Exhibit No.:	
Issue:	Assignment and Allocation of Costs and Revenues
Witness:	Ronald A. Klote
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company KCP&L Greater Missouri Operations Company
Case No.:	EC-2015-0309
Date Testimony Prepared:	November 19, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EC-2015-0309

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

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

Kansas City, Missouri
November 2015

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed Pursuant To 4 CSR 240-2.135.**

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. EC-2015-0309

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main, 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") as Senior Manager, Regulatory Affairs.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company ("GMO") (collectively, the "Company").

Q: What are your responsibilities?

A: My responsibilities include the preparation and review of accounting exhibits and schedules associated with Company regulatory filings. I also have responsibility for the completion and filing of certain regulatory reports to the Federal Energy Regulatory Commission ("FERC"), Department of Energy, and state regulatory commissions, among others.

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

A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of Missouri-Columbia. I am currently working on my Executive Masters of Business Administration from the University of Missouri – Kansas City with an expected completion date of May 2016. I am a Certified Public Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of increasing responsibilities in the auditing division. I conducted and led various auditing engagements of company financial statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior Accountant. This position involved operational and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This position involved special accounting and auditing projects in the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila, Inc. ("Aquila") holding various positions within the Regulatory department until 2004 when I became Director of Regulatory Accounting Services. This position was primarily responsible for the planning and preparation of all accounting adjustments associated with regulatory filings in the electric jurisdictions. As a result of the acquisition of Aquila by Great Plains Energy Incorporated ("GPE"), I began my employment with KCP&L as Senior Manager, Regulatory Accounting in July 2008. In April 2013, I joined the Regulatory Affairs department as a Senior Manager remaining in charge of Regulatory Accounting responsibilities.

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 MPSC, Kansas Corporation Commission, California Public Utilities Commission, and the Public Utilities Commission of Colorado.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to respond to the Direct Testimony of Missouri Public Service Commission Staff witness Charles Hyneman, specifically his assertion that KCP&L is subsidizing non-regulated operations through the use of regulated utility assets and personnel without adequate compensation.

Q: What has MPSC Staff witness Hyneman stated is the basis for Staff's Complaint?

A: Mr. Hyneman states on page 3 of his direct testimony (lines 15-19) the following:

> The Staff Complaint concerns transactions between KCP&L and GMO ("the utilities") and its affiliate Great Plains Energy Services Incorporated ("GPES"). An additional concern of the Staff is the nonregulated business relationship that currently exists between KCPL and GMO and Allconnect, Inc. ("Allconnect").

Q: Is the Company's relationship with Allconnect an affiliate transaction with GPES?

A: No. Darrin Ives explains in his rebuttal testimony why the relationship with Allconnect is not an affiliate transaction.

Q: Does Staff witness Hyneman assert that the regulated utilities are subsidizing nonregulated operations as a result of the Allconnect relationship?

A: Yes.

Q: What are Mr. Hyneman's assertions?

A: Mr. Hyneman states on page 13 of his direct testimony (lines 10-17) that:

> GPE's nonregulated company management has taken specific and direct action to deny **any compensation to KCPL or GMO** for the use of their utility assets and employees. KCPL and GMO, despite significant investments in time and resources devoted to serving Allconnect and serving GPES, **receive no compensation**. GPES's relationship with Allconnect is strictly a nonregulated business relationship, but it uses only regulated utility assets and regulated utility employees. In substance and in effect, KCPL and GMO are transferring, at **no cost**, regulated utility assets and regulated utility personnel with the sole intention to generate additional nonregulated revenue and additional profits for GPE.
> (emphasis supplied)

Q: How do you respond to these assertions by Mr. Hyneman?

