Exhibit No.:	
Issue:	Bad Debt Expense; Injuries And Damages (including Outside Services)
Witness:	Linda J. Nunn
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company
Case Nos.:	ER-2018-0145 and ER-2018-0146
Date Testimony Prepared:	September 4, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2018-0145 and ER-2018-0146

SURREBUTTAL TESTIMONY

OF

LINDA J. NUNN

ON BEHALF OF

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

Kansas City, Missouri
September 2018

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SURREBUTTAL TESTIMONY

OF

LINDA J. NUNN

Case Nos. ER-2018-0145 and ER-2018-0146

INTRODUCTION

Q: Please state your name and business address.

A: My name is Linda J. Nunn. 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") as 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: Are you the same Linda J. Nunn who filed Direct and Rebuttal Testimony in both ER-2018-0145 and ER-2018-0146?

A: Yes, I am.

Q: What is the purpose of your surrebuttal testimony?

A: I will address Staff witness Antonija Nieto's Rebuttal Testimony on the appropriate level of bad debt expense to include in cost of service. I will also address OPC witness Robert Shallenberg's Rebuttal Testimony on the general justification of bad debt expense. Finally, I will respond to Staff witness Karen Lyons' rebuttal testimony on the appropriate level of Injuries and Damages

("I&D") expenses to include in cost of service as well as her recommendation to exclude certain litigation defense costs from cost of service.

BAD DEBT EXPENSE

Q: What is the position of Staff witness Antonija Nieto in Rebuttal Testimony regarding bad debt expense for both KCP&L and GMO?

A: Staff witness Nieto disagrees with the Company adjusting bad debt expense that will be associated with the ultimate revenues that will result from these rate cases.

Q: Does the Company agree with this Staff position?

A: No. The Company, as in previous cases, disagrees with this Staff position. In fact, as I stated on page 7 of my Rebuttal Testimony, this position by Staff is contrary to the Commission decision in Case No. ER-2006-0314.

Q: Why does the Company disagree with this Staff position?

A: As discussed in my Rebuttal Testimony, the Company and Staff appear to be aligned regarding the calculation of the bad debt write-off factor, which is computed using historical revenue and historical bad debt write-off amounts. But the Company and Staff disagree as to what level of revenues this write-off factor should be applied.

Q: What is the goal of the bad debt expense adjustment in these rate case proceedings?

A: The ultimate goal of the bad debt expense adjustment in these rate cases is to develop an ongoing level of bad debt cost. By analyzing a 12-month period of revenues and analyzing the bad debt write-offs associated with those revenues, Staff and Company have developed a relationship between revenues and bad debts that should be applied to the total revenues determined from these cases. If the bad debt ratio is only applied to estimated annualized revenues, and not total revenues resulting from this case, then the resulting bad debt expense ignores the relationship between bad debt expense and overall revenue levels underlying the analysis conducted by both Staff and the Company on this item.

Q: Does Staff show that the bad debt expense ratio fluctuates?

A: Yes.

Q: What is the one constant factor in Staff's calculation of the bad debt expense ratio?

A: Staff always uses total existing revenues in the calculation.

Q: What revenues will be part of a future rate case calculation of the bad debt expense ratio?

A: The revenue level established in this proceeding including rider revenues.

Q: What level of bad debt expense should be established in these rate case proceedings?

A: A level that correlates to the revenue level established in these proceedings.

Q: Do you agree with Staff witness Nieto's statements on page 3 of her rebuttal testimony that applying the bad debt ratio to revenues resulting from these cases is "speculative and is not based on known and measurable changes"?

A: No. Although the revenues resulting from these cases are not known and measurable at this point in time, they will be fully known (and obviously measurable), based on data through the end of the June 30, 2018 true-up date, when the Commission issues a final determination in these cases.

Q: Do you agree with Staff witness Nieto's explanation on page 10 of her rebuttal testimony that applying the bad debt ratio to revenues resulting from these cases "is not known and measurable and is an out-of-period adjustment that goes beyond the true-up period in this case"?

A: No. As I've indicated previously, the revenues resulting from these cases are based upon data through the true-up date of June 30, 2018. The dollar amount of many issues is determined during the rate case hearings or through negotiation and the final dollar amount is not set until determinations are made in those hearings or negotiations. Just like those other issues, this issue can be determined based upon the final revenues as established in these cases.

Q: How should the Commission rule on this issue?

A: The Commission should rule the exact same way as it did in Case No. ER-2006-0314, where on page 63 of its Order it stated:

> The Commission finds that the competent and substantial evidence supports KCPL's position, and finds this issue in favor of KCPL. The Commission understands Staff's argument that there is not a perfect positive correlation between retail sales and the percentage of bad debts. While it's possible that KCPL's bad debt expense could decrease, the Commission finds it more probable, and therefore, just and reasonable, that an increase in the amount of revenue that KCPL is allowed to collect from its Missouri retail ratepayers will result in a corresponding increase in bad debt expense.

The Commission must link the bad debt write-off factor to the ultimate revenues determined in this case as those are the revenues that will be billed and collected and subsequently written off if not paid.

Q: Does the Company agree with Staff that bad debts and forfeited discounts should be handled in the same manner depending on the outcome of this issue?

A: Yes.

Q: Does the Company agree with OPC witness Robert Schallenberg on page 14 of his rebuttal testimony where he says, "the Company's direct testimony lacked any explanation or justification for the transfer of a non-regulated affiliate's expenses to the books of regulated utility for inclusion in its customer rates"?

