Exhibit:	
Issue:	Transmission Revenue, Transmission Expense, Transource Adjustments
Witness:	Don A. Frerking
Type of Exhibit:	Rebuttal 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:	July 27, 2018

MISSOURI PUBLIC SERVICE COMMISSION

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

REBUTTAL TESTIMONY

OF

DON A. FRERKING

ON BEHALF OF

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

**Kansas City, Missouri
July 2018**

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REBUTTAL TESTIMONY

OF

DON A. FRERKING

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

I. Introduction

Q: Please state your name and business address.

A: My name is Don A. Frerking. 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 Regulatory Analyst—Lead.

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: Please state your educational background and describe your professional training and experience.

A: I graduated from the University of Missouri-Columbia in 1986 with a Bachelor of Science degree in Industrial Engineering. I received a Master of Business Administration degree with an emphasis in Finance from the University of Missouri-Columbia in 1987. I am a registered Professional Engineer in the State of Missouri.

I have been employed by KCP&L or its one of its affiliates since 1987 in various analytical or managerial roles in the areas of Valuation Engineering, Business Development, Finance and Structuring, Business Planning, and Regulatory Affairs. In my current role in Regulatory Affairs my primary focus is on transmission- and Regional

Transmission Organization ("RTO")-related issues at Southwest Power Pool, Inc. ("SPP") and the Federal Energy Regulatory Commission ("FERC").

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission" or "MPSC") or before any other utility regulatory agency?

A: Yes. I have testified before the MPSC and the Kansas Corporation Commission ("KCC") on several occasions.

Q: What is the purpose of your testimony?

A: I will address and respond to the following transmission- and RTO-related items in the Staff of the MPSC's ("Staff") Revenue Requirement Cost of Service Report ("Staff Report"), which contains Staff's Direct testimony in these cases.

- Transmission Revenue – FERC Account 456 (Staff Report, Section V.C, pages 48-50)
- Transmission Expense – FERC Account 565 (Staff Report, Section VI.E,19, pages 132-136)
- Transource Adjustments – Transource Incentives (Staff Report, Section VI.E.30, pages 153-155)

II. Transmission Revenue – FERC Account 456

Q: What issues would you like to address regarding Transmission Revenue in the Staff Report?

A: Section V.C of the Staff Report addresses the Staff's position on two transmission revenue adjustments proposed by the Company in its Direct filing in these cases.

- Annualized Transmission Revenues (Company Adjustments KCP&L R-82 & GMO R-82) (Staff Adjustments KCP&L Rev-26.2 & GMO Rev 26.1)

- Transmission Revenue ROE Adjustment (Company Adjustments KCP&L R-80 & GMO R-80) (No Staff Adjustments)

A. Annualized Transmission Revenues (Company Adjustments KCP&L R-82 & GMO R-82) (Staff Adjustments KCP&L Rev-26.2 & GMO Rev 26.1)

Q: What is Staff's position regarding an annualized level of transmission revenues?

A: The Staff recommended annualizing transmission revenues based on the level of transmission revenues for 12-months-ending December 31, 2017. Staff's Adjustments KCP&L Rev-26.2 & GMO Rev 26.1 reflect this annualization.

At page 3 of the Staff Report, Staff did, however, also identify a list of issues that it anticipates will be "trued-up" to the June 30, 2018 true-up date. "Transmission" is one those issues that Staff anticipates will be "trued-up".

Q: Assuming that Staff does, indeed, "true-up" transmission revenues to the June 30, 2018 true-up date, will you then be in agreement with Staff's annualization of transmission revenues?

A: Perhaps, but that will depend on how Staff ultimately decides to "true-up" to June 30, 2018.

Q: What is the Company's recommendation for how to "true-up" to June 30, 2018 for transmission revenue?

A: Company witness Ronald A. Klote discusses in his Rebuttal testimony that the Company is proposing that transmission revenues be trued-up based on an "annualized" amount, which reflects the transmission revenues from January 1, 2018 through June 30, 2018.

Q: What is the Company's rationale for "annualizing" based on January 1, 2018 through June 30, 2018 versus simply utilizing 12-months-ended June 30, 2018 data in the true-up?