A: Mr. Hyneman's assertions are simply wrong. Revenues and costs related to the Allconnect relationship are charged below the line to nonregulated accounts, meaning that neither the revenues nor the costs related to the Allconnect relationship are used to determine rates paid by KCP&L/GMO customers for regulated utility service. This prevents subsidization of unregulated activities by regulated rates. I will describe in more detail later how costs and revenues related to the Allconnect relationship are identified and assigned or allocated to below-the-line nonregulated accounts to ensure that regulated rates do not subsidize unregulated activities.

Q: Are regulated utility costs being charged to below-the-line nonregulated accounts associated with the Allconnect nonregulated activity?

A: Yes. The revenues generated by the Allconnect activity are being matched with the Company's costs incurred to produce those revenues. Both the revenue and costs are recorded below-the-line to nonregulated accounts.

Q: Please explain how the Allconnect nonregulated activity is accounted for on KCP&L's books and records.

A: There are two phases of the activities associated with Allconnect that must be examined.

The first phase was the start-up costs associated with getting the Allconnect relationship developed and incorporated into the contact center processes and procedures for certain residential start service calls. This entailed establishment by program management of the Allconnect relationship, including training of contact center customer service representatives ("CSRs") and integration and implementation of the software used to transfer customer calls to the Allconnect contact center. This activity occurred through June 2013.

The second phase comprises ongoing operations and includes the recording of revenues and costs on a monthly basis associated with the transfer of certain residential customer start/transfer service calls to Allconnect.

Q: Please explain how the start-up phase of the Allconnect activity was recorded.

A: During the start-up phase of the project it was necessary to integrate a software platform that enabled the Company to transfer certain residential customer start/transfer service calls to Allconnect representatives. At the start-up phase, the Company's customer information system ("CIS system") did not have the functionality to interface with a third party vendor in order to enable the provision of Allconnect services. As such, software was installed (and capitalized on the Company's books and records) that provided the functionality to make the call transfers. The capital costs associated with this system enhancement included software costs, consulting fees and internal labor costs. The capital costs associated with the software installation were removed from regulated plant-in-service accounts and thus are not included in retail rates. The capitalized costs were charged directly to the Allconnect project since it was driven by the Allconnect nonregulated activity. In addition, since CSRs were adopting a new process work flow with certain residential start service calls, training of the CSRs was necessary to establish the appropriate work flows and execute on the Allconnect activities. This initial training time by each CSR was directly assigned to the Allconnect project and recorded to below-the-line nonregulated accounts. In addition, the overall organization and establishment of the contractual relationship with Allconnect by the program manager was also directly assigned to the Allconnect project and recorded to below-the-line nonregulated activity accounts. In addition, as part of the Start-up of the relationship with Allconnect, Allconnect paid the Company **[redacted]** as a contribution for the training and other O&M start-up costs described above. This revenue was directly assigned to the Allconnect project and recorded to below-the-line nonregulated accounts.

Q: Please explain how revenues and costs related to the second phase (i.e., ongoing operations) have been charged and are currently being charged on a monthly basis associated with the Allconnect activity?

A: The agreement established with Allconnect provides for one main revenue source which includes a fee per call transferred to Allconnect representatives. For each call transferred to Allconnect, the Company receives **[redacted]** in revenue. This revenue is charged to below-the-line nonregulated accounts. Mr. Hyneman appropriately states this in his direct testimony (on page 33, lines 10-12). There is another very minor revenue stream that is recorded which consists of a twenty percent share of the commission paid to Allconnect for customers who purchase Allconnect services online and or who call the Allconnect Website Number. Only minor revenues have been generated in this way and this type of revenue is also recorded to below-the-line non-regulated accounts.

