costs are forecasted to exceed amounts established in our prior rate case. As such, a regulatory asset would be recorded for the incremental difference in the amount of \$4,873,572 for KCP&L-MO and \$4,284,528 for GMO during 2013.

Q: Please discuss what was included in the Commission's Report and Order in Case Nos. ER-2012-0174 and ER-2012-0175 regarding the deferral of transmission expenses.

A: The Commission Report and Order received in Case Nos. ER-2012-0174 and ER-2012-0175 denied the Companies' transmission tracker request as part of the rate case proceeding. Yet, the Report and Order provided a conclusion on the interpretation of the USOA General Instruction No. 7 that the Companies do not agree with and is a misinterpretation of the USOA. The Report and Order on page 29 states the following in the Discussion, Conclusions of Law, and Ruling section:

1 The applicants ask the Commission to order deferred recording (a
2 “tracker”) for transmission costs. But that matter is moot because the
3 Commission can grant no practical relief. No practical relief is possible
4 because Applicants can already “track” transmission cost increases under
5 the plain language of the only authority that any party cites for a tracker.

6 The Report and Order goes on to analyze that General Instruction No. 7 allows for the
7 deferral of transmission costs if they exceed 5% of income and thus no Commission
8 authority is required. If transmission costs do not exceed 5% of income then the
9 Company can request an AAO.

10 **Q: What was the Companies’ opinion of this ruling in the Commission Order**
11 **regarding treatment provided in the USOA?**

12 A: The Companies believe that the Commission’s Report and Order was an incorrect
13 application of the accounting principles contained in the USOA. In fact, please refer to
14 the testimony of Ryan Bresette which provides expert testimony regarding the
15 misinterpretation of the accounting conclusions provided in the Order.

16 **Q: Did the Company ask for a clarification or rehearing on this issue following the**
17 **release of the Commission’s Report and Order?**

18 A: Yes. But this application was denied.

19 **Q: What was the Companies’ main concern with the Commission’s Report and Order?**

20 A: The Companies’ main concern was the Commission’s misinterpretation of the USOA
21 General Instruction No. 7. In interpreting the USOA, the Commission erroneously links
22 General Instruction No. 7 with regulatory assets and regulatory liabilities (i.e. balance
23 sheet accounts 182.3 and 254). General Instruction No. 7 is only addressing income
24 statement classification, not assets and liabilities. The Commission erred when it stated
25 at page 29 of the Report and Order that “Whether a utility may defer an item is the
26 subject of General Instruction No. 7.” This statement is inconsistent with the USOA.

1 The correct application of General Instruction No. 7 is that it provides for relocation on a
2 Company's income statement of income statement items considered extraordinary (i.e.
3 income statement accounts 434 and 435). Nowhere in General Instruction No. 7 does it
4 provide for the deferral of income statement activity to the balance sheet. Deferral to the
5 balance sheet is addressed only, and appropriately, in the USOA under the descriptions of
6 balance sheet accounts 182.3 and 254. The USOA does not link General Instruction No.
7 7 and the descriptions of Accounts 182.3 and 254. Because of its inaccurate linkage of
8 these sections of the USOA, the Commission erred in deciding that "If the projected
9 transmission increases prove to be more than five percent of income, they will be subject
10 to deferral without the Commission's order."

11 The correct application of General Instruction No. 7 is that a company may reflect
12 items meeting the criteria of General Instruction No. 7 and which are greater than 5% of
13 net income in the extraordinary items section of their income statement, specifically to
14 Accounts 434 and 435. Thus, General Instruction No. 7 only addresses the appropriate
15 income statement classification of extraordinary items.

16 An example of General Instruction No. 7 would be a company who experienced
17 an extraordinary income or expense that would potentially distort income from normal
18 operations. For example, if a company had a major expense associated with shutting
19 down a business, they may elect to request approval from FERC to place the expense
20 associated with this below the line as an extraordinary expense, as compared to normal
21 operations. Likewise, if it was a major income item, the company may request to set the
22 income item out separately to indicate that this was not normal operations. This is

1 primarily used to show viewers of the income statement a better reflection of normal
2 operations.

3 **Q: Do you believe it was the Commission's desire to allow for deferral of transmission**
4 **costs based on the language of the Report and Order?**

5 A: Yes. I believe the Report and Order showed that the Commission intended the
6 Companies to be able to defer or track transmission costs above those in base rates and
7 that the Commission believed the Companies had the power to do so through its
8 interpretation of General Instruction No. 7.

