Exhibit No.:	
Issue:	Capital Structure and Cost of Debt; Transmission Expense Annualization; Renewable Energy Standard Costs
Witness:	Ronald A. Klote
Type of Exhibit:	True-up Rebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company
Case No.:	ER-2016-0285
Date Testimony Prepared:	March 10, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2016-0285

TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 2017

TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2016-0285

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main Street, Kansas City, Missouri, 64105.

Q: Are you the same Ronald A. Klote who pre-filed Direct, Rebuttal, Surrebuttal and True-Up Direct Testimony in this matter?

A: Yes, I am.

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

A: I will address the following three items: 1) provide the capital structure as of December 31, 2016 that Kansas City Power & Light Company ("KCP&L" or "Company") used in its true-up revenue requirement which is in contrast to Staff's True-Up filing in which capital structure was not updated to December 31, 2016; 2) provide the rationale on why the transmission expenses should be annualized based on the fourth quarter results of 2016 which is in contrast with Staff's emphasis in using the 12 months ending December 31, 2016 with certain adjustments considered; 3) provide the Company's rationale in recovering the Renewable Energy Standards ("RES") costs included in this case.

CAPITAL STRUCTURE AND COST OF DEBT

Q: What capital structure did KCP&L use for its true-up revenue requirement as of December 31, 2016?

A: The Company's true-up revenue requirement is consistent with its approach in its direct filing. The Company included KCP&L's specific utility capital structure as of December 31, 2016. This capital structure was updated for actual events that have occurred through December 31, 2016 and is consistently matched with other revenue requirement inputs such as rate base and income statement changes that have occurred through the true-up date in this rate case proceeding.

Q: What is the actual capital structure that was included in the Company's true-up filing?

A: The KCP&L utility capital structure as of December 31, 2016 that was included in the Company's true-up filing was as follows:

		Required	Weighted
Component	**Percent**	**Return**	**Return**
Long-term debt	50.284%	5.5264%	2.7789%
Common Equity	49.716%	9.9000%	4.9219%
	Weighted Average Cost of Capital		**7.7008%**

Q: What capital structure did Staff include in it's true-up filing?

A: The capital structure that Staff included in its March 1, 2017 filed Staff Accounting Schedules was the following:

			Weighted	
		Required		
Component	**Percent**		**Return**	**Return**
Long-term debt	50.80%		5.42%	2.753%
Common Equity	49.20%	(mid-point)	8.65%	4.256%
	Weighted Average Cost of Capital			**7.009%**

Q: Was this capital structure the result of Staff updating their direct filed position in this case to December 31, 2016?

A: No. Staff did not true-up the capital structure to December 31, 2016.

Q: What capital structure does Staff's revenue requirement represent?

A: Staff has included in their true-up revenue requirement the same capital structure as was used in their direct filing in this case. As discussed on page 23 of the *Staff Report Revenue Requirement Cost of Service*, it states:

> As of June 30, 2016, this capital structure includes 50.41% long term debt, 0.52% preferred stock, and 49.07% common equity. I have adjusted these amounts since the Company redeemed the preferred stock in August. I have allocated the preferred stock amounts equally to long-term debt and Common equity. As a result, I am recommending a capital structure of 50.8% long-term debt and 49.2% common equity.

Q: Does Staff's approach concerning capital structure in its true-up filing appropriately match other inputs into its true-up revenue requirement calculation in this rate case?

A: No it does not. Staff in its filed Staff Accounting Schedules dated March 1, 2017 includes true-up adjustments through December 31, 2016, in the areas of rate base investment and income statement revenues and expenses. Yet, Staff has not considered the changes in the capital structure that have impacted the Company since June 2016 other than one adjustment eliminating preferred stock from the calculation. The Company's true-up calculation has been updated through December 31, 2016, and appropriately matches the capital structure changes with the rate base investment and income statement through the end of the true-up period. Staff's calculation basically reflects the activity though June 2016 and gives no consideration to the July 1, 2016, through December 31, 2016, period that is reflected in the other areas of the revenue requirement calculation. For additional discussion on this issue, please see the testimony of Company witness Kevin Bryant on the appropriate capital structure to use in this rate case.

Q: What cost of debt did the Company include in its true-up revenue requirement?

A: The Company included a cost of debt rate of 5.5264% which is the December 31, 2016, KCP&L specific utility cost of debt. This is aligned with the Company's position of including the KCP&L specific utility capital structure in its revenue requirement calculation.

Q: What cost of debt did the Staff include in its true-up revenue requirement?

A: The Staff included in its true-up calculation a cost of debt rate of 5.42% associated with consolidated debt costs at June 30, 2016.

Q: What cost of debt should be included in the revenue requirement in this case?

A: The Company recommends that the cost of debt calculation should be updated through December 31, 2016. The cost of debt used in this case should be the KCP&L specific utility cost of debt.

Q: What is the value of the differences between the capital structure and cost of debt issues included in this rate case?

A: The value of the differences between Staff and the Company on these issues is $2,783,108.

TRANSMISSION EXPENSE ANNUALIZATION

Q: Do you agree with Staff witness Lyons' true up of transmission expense and transmission revenues as found in her True-up Direct Testimony?