What Mr. Hyneman ignores in his direct testimony, however, is how this nonregulated revenue is offset by the costs incurred to produce the revenue streams. On a monthly basis, the Company charges labor and labor loadings, meals and travel expenses and depreciation expense (that is associated with the capitalized call transfer software costs) to below-the-line non-regulated accounts. The labor and labor loadings charged to the Allconnect nonregulated activity include both directly assigned employee costs as well as allocated employee costs. The directly assigned project costs include direct assignments from employees involved in the overall day-to-day program management activities. In addition to these costs that are directly assigned and recorded to below-the-line non-regulated accounts, there is an allocation of CSR time and additional back office support that is made on a monthly basis and is also recorded to below-the-line non-regulated accounts. The allocation of CSR time and back office support is equivalent to the cost of .6 of one full time CSR's labor and benefit loading costs. How this amount is derived is discussed below. In addition, any out-of-pocket expenses associated with meetings with Allconnect representatives are directly assigned to the Allconnect project and recorded to below-the-line non-regulated accounts. Finally, on a monthly basis depreciation expense (associated with the capitalized call transfer software discussed earlier) is directly assigned to the project and recorded to below-the-line non-regulated accounts.

Q: What does the .6 of one full time CSR's time represent?

A: The allocation of .6 of one full time CSR"s time is based on a study that was completed that calculated a reasonable amount of time that CSRs spend on Allconnect activities. Due to the minimal amount of time spent by Company CSRs on each individual start service call that is eligible to be transferred to Allconnect, it would be inefficient and wasteful to attempt to directly assign each CSR's time to the project on a per-call basis. As such, an analysis was conducted in order to determine a reasonable amount of CSR time to the project. This initial analysis looked at the amount of time the CSR spent on average presenting the Allconnect process to the customer until the call was transferred to Allconnect. This time averages approximately 10 seconds per call when the average time for a start service call is approximately 5 minutes. This 10 second time increment was then multiplied by an estimate of the number of calls expected to be transferred to Allconnect each month. This was estimated to range from 12,339 to 17,352 calls per month. This estimate has proven to be high, however, as the number of residential start service calls actually transferred to Allconnect from June 2013 to September 2015 ranges between 6,000 and 10,000 per month. Once the total time for all CSRs handling Allconnect calls was calculated, this amount was divided by a CSR's total monthly work time. Since Allconnect activity is such a small portion of time spent by CSRs on a start service call, this amounted to .3 of one CSR's time.

In addition, back office time was estimated to be approximately another .3 of a CSR's time. This CSR time devoted to Allconnect work was then totaled to approximately .6 of one CSR.

The .6 was then multiplied by the average customer service hourly rate including benefits of approximately **[redacted]**. Multiplied out this amounts to approximately **[redacted]** per year of customer service representative and back office support time that is allocated to the Allconnect activities.

Since the Allconnect relationship began in 2013 continuing through September 2015, the Company has directly assigned or allocated approximately $563,952 in O&M and depreciation expense in Allconnect-related costs to below-the-line non-regulated accounts. In addition, during the start-up phase of the project $417,123 of capitalized software costs was assigned to the Allconnect project. This compares to total revenue recorded to the Allconnect project of **[redacted]** in, respectively, 2013, 2014 and through September of 2015 (for a sum total through September 2015 of **[redacted]**).

Therefore, in addition to being unsubstantiated, Mr. Hyneman's testimony (on page 13, lines 15-17 of his direct testimony) that customer service employees are being transferred at no cost is simply wrong.

Q: Does the manner in which the Company records costs and revenues attributable to the Allconnect relationship compensate the regulated utilities for use of regulated employee time?

A: Yes it does. CSR time, meals and travel, capitalized software and depreciation expense are all being charged to below-the-line nonregulated accounts and matching the revenue that is being recorded to the below-the-line nonregulated accounts. It is important to note that the costs associated with the Allconnect activity are being appropriately removed from regulated operational accounts and thus retail ratepayers are not being charged for, and are not subsidizing this activity, in any way.

Q: Does the manner in which the Company has recorded costs and revenues attributable to the Allconnect relationship meet the intent of the affiliate transaction rules?