9 **Q: Will approval of this AAO application provide the Company the necessary**
10 **authority to track and defer transmission expenses?**

11 A: Yes. Ryan Bresette provides more details in his testimony regarding accounting
12 principles and ratemaking actions required for the deferral of expense amounts to
13 Account 182.3. In summary though, the Commission, through this regulatory action,
14 would find that the Companies are authorized to record a regulatory asset in Account
15 182.3, calculated as the excess amount of transmission expense compared to what is
16 currently included in base rates. Recovery of the deferred expense can then be
17 subsequently addressed in the Companies' next general rate case proceedings.

18 **Q: Have public utilities historically sought prior approval before establishing trackers**
19 **or regulatory assets?**

20 A: Yes. Public utilities have sought prior approval from this Commission before
21 establishing trackers or regulatory assets. In fact, the plain language in the definition of
22 regulatory asset account 182.3 is very clear on what is necessary to establish a regulatory
23 asset. The account definition states:

1 This account shall include the amounts of regulatory-created assets, not
2 includible in other accounts, *resulting from the ratemaking actions of*
3 *regulatory agencies*. (emphasis added)

4 In addition, specific approval of this AAO application by the Commission will be
5 essential for the Companies' outside external auditors to permit the Companies to defer
6 such excess transmission costs to a regulatory asset account. Without a Commission
7 order, the Companies do not have the discretion to defer such costs to a regulatory asset.

8 **Q: What was Staff's position regarding the Companies' request to obtain a**
9 **transmission tracker in the last rate cases?**

10 A: Staff witness Mark Oligschlaeger included in his Surrebuttal Testimony in Case Nos. ER-
11 2012-0174 and ER-2012-0175 a number of conditions that should be imposed on the
12 Companies if the Commission authorized the use of a transmission tracker. The
13 Companies were not agreeable to all of these conditions as articulated by Staff in the
14 prior rate case proceedings.

15 **Q: Please discuss the concept of regulatory lag and the impact that transmission**
16 **expenses are expected to have on it.**

17 A: Regulatory lag is defined as the lag that is built into the regulatory framework that
18 prevents the utility from actually realizing an earned return on equity that is
19 commensurate with the allowed return on equity authorized by this Commission in a
20 previous case. While allowed returns do not represent a guarantee of a return, investors
21 in our company certainly have an expectation that earned returns will be reasonable in
22 relation to the allowed returns. Investors understand the limitations of the regulatory
23 framework caused by the use of historical test years and the lag that is inherent due to
24 capital investments placed in-service between rate cases; however, recent experience in

1 earned returns has not been reflective of the expected relationship between earned and
2 allowed returns.

3 **Q: How do extraordinary increases in transmission expenses over those levels set in**
4 **rates contribute to regulatory lag?**

5 A: The regulatory framework in the state of Missouri is built primarily on historical financial
6 information. From a cost of service perspective, the process utilizes historical test year
7 costs, updated or trued-up for known and measurable changes. Regardless of the update
8 or true-up period, this model results in rates being set on historical costs that were
9 incurred in a range of 5 to 27 months prior to the date rates are effective. This model not
10 only ignores cost increases that have occurred between the historical test year used and
11 the date rates are effective, it also ignores the fact that in a rising cost environment as we
12 have with transmission costs, costs to serve our customers continue to increase from the
13 date rates are effective, with little ability to synchronize recovery with costs incurred
14 other than to initiate another expensive and time-consuming rate case. As I alluded to
15 earlier and explained in the testimony of John Carlson, significant transmission cost
16 increases that are out of the Companies' control due to SPP's transmission line expansion
17 projects are negatively impacting the Companies. These costs increases are above the
18 amounts for transmission expense that were provided the Companies in their previous
19 rate cases. As such, each incremental dollar spent above the amounts provided in rates
20 contributes to regulatory lag and the Companies have no ability to recover these costs
21 except to file time consuming and resource consuming rate cases year over year.

1 **Q: Do the Companies attempt to limit the amount of rate case proceedings before this**
2 **Commission?**

3 A: The Companies work very hard to provide customers with a period of rate stability. This
4 is done by controlling costs that are within the Companies' control. Yet, there are costs
5 that are not in the Companies' complete control that can create a need to file rate cases on
6 a more frequent basis. The transmission expenses discussed in this AAO application are
7 one of those types of costs that are not in the complete control of the Companies and thus
8 can increase as they currently are in this time of SPP expansion, which can force a
9 situation in which the Companies are not allowed a reasonable opportunity to earn their
10 authorized return. By granting approval of this AAO, the Commission would be
11 providing the opportunity to the Companies to defer certain transmission costs until the
12 Companies' next rate case and provide rate stability to customers in the interim.