A: There are several reasons why an "annualization" based on only the 2018 data is more reflective of ongoing transmission revenues than would be a 12-months-ended June 30, 2018 amount. Two of the primary reasons are that:

- KCP&L and GMO update their Annual Transmission Revenue Requirements ("ATRR"), which are calculated in their Transmission Formula Rates ("TFR") each year, and the rates that result from these updated ATRRs – and are charged to transmission customers under the provision of the SPP Open Access Transmission Tariff ("OATT") – are effective from January 1 to December 31 each year. Annualizing based on the January 1, 2018 to June 30, 2018 data, will incorporate the most recent KCP&L and GMO ATRRs.
- The final Balanced Portfolio Reallocation amounts, under the provisions of the SPP OATT, will be effective for a five-year period from October 2017 through September 2022. The final Balanced Portfolio Reallocation amounts are significantly different than the Balanced Portfolio Reallocation amounts in place prior to October 2017 and will have a significant impact on the KCP&L and GMO transmission revenues. Annualizing based on the January 1, 2018 to June 30, 2018 data will incorporate the final Balanced Portfolio Reallocation amounts that will be effective for much of the next five years.

Q: Please provide additional explanation of the Balanced Portfolio Reallocation and its impact on the KCP&L and GMO's transmission revenues.

A: As noted in Company witness Klote's Direct testimony in File No. ER-2018-0145, pages 26-27, and File No. ER-2018-0146, pages 23-24, the Balanced Portfolio is a specific set of projects that meet the requirements in Sections IV.3 (High Priority Studies) and IV.4 (Evaluation of Potential Balanced Portfolios) of Attachment O (Transmission Planning Process) of the SPP OATT.

The Balanced Portfolio is subject to unique cost allocation under Section IV (Approved Balanced Portfolios) of Attachment J (Recovery of Costs Associated with New Facilities) of the SPP OATT. The ATRRs of the Balanced Portfolio projects are charged to network transmission customers on a region-wide Load Ratio Share basis, but the Balanced Portfolio cost allocation allows for the reallocation of zonal charges to region-wide charges over a ten-year period in order to ensure that all zones within SPP are receiving benefits at least equal to the costs that they are being assessed for the Balanced Portfolio.

In general, those zones with Balanced Portfolio-related Benefit/Cost ("B/C") ratios less than 1.0 will have some of their zonal ATRRs "reallocated" to network transmission customers on a region-wide basis. After the ten-year "reallocation" period, all zones should have B/C ratios "after reallocation" of at least 1.0 (i.e., those zones that had B/C ratios less than 1.0 will be equal to 1.0 "after reallocation", and zones that had B/C ratios greater than 1.0 will be less than they were originally, but still 1.0 or greater).

The KCP&L zone's original B/C ratio was 0.9, and the GMO zone's original B/C ratio was -0.3, so both the KCP&L and GMO zones were among the zones that would have some of their zonal ATRRs "reallocated" to network transmission customers on a region-wide basis.

The original B/C ratio calculations were based on estimated project costs, which were also used as the basis for the calculation of the Year 1-5 Balanced Portfolio Reallocation amounts. In addition, the Year 1-5 Balanced Portfolio Reallocation amounts were phased-in (Year 1 = 20%, Year 2 = 40%, Year 3 = 60%, Year 4 = 80%, and Year 5 = 100% of the 10-year annualized amount). Figure 1 below shows the Year 1-5 Balanced Portfolio Reallocation amounts for the KCP&L and GMO zones.

Figure 1

Year 1-5 Balanced Portfolio Reallocation Amounts for KCP&L & GMO Zones					
	Year 1 Oct 1, 2012 - Sep 30, 2013	Year 2 Oct 1, 2013 - Sep 30, 2014	Year 3 Oct 1, 2014 - Sep 30, 2015	Year 4 Oct 1, 2015 - Sep 30, 2016	Year 5 Oct 1, 2016 - Sep 30, 2017
KCP&L Zone	$1,821,147	$3,642,293	$5,463,440	$7,284,587	$9,105,733
GMO Zone	$2,155,328	$4,310,656	$6,465,985	$8,621,313	$10,776,641

The Year 6-10 Balanced Portfolio Reallocation amounts are adjusted for two things. First, they are adjusted to reflect the "true-up" for actual project costs and, thus, what the 10-year annualized amount should have been had the actual project costs been utilized in the B/C calculations. And second, they are adjusted to add the amounts that were not reallocated during the phase-in, because the Years 1-4 reallocations were at less than 100% of the 10-year annualized amount. Figure 2 below shows the Year 6-10 Balanced Portfolio Reallocation amounts for the KCP&L and GMO zones.