A: Yes, with one very minor exception. Mr. Hyneman points out on page 34 line 13 that "The (Affiliate Transaction) Rule is designed to prevent a regulated utility from providing a financial advantage to a nonregulated affiliate…". As discussed in Mr. Ives' rebuttal testimony, the Allconnect relationship is not an affiliate transaction. It is, however, a transaction involving nonregulated activities. By matching the revenues and expenses attributable to the Allconnect relationship and recording all such revenues and expenses to below-the-line non-regulated accounts, the Company is not subsidizing nonregulated activities through regulated operations and is thus meeting the intent of the Affiliate Transaction Rule. In addition, the Company is charging the higher of cost or market associated with CSR costs which is in compliance with the Affiliate Transaction Rules. CSR hourly rates are reviewed to ensure they reside within a market competitive range and are also the product of negotiated collective bargaining. As such, by charging a directly assigned and allocated cost of actual customer service representative time, the nonregulated activity is paying – in the form of costs assigned or allocated to below-the-line nonregulated accounts – the higher of cost or market in accordance with the affiliate transactions rule.

Q: In regard to the charging of Allconnect-related costs to below-the-line nonregulated accounts, you noted previously that there was one minor exception. What was that?

A: The Company directly assigned to below-the-line nonregulated accounts the capitalized call transfer software costs that provide the Company the ability to transfer the calls to Allconnect. However, the Company has not allocated any portion of the facilities cost used by the customer service representatives which would include phone, computer, workstation and overall facility cost.

Q: Why was this not done?

A: Quite simply, this was an oversight, but there are two reasons why this oversight has not resulted in subsidization of the Company's nonregulated activities by regulated customers.

First, the Company estimated conservatively the amount of CSR and back office time needed to support the Allconnect activity. This back office time was a conservative estimate in order to appropriately charge sufficient costs to the nonregulated project activity and ensure the nonregulated activity was not being subsidized by the regulated utilities. If actual call volumes from 2014 had been used to compute the ratio of a CSRs time that is spent on Allconnect activity, it would amount to approximately $8,400 less in costs charged to the Allconnect project than what was charged in the annual period of 2014. This was due to the fact that the original forecasted number of transferred calls to Allconnect was conservatively estimated higher than what actual monthly call volumes have produced since the inception of the Allconnect project.

Second is the de minimis nature of the facilities costs that would be transferred to the Allconnect project. The Allconnect activity does not require a significant amount of CSR time. In fact, since only 10 seconds of a CSR's time are spent on each eligible residential start service call transferred to Allconnect, only .3 of one FTE's time can be attributable to the Allconnect activity (using actuals in 2014 it would amount to only .2 of an FTE's time). If charges associated with common use facilities would have been charged to Allconnect the annual amount calculated for 2014 (which is one full year of Allconnect operation) would have been approximately $6,072 of common use facilities costs charged to the Allconnect project. As such, the de minimis nature of this cost can quickly be seen, showing that the conservative estimates in the back office time calculation adequately compensated for these types of costs.

Nevertheless, although the common use facilities cost is a de minimis amount, the Company does see the necessity in recording this type of cost to the Allconnect project and will begin to record this facility cost as part of their common use billing process on a monthly basis.

Q: Please summarize your rebuttal testimony?

A: Contrary to Mr. Hyneman's assertions, the Company is not subsidizing unregulated activities with regulated assets, personnel or rates as a result of the Allconnect relationship. This is because, as explained above, the Company is directly assigning or allocating costs incurred in connection with the Allconect relationship and charging them, along with all revenues produced by the Allconnect relationship, to below-the-line accounts for non-regulated activities.

Q: Does that conclude your Rebuttal Testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Staff of the Missouri Public Service Commission	)	
	)	
Complainant,	)	
	)	
v.	)	File No. EC-2015-0309
	)	
Kansas City Power & Light Company	)	
	)	
And	)	
	)	
KCP&L Greater Missouri Operations Company	)	
	)	
Respondents.	)	

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of twelve (12) 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.

Ronald A. Klote

Ronald A. Klote

Subscribed and sworn before me this 19th day of November, 2015.

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