13 **Q: What is a possible effect of the Commission denying this AAO application?**

14 A: Without approval from the Commission of this AAO application, the Companies will be
15 denied a chance to recover prudently incurred transmission costs that have increased
16 above what was authorized in the prior rate case proceeding. Without the approval, the
17 increased transmission costs will create significant regulatory lag for the Companies and
18 we will not have a reasonable opportunity to earn the authorized returns established in the
19 Companies' last rate case proceedings. This increased regulatory lag could eventually
20 begin to impact our ability to raise capital in the markets at prices that are reasonable for
21 a utility of our size.

22 **Q: Has regulatory lag become more of an issue in recent years?**

23 A: Yes, not only for the Companies' but for utilities, and their investors, across the country.

1 **Q: Please explain.**

2 A: In the past, electric consumption had a time of consistent growth. Thus, companies were
3 more able to avoid the need for many rate cases by controlling spending along with the
4 offset of continued growth. For a number of years now, energy efficiency programs and
5 equipment have led to little or no growth in energy usage. Although this is a positive and
6 desirable situation for customers in regard to usage impacts on their bills, it causes the
7 impact of increasing costs, especially significant and non-controllable costs, to be beyond
8 what the company can absorb without alternative ratemaking treatment or additional
9 general rate cases.

10 **Q: Has the Commission identified this as an issue in other areas?**

11 A: Yes, Missouri now has a Fuel Adjustment Clause (“FAC”) as well as rider opportunities
12 for energy efficiency expenditures. The FAC was established in the state specifically
13 because of the fact that the associated costs were ever expanding and primarily beyond
14 the control of the utility. As a matter of fact, Ameren UE has a fuel clause that includes
15 the costs identified in this application. In addition, there are other specific trackers that
16 have been granted by this Commission that are currently in effect. These include the
17 Pension and OPEB tracker mechanisms and the Iatan 2 and Common O&M tracker. The
18 Commission identified that these were areas where costs were volatile and an appropriate
19 tracking mechanism was necessary.

20 **Q: Doesn’t the deferral of these costs just increase the costs to be borne by the**
21 **customer?**

22 A: No. Rather than increasing customer costs, a tracker such as requested, more
23 appropriately ensures that every prudent dollar of cost incurred by the companies’ for

1 transmission is recovered from customers – no more and no less. The deferral of these
2 costs allows for the appropriate future recovery of prudently incurred costs to provide
3 service without the costly need for increased rate cases. In addition, the deferral of
4 increasing costs can allow for the spreading of those costs over time by amortizing them
5 into rates.

6 **Q: Do you have other examples of where these costs are recovered outside of typical**
7 **ratemaking processes?**

8 A: Yes, KCP&L recovers the Kansas portion of these exact transmission costs through its
9 Energy Cost Adjustment (“ECA”). The Kansas ECA is its fuel cost recovery mechanism.
10 The Kansas ECA allows for 100% of the fuel, purchased power and transmission costs,
11 net of off-system sales, to be flowed through for recovery from the customer. The ECA
12 is established on a projected basis. Additionally, Ameren Missouri recovers its
13 transmission costs through its Missouri FAC.

14 **Q: In summary, what is the Company requesting regarding this Accounting Authority**
15 **Order application?**

16 A: The Companies are requesting that the transmission costs outlined above and in the AAO
17 application be tracked in comparison to those same transmission costs currently being
18 recovered in rates. Commission approval of this Application will allow for symmetrical
19 tracking of transmission costs incurred as compared to the amounts currently being
20 recovered in rates. For a rising cost category such as transmission expense, the excess of
21 those cost amounts over the amount in base rates will be deferred in FERC account 182.3
22 for review in the Companies’ next general rate case proceedings. Commission approval

1 of this AAO request is imperative to allow the companies a reasonable opportunity to
2 earn the authorized returns established in the companies' last rate case proceedings.

3 **Q: Does that conclude your testimony?**

4 A: Yes, it does.

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

In the Matter of the Application of)
Kansas City Power & Light Company and KCP&L)
Greater Missouri Operations Company for the)
Issuance of an Accounting Authority Order relating) File No. EU-2014-
to their Electrical Operations and for a Contingent)
Waiver of the Notice Requirement of 4 CSR 240-)
4.020(2))

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

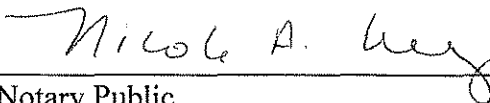
1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company ("KCP&L") as Vice President, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of KCP&L and KCP&L Greater Missouri Operations Company consisting of fourteen (14) 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 20th day of September, 2013.


Notary Public

My commission expires: Feb. 4, 2015