Figure 2

Year 6-10 Balanced Portfolio Reallocation Amounts for KCP&L & GMO Zones					
	Year 6 Oct 1, 2017 - Sep 30, 2018	**Year 7** Oct 1, 2018 - Sep 30, 2019	**Year 8** Oct 1, 2019 - Sep 30, 2020	**Year 9** Oct 1, 2020 - Sep 30, 2021	**Year 10** Oct 1, 2021 - Sep 30, 2022
KCP&L Zone	$5,761,657	$5,761,657	$5,761,657	$5,761,657	$5,761,657
GMO Zone	$12,825,383	$12,825,383	$12,825,383	$12,825,383	$12,825,383

Changes in the Balanced Portfolio Reallocation amounts result in <u>incremental</u> (positive or negative) transmission revenue to KCP&L and GMO. Note that the reason that there is <u>incremental</u> transmission revenue to KCP&L and GMO, as transmission owners, resulting from changes in the Balanced Portfolio Reallocation amounts – rather than the changes in zonal revenue simply being exactly offset by the opposite changes in region-wide revenue – is because KCP&L and GMO do not pay SPP Schedule 9 (legacy zonal ATRR charges) for the use of our own transmission facilities. Thus, the Balanced Portfolio Reallocation for the KCP&L and GMO zones reallocates legacy zonal ATRR amounts that KCP&L and GMO do not "pay to ourselves" to region-wide transmission customers who do pay them under SPP Schedule 11 region-wide charges.

As can be seen in Figures 1 and 2 above, for the KCP&L zone the difference between the Year 5 Balanced Portfolio Reallocation amount ($9,105,733) and the Year 6-10 amounts ($5,761,657) is an approximately $3.3 million <u>decrease</u>. The decrease from Year 5 to Years 6-10 is because the "actual" project costs reflected in the Year 6-10 amounts were less than the "estimated" project costs reflected in the Year 1-5 amounts, and the lower actual project costs more than offset the amounts of "under-reallocation" during the phase-in in Years 1-4.

Likewise, for the GMO zone the difference between the Year 5 Balanced Portfolio Reallocation amount ($10,776,641) and the Year 6-10 amounts ($12,825,383) is an approximately $2.0 million <u>increase</u>. For the GMO zone the increase from Year 5 to Years

6-10 is less than it otherwise would have been because the "actual" project costs reflected in the Year 6-10 amounts were less the "estimated" project costs reflected in the Year 1-5 amounts. For the GMO zone, however, the amounts of "under-reallocation" during the phase-in in Years 1-4 were still more than the impacts of the lower actual project costs, so there is still an increase from Year 5 to Years 6-10.

Q: Can you provide additional background/documentation on the Balanced Portfolio?

A: Yes. Please refer to the Company's response to MPSC Staff DRs Q0374 in these cases, which contain additional background/documentation, including various SPP FERC filings related to the Balanced Portfolio, etc.

Q: Is the Company's proposed "annualization" methodology, utilizing January 1, 2018 through June 30, 2018 data, for transmission revenues consistent with what it is proposing for transmission by others expenses?

A: Yes.

B. Transmission Revenue ROE Adjustment (Company Adjustments KCP&L R-80 & GMO R-80) (No Staff Adjustments)

Q: What is Staff's position regarding the Company's proposed ROE adjustments in the transmission revenues received from SPP for other Transmission Customers' use of KCP&L's and GMO's transmission facilities?

A: Staff recommended that transmission revenues not be adjusted to reflect the differences between MPSC- and FERC-authorized ROEs as was calculated in Company Adjustments KCP&L R-80 & GMO R-80, which were discussed in the Direct testimony of Company witness Klote.

Q: What is the Company's position regarding Staff's recommendation to not include the R-80 adjustments in its revenue requirement calculation?

A: The Company does not agree with Staff's exclusion of the R-80 adjustments nor does the Company agree with Staff's flawed rationale for its exclusion of the adjustments. The R-80 adjustment was proposed to correct a situation where the crediting of transmission revenue results in Missouri retail customers paying less than the MPSC-authorized return.

Q: Why does the transmission revenue crediting result in Missouri retail customers paying less than the MPSC has authorized?