A: No such in-depth explanation was unnecessary as this adjustment has been made and accepted in rates since the establishment of the receivables companies. Staff witness Nieto did not make a statement that this type of explanation was necessary. KCP&L and GMO sell all of their receivables to their wholly owned subsidiaries, KCREC and GREC. This means that KCP&L and GMO do not have receivables and therefore do not have bad debt expense on their own books. KCREC and GREC have receivables and so they have the bad debt expense on their books. However, bad debt expense is a normal part of providing regulated electric service and should be included as a cost to provide service. In addition, the Company includes the activity associated with the receivables companies, including an adjustment to working capital that benefits customers in the rate cases, so to remove just one piece (i.e., bad debt expense) would be inappropriate. Please see the surrebuttal testimony of Company witness Mr. James Gilligan for further explanation of the receivables companies.

INJURIES AND DAMAGES (KCP&L ONLY)

Q: What is your understanding of Staff's proposal regarding injuries and damages ("I&D") expense?

A: Based on page 2 of the rebuttal testimony of Ms. Karen Lyons, I understand Staff proposes to normalize I&D costs in their True-Up adjustment using a two-year average of such costs incurred over the period 2016-2017 excluding costs incurred in settlement of one claim. The Company had two large claims in 2017, one of which Staff has chosen to exclude from revenue requirement.

Q: **Do you agree with Staff excluding this claim?**

A: No. I do not. The very nature of injuries and damages is that the Company pays for injuries and damages which happen while providing electric service. The Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USoA") provides a specific FERC account, account 925, to be used for these types of costs, thus showing that, although unfortunate, settlement costs are an expected part of doing business as an electric company. The very nature of making these payments would indicate that the Company has accepted, or has been ordered to bear, the responsibility of the injury or damage. It appears as though Ms. Lyons' proposal to remove this claim from the calculation of a normalized level of I&D expense is based primarily upon the size of the settlement. Staff does not review each settlement in each case to specifically decide the validity of each settlement. Staff has singled this claim out due to its size. However, just because the settlement is large, does not mean it is unrecoverable in nature.

Q: Do you agree with Staff witness Lyons' recommended level of I&D expense?

A: No, Staff's recommendation results in an unreasonably low level of I&D expense that fails to reflect normal and recurring costs incurred by KCP&L to provide electric service.

I&D expense, like other cost of service items for the Company, can vary substantially from year-to-year due to a variety of factors such that historical experience from any given year may not be representative of the costs likely to be incurred for that item when rates will be in effect. This is the reason certain cost of service items, including I&D expense, are "normalized" using a variety of methods, including averaging of multiple years of actual experience, to establish the rate allowance for such items. By averaging multiple years of experience, years with higher I&D expense are partially offset by years with lower I&D expense resulting in a level of expense for rate purposes that is more likely to be incurred in any given year.

By excluding costs incurred by KCP&L to settle one particular claim from the multi-year average Staff used to normalize I&D expense simply because Staff views the cost of that claim as too high is inconsistent with the purpose of normalizing costs for rate setting purposes.

Company witness Michael Higley explains in his surrebuttal testimony why the costs associated with the particular claim Staff has excluded are a recurring cost of doing business for KCP&L, why KCP&L's settlement of that claim is not unreasonable and puts that claim in context of historical experience of KCP&L.

Q: What is the position of the Company concerning the true-up of I&D expense?

A: The Company has calculated I&D expense using a three-year average of settlement payments excluding two large payments in 2017. The Company then adds to this amount a four-year average of just the two large claims by themselves. This amount calculates to a total normalized level of I&D expense of $2,363,681.00.

Q: Are settlement payments for I&D a normal cost of doing business for an electric utility?

A: Yes

Q: How should one look at the inclusion of injuries and damages expenses in revenue requirement?

A: Please reference the chart below that is from staff witness Lyons' rebuttal testimony on page 4. This chart shows the Company's settlement payments from 2005 to 2017.

KCPL Historical Injuries and Damages Payments (2005 – 2017)	
YEAR	*ACTUAL PAYMENTS*
2017	$9,856,523
2016	$188,945
2015	$336,030
2014	$1,878,228
2013	$984,097
2012	$2,912,085
2011	$1,469,953
2010	$2,960,147
2009	$1,297,080
2008	$3,711,095
2007	$3,786,277
2006	$2,356,084
2005	$1,963,070

As can be seen in this chart, the injuries and damages claims paid vary from year to year. This is the precise reason a multi-year average is used to establish a level of recovery in rates. Because the claims paid in 2017 were unusually high, the Company has increased the time period over which the two largest claims are averaged which is an appropriate normalization adjustment. Removing of a particular claim due to its size is unreasonable and inappropriate.

Q: Did Staff make any other adjustments related to this claim?

A: Yes. As indicated on page 8 of Ms. Lyons' rebuttal testimony, Staff removed all costs KCP&L incurred in the test year booked to FERC Account 923-Outside Services related to the eliminated claim.

Q: Does the Company agree with this treatment?

A: Absolutely not. Not only is the settlement amount a normal cost of doing business, outside services, including legal expenses, are a normal cost of doing business and should therefore be recoverable in the Company's cost of service.

Q: Does this conclude your 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-2018-0145
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2018-0146

AFFIDAVIT OF LINDA J. NUNN

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Linda J. Nunn, being first duly sworn on her oath, states:

1. My name is Linda J. Nunn. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Supervisor - Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company, consisting of ten (10) 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.

Linda J. Nunn
Linda J. Nunn

Subscribed and sworn before me this 4th day of September 2018.

Anthony R Westenkirchner
Notary Public

My commission expires: 4/26/2021

ANTHONY R WESTENKIRCHNER
Notary Public, Notary Seal
State of Missouri
Platte County
Commission # 17279952
My Commission Expires April 26, 2021