A: The Company agrees with the Staff's transmission revenues true up calculation and with the summary of transmission expenses annualization positions included in her true-up direct testimony, but as discussed below, does not agree with the Staff's annualization of transmission expense due to its continued significant increase.

Q: What did the Company use to annualize transmission expense?

A: The Company annualized transmission expense based on the results of the fourth quarter of 2016 which is simply a better reflection of the going forward and continually increasing transmission costs that the Company has been experiencing over a number of years.

Q: Did the Company make any additional adjustments to its annualized transmission expense for known and measurable changes?

A: Yes. The Company made adjustments to its transmission annualization calculation to reflect the phased-in increase in the Independence Power & Light ("IPL") Annual Transmission Revenue Requirement ("ATRR") and to reflect the known increase in its Directly Assigned Upgrade Costs ("DAUC") related to new transmission service requests, which began December 31, 2016, and January 1, 2017.

Q: What did Staff use to annualize transmission expense?

A: Staff based its annualization of transmission expense on12-months ending December 31, 2016. Staff also annualized the SPP Attachment Z2-related credits and charges that are identified with a specifically identifiable Z2 "charge type".

Q: Did Staff make any additional adjustments to its annualized transmission expense for known and measurable changes?

A: Yes. Staff made the same adjustment that the Company did to reflect the increase related the phased-in increase in the IPL ATRR. A description of the methodology used by Staff is discussed in the testimony of Staff witness Karen Lyons.

Q: Why does the Company believe that its proposed annualization is more appropriate than the annualization proposed by Staff?

A: The Company's transmission annualization calculation utilized actual fourth quarter transmission expense data which captures all of the SPP Attachment Z2-related components. Staff's annualization does not capture the Attachment Z2 charges that are included in the SPP Schedule 11 (Base Plan) charges. These additional Z2 charges that are included in the Schedule 11 do not have a specific SPP charge type but are identifiable in the SPP Revenue Requirements and Rates, which is the basis for the charges for the Network Integration Transmission Service ("NITS") and point-to-point ("PtP") transmission service. More importantly, utilizing the fourth quarter for the transmission annualization calculation more appropriately factors in the increasing transmission service charges resulting from increases in Base Plan charges over and above the increases related to the Z2 amounts included in Schedule 11.

The table below provides a good example for using the fourth quarter 2016 activity to annualize transmission expense on a going forward basis by providing the increases in Base Plan charges for the months from January 2016 through February 2017. As can be seen in the table below the Base Plan Funding charges, which are a significant component of FERC Account 565, increased from the beginning of 2016 to the end of

2016. The charts also show the increases beginning in January and February of 2017. This means that in the first two months post the true-up date in this rate case the Company is already seeing increases over amounts that will be included in rates for Base Plan Funding charges. Failing to factor in these known increases over the early months in 2016 will result in a continuation of the regulatory lag issues related to transmission expense. Although Staff's calculation which utilizes the entire 12 month period of 2016 factors in some of the changes that occurred during 2016, it does not factor in completely the increases that occur during the year associated with Base Plan Funding charges. The Company by utilizing the fourth quarter results more appropriately establishes an ongoing level of transmission expense that is closer to what the Company will actually begin to incur in 2017. Thus reducing some of the regulatory lag that is built into Staff's approach.

SPP Transmission Base Plan Funding				
2016	Jan		3,682,665	
	Feb		3,697,073	
	Mar		4,164,003	
		Qtr 1		11,543,741
	Apr		3,946,766	
	May		3,651,113	
	Jun		3,840,897	
		Qtr 2		11,438,776
	Jul		4,163,172	
	Aug		3,953,819	
	Sep		4,002,918	
		Qtr 3		12,119,909
	Oct		4,144,119	
	Nov		4,381,805	
	Dec		4,424,065	
		Qtr 4		12,949,989
Total Annualization - 12-months ending Dec-16				48,052,415
Total Annualization - Quarter 4 2016				51,799,956
2017	Jan		4,308,824	
	Feb		4,899,062	

Q: What was the Company's position regarding transmission expense in its direct filed case?

A: The Company in its direct filed case requested forecasted amounts for transmission expense utilizing forecasted levels for 2017 and 2018. The amount of annualized forecasted transmission expense included in that request was $69,209,247 (KCP&L Total Company). This position was changed resulting from the *Non-Unanimous Stipulation and Agreement* that was filed on February 10, 2017, in which the Company withdrew its request of including forecasted costs with a tracking mechanism and chose to use actual costs to base its transmission expense annualization calculation on.

Q: Was the amount of forecasted cost that the Company expects to incur during 2017 and 2018 higher than the annualized amount included in the Company's true-up request?

A: Yes. The annualized amount included in the Company's true-up request was $64,803,593 (KCP&L Total Company) which included the nine year amortization of historical Z2 amounts in which the Company and Staff appear to be in agreement. This amount is significantly below the annual forecasted amount included in our direct filing that is expected to occur over the next two years. As such, the annualized transmission expense calculation that the Company has included using the fourth quarter data is a conservative amount from what is expected to be incurred going forward and it eliminates months in early 2016 that simply include costs that are at lower levels than the increasing Base Plan funding costs in the fourth quarter of 2016.