A: Under the current Missouri retail ratemaking methodology, all of the Company-owned transmission assets and related expenses are included in the calculation of the gross retail revenue requirement. This gross retail revenue requirement is based on a MPSC-authorized ROE. The transmission revenue crediting occurs when the Company charges other Transmission Customers through the SPP OATT for their use of the Company-owned transmission assets. Because all of the Company-owned transmission assets and related expenses have been included in the gross Missouri retail revenue requirement calculation, transmission revenues received through the SPP OATT for the use of those same Company-owned transmission assets must be credited against the gross retail revenue requirement to arrive at a net retail revenue requirement.

The problem with this revenue crediting, however, is that transmission revenues that are being received from other Transmission Customers through the SPP OATT are based on ATRRs calculated in the KCP&L and GMO TFRs that are based on a FERC-authorized ROE. The FERC-authorized ROE is different than the MPSC-authorized ROE. When the FERC-authorized ROE is higher than the MPSC-authorized ROE, the transmission revenues from other Transmission Customers that are being credited against the gross retail revenue requirement are greater than that which was calculated in the gross retail revenue requirement. Essentially, Missouri retail customers would be credited back more than they would have been charged. This crediting back of more to Missouri retail customers than was built into their gross retail revenue requirement creates an improper arbitrage situation for Missouri retail customers that is controlled by the MPSC.

Company Adjustments KCP&L R-80 and GMO R-80 eliminate this improper arbitrage situation.

Q: Can you provide a simple illustrative example of this situation?

A: Yes. The simplified example calculation in Figure 3 below shows how transmission revenue crediting at the FERC-authorized ROE (when the FERC-authorized ROE is greater the MPSC-authorized ROE) results in retail customers effectively paying less than the MPSC-authorized return. In this example, the ROE component of the total transmission revenue requirement, at an assumed 9.85% MPSC-authorized ROE, would be $9.850 million (line 5 in the MPSC column of Figure 3).

In this example, it is assumed that Company retail load is 90% of the total transmission load using the Company transmission facilities and that the load associated with SPP charges to other Transmission Customers for the use of Company transmission facilities is 10% of the total transmission load. Thus, Company retail customers would be expected to pay 90% of the $9.850 million, or $8.865 million (line 8 in the MPSC column of Figure 3).

SPP, on behalf of the Company, charges other Transmission Customers for their use of Company transmission facilities under the terms of the SPP OATT. Those charges are based on the ATRR in the Company's TFR, which includes the Company's FERC-authorized ROE of 11.1%. The SPP charges to those other Transmission Customers that are associated with the 11.1% ROE component of the Company ATRR would be $1.110 million (line 9 in the FERC column of Figure 3).

As previously noted, all of the Company-owned transmission assets and related expenses are included in the gross Missouri retail revenue requirement calculation, and the transmission revenues received from SPP charges to other Transmission Customers are credited against the gross retail revenue requirement to arrive at a net retail revenue requirement. The problem is that the full gross retail revenue requirement is calculated using the MPSC-authorized ROE, and the transmission revenue credit is based on the FERC-authorized ROE.

This problem can be seen in Figure 3 where the transmission revenue credit of $1.110 million (line 11 of Figure 3), which is based on the 11.1% FERC-authorized ROE, is subtracted from the gross retail revenue requirement of $9.850 million (line 10 of Figure 3) that is based on the assumed 9.85% MPSC-authorized ROE. In the example in Figure 3, the resulting net retail revenue available for equity of $8.740 million (line 12 of Figure 3) is less than the $8.865 million (line 8 in the MPSC column of Figure 3) that Company retail customers would be expected to pay. This results in Company retail customers being effectively only charged for a 9.71% ROE (line 13 of Figure 3) on transmission ratebase rather than the 9.85% ROE for which they should be charged.

Figure 3

Illustrative Transmission Revenue Crediting Example (without R-80 Adjustment)

			MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.85%	11.10%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,850,000	$ 11,100,000
(6)	% of Total Transmission Load - Company Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for Company Retail	(5) x (6)	$ 8,865,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 985,000	$ 1,110,000
			$ 9,850,000	11,100,000
(10)	Gross ROE Revenue Requirement @ MPSC ROE (9.85%)	MPSC (5)	$ 9,850,000	
(11)	Less: Transmission Revenue Credit @ FERC ROE (11.1%)	FERC (9)	$ 1,110,000	
(12)	Net Company Retail Revenue Available for Equity	(10) - (11)	$ 8,740,000	
(13)	Effective ROE paid by Company Retail Customers	(12) / [(3)*(6)]	9.71%	< Authorized ROE

Note:
This is a simplified calculation for illustrative purposes only. The numbers shown are not necessarily representative of actual Company ratebase, capital structure, load, etc.

Q: How does the R-80 adjustment fix this problem?

A: The R-80 adjustment recalculates the transmission revenues received from other Transmission Customers through the SPP OATT by changing the ROE in the Company TFR to the ROE that the Company has requested that the MPSC authorize in these rate cases. The adjusted transmission revenues from other Transmission Customers that reflect the ROE requested from the MPSC in these rate cases are then credited against the retail revenue requirement. This adjustment fixes the problem and creates a situation where the Missouri retail customers are paying the MPSC-authorized return.

Q: Can you provide a simple illustrative example of how the R-80 adjustment fixes the problem?

A: Yes. The simplified example calculation in Figure 4 below shows how the R-80 adjustment fixes the transmission revenue crediting problem. The calculation in Figure 4 is the same as that in Figure 3 with one exception. Instead of crediting back transmission revenues that are based on the FERC-authorized ROE of 11.1%, the transmission revenue credit (line 11 of Figure 4) is instead based on what the SPP charges to other Transmission Customers for use of Company transmission facilities would be if they had been based on the assumed MPSC-authorized ROE of 9.85% rather than the FERC-authorized ROE of 11.1%.

As can be seen in Figure 4, the resulting $8.865 million net retail revenue available for equity (line 12 of Figure 4) is now the same as the $8.865 million (line 8 in the MPSC column of Figure 4) that Company retail customers would be expected to pay. This results in Company retail customers now being appropriately charged for a 9.85% requested MPSC-authorized ROE.

Figure 4

Illustrative Transmission Revenue Crediting Example (with R-80 Adjustment)

			MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.85%	11.1%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,850,000	$ 11,100,000
(6)	% of Total Transmission Load - Company Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for Company Retail	(5) x (6)	$ 8,865,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 985,000	$ 1,110,000
			$ 9,850,000	11,100,000
(10)	Gross ROE Revenue Requirement @ MPSC ROE (9.85%)	MPSC (5)	$ 9,850,000	
(11)	Less: Transmission Revenue Credit **@ MPSC ROE (9.9%)**	MPSC (9)	$ 985,000	
(12)	Net Company Retail Revenue Available for Equity	(10) - (11)	$ 8,865,000	
(13)	Effective ROE paid by Company Retail Customers	(12) / [(3)*(6)]	**9.85% =**	**Authorized ROE**

Note:
This is a simplified calculation for illustrative purposes only. The numbers shown are not necessarily representative of actual Company ratebase, capital structure, load, etc.

If the Commission authorizes a different ROE, then that would be utilized in developing the final revenue requirement and compliance tariff sheets at the conclusion of these cases.

Q: You also mentioned above that Staff's rationale for not including the R-80 adjustment was flawed. What was Staff's rationale?

A: Staff's rationale for not including the R-80 adjustment, which is discussed on pages 70-71 of Staff's Cost of Service Report, is also shown below:

> In its direct case, KCPL and GMO proposed an adjustment to reduce transmission revenue for the difference between KCPL's and GMO's authorized FERC ROE of 11.1% and KCPL's and GMO's proposed ROE in this case of 9.85%. As transmission owners, KCPL and GMO receive transmission revenues from SPP for regional and zonal transmission upgrades. The wholesale transmission revenue adjustment is calculated using the Annual Transmission Revenue Requirement ("ATRR") and using KCPL's and GMO's authorized FERC ROE of 11.1%. The ATRR is used by SPP to allocate revenues and expenses to all transmission owners and transmission customers of SPP. The transmission owners receive allocated revenues based on the ATRR and the transmission customers are charged for allocated costs based on the ATRR. The ATRR may include incentives such as allowing CWIP in the revenue requirement, ROE adders, etc. KCPL's and GMO's authorized FERC ROE of 11.1% includes a ROE adder for being a member of a regional transmission organization ("RTO") of 50 basis points.
>
> Other SPP transmission owners submit the ATRR that may include the previously discussed incentives. KCPL and GMO will then receive its allocated share of the transmission costs that include these incentives. Since no adjustment was made to its transmission expense for the incentives that are included in the costs KCPL and GMO receive from SPP and charges to its customers, for consistency Staff did not reduce transmission revenues for the difference in KCPL's and GMO's authorized FERC ROE of 11.1% and its proposed ROE of 9.85% in this case. Staff did reflect the full financial impact of both transmission revenue and transmission expense. It is Staff's position that KCPL's participation in SPP encompasses both the financial impact of KCPL's and GMO's ownership of transmission assets and the financial impacts of the use of other SPP members' transmission assets. Consequently, KCPL and GMO customers are entitled to all transmission revenues that offset a part of the significant increases in transmission expense.