Q: Has the Staff ever used a period shorter than a year to compute its annualized transmission expense calculation?

A: Yes. In the previous KCP&L-MO rate case (Case No. ER-2014-0370), Staff used a five month period from January 2015 to May 2015 to annualize transmission expense during the true-up phase of that rate case which provided recognition that there were increasing costs in transmission expenses by not using a historical 12 months.

Q: What does the Company recommend this Commission do concerning the annualization of transmission expenses?

A: The Company recommends that the Commission adopt the Company's calculation regarding transmission expense and use the fourth quarter data as proposed in its direct true-up testimony. This calculation is a superior calculation to using a historical 12 month period when it is known that transmission expenses have continued to increase year over year.

Q: What is the value of the difference between the Company and Staff on this issue?

A: The difference between the Staff and Company at the KCP&L-MO jurisdictional level using the latest Staff EMS revenue requirement calculation is $887,834.

RENEWABLE ENERGY STANDARD COSTS ("RES")

Q: Do you agree with Staff's true-up calculation of the RES cost recovery amortization amount (Schedule 10, p. 12)?

A: No. As explained below, the Staff's 3 year amortization period for Vintage 3 is not appropriate.

Q: Please describe what the Company is requesting regarding RES cost recovery in this rate case proceeding?

A: The Company is requesting in this case that the RES amortization amount be set at an amount equal to $8,470,587 as of the true-up date in this case to reflect one percent (1%) of the overall normalized revenue to be recovered in an amortization of RES costs. The Company had previously included the RES cost amortization authorized respectively in the Case No. ER-2012-0174 (Vintage 1) and the Case No. ER-2014-0370 (Vintage 2). The remaining balance of Vintage 2 plus all of the RES compliance costs incurred since the previous rate case (Vintage 3) are in a deferred account. Vintage 1 amortization ended January 2016. Per the *Partial Non-Unanimous Stipulation and Agreement to Certain Issues* in Rate Case ER-2014-0370, KCP&L has applied prospective tracking of the Vintage 1 amortization to the current RES costs deferred in Vintage 3.

Q: Why has the Company elected to include one percent (1%) of normalized revenues in amortization expense in this rate case?

The Company believes that their request falls within the parameters as set forth in the Code of State Regulations. Pursuant to 4 CSR 240-20.100 (6)(D), the rule provides guidance for recovery of RES compliance costs:

> …an electric utility may recover RES compliance costs without use of the RESRAM procedure through rates established in a general rate proceeding. In the interim between general rate proceedings the electric utility may defer the costs in a regulatory asset account, and monthly calculate a carrying charge on the balance in that regulatory asset account equal to its short-term cost of borrowing. All questions pertaining to rate recovery of the RES compliance costs in a subsequent general rate proceeding will be reserved to that proceeding, including the prudence of the costs for which rate recovery is sought and the period of time over which any costs allowed rate recovery will be amortized. Any rate recovery granted to RES compliance costs under this alternative

> approach will be fully subject to the rate limit set forth in section (5) of this rule.

Pursuant to 4 CSR 240-20.100 (5)(A), the rule provides the Retail Rate Impact(RRI) may not exceed one percent (1%) for prudent costs of renewable energy resources directly attributable to RES compliance.

Secondly, the Company entered into a *Stipulation and Agreement in* Case No. ET-2014-0071. In this *Stipulation and Agreement*, KCP&L agreed that any cost recovery in future general rate proceedings or RESRAM proceedings will be consistent with 4 CSR 240-20.100(6), and that any recovery of RES compliance costs related to solar rebate payments will not exceed one percent (1%) of the Commission-determined annual revenue requirement in the proceeding. As a result, KCP&L believes its request has fallen within the parameters established.

Q: Why is there a disagreement between the Staff and Company on this issue?

A: The Company in its request included an amortization period of 2.6 years for Vintage 3 costs in order to provide for recovery of an amount that was close to the one percent threshold that is allowed by the Code of State Regulation and the previous *Stipulation and Agreement* in case ET-2014-0071. Staff chose an amortization period of 3 years for Vintage 3 which reduces and slows the recovery of the RES costs that have previously been expended by the Company.

Q: Will the customer be harmed by the Company's approach in this case?

A: No. Regulatory assets and their associated amortizations are tracked for any over recovery based on the *Stipulation and Agreement* that has already been entered into in this rate case proceeding. As such, if any over recovery exists regarding the RES regulatory asset at the time of the Company's next rate case proceeding, these amounts will be tracked and given back to customers. Including an amortization period of 2.6 years instead of 3 years allows for a quicker recovery period of costs that have already been expended by the Company. The fact that regulatory asset amortizations are tracked as part of this rate case provide customers with the assurance that the Company will only recover the associated RES costs it has already expended.

Q: What is the value of the difference between the Company and Staff on this issue?

A: The value difference of the issue between the Company and Staff is $285,032

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

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service) Case No. ER-2016-0285

AFFIDAVIT OF 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 Director, 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 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 10th day of March, 2017.

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