Q: Why is Staff's rationale flawed?

A: First, as a point of clarification, while the KCP&L and GMO's TFR templates have a placeholder for CWIP in ratebase and some of the other ROE incentives mentioned by

Staff, KCP&L and GMO do not currently have FERC approval to apply those incentives to any projects in their TFRs. The only incentive that KCP&L and GMO currently have FERC approval for in their TFRs is the 50-basis point ROE adder for being a member of an RTO. The application of any of the other incentives would require the Company to get specific FERC approval on a project-specific basis.

Q: Is that the main flaw in Staff's rationale?

A: No. The real flaw in Staff's rationale is in the second paragraph of Staff's discussion above where Staff states that:

> Since no adjustment was made to its transmission expense for the incentives that are included in the costs KCPL and GMO receive from SPP and charges to its customers, for consistency Staff did not reduce transmission revenues for the difference in KCPL's and GMO's authorized FERC ROE of 11.1% and its proposed ROE of 9.85% in this case.

Staff is, thus, suggesting that Transmission for Others revenues in FERC Acct 456.1 should not be adjusted if Transmission by Others expenses in FERC Acct 565 are not adjusted.

Q: Why is that rationale flawed?

A: The treatment is not "consistent" because there are fundamental differences between the Transmission for Others revenues in Account 456.1 and the Transmission by Others expenses in Account 565. These differences are primarily related to which entity owns the transmission facilities and to the jurisdictional rate-making authority and methodology applicable to those transmission facilities owned by the Company versus those owned by others.

Q: Who owns the transmission facilities for which Transmission for Others revenues in Account 456.1 are being received?

A: The Company owns those transmission facilities. The Company receives those transmission revenues when other wholesale transmission customers utilize the Company-owned transmission facilities.

Q: Who owns the transmission facilities for which Transmission by Others expenses in Account 565 are being charged?

A: Those transmission facilities are primarily owned by other transmission-owning companies. The Company is charged transmission expenses for its use, on behalf of its retail customers, of those other transmission-owning companies' transmission facilities.

Q: Your response above noted that the transmission facilities for which Transmission by Others Expenses in Account 565 are being charged are "primarily" owned by <u>other</u> transmission-owning companies. Are, then, some of the charges in Account 565 for the Company's use of Company-owned transmission facilities?

A: Yes. There are some charges in Account 565 related to the Company's use of Company-owned transmission facilities. The Company has, however, adjusted for those in the Company Adjustments KCP&L R-80 and GMO R-80 by excluding the related revenues from the ROE adjustment. The net result of that exclusion is that the transmission revenues in Account 456.1 for the Company's use of Company-owned transmission facilities and the transmission expenses in Account 565 for the Company's use of Company-owned transmission facilities offset each other. The net result is that charges to KCP&L and GMO's retail customers for the use of transmission facilities owned by the KCP&L and GMO, respectively, are based on the ROE authorized by the MPSC.

Q: You have explained the ownership differences for the transmission facilities in question as they relate to Transmission for Others revenue vs. Transmission by Others expenses, but you also noted that there are jurisdictional rate-making authority and methodology differences. Please discuss the jurisdictional rate-making authority and methodology for Transmission for Others revenue.

A: The wholesale transmission revenues in Account 456.1 are received based on rates under the jurisdictional authority of FERC and are primarily based on the Company's FERC-approved TFR and administered under the FERC-approved SPP OATT. While the MPSC does not have rate-making authority over the rates upon which the wholesale transmission revenues in Account 456.1 are based, it obviously has retail rate-making authority, and those retail rates are based, in part, on the same Company-owned transmission facilities that are also used to generate the wholesale transmission revenues in Account 456.1. That is why Account 456.1 wholesale transmission revenues must be credited against the gross retail revenue requirement to produce a reduced net retail revenue requirement and, thus, avoid double recovery.

The problem, however, occurs when the Account 456.1 wholesale transmission revenues that are being credited against the gross retail revenue requirement are based on FERC-approved rates that include a FERC-authorized ROE that is different than the MPSC-authorized ROE. Crediting back more to retail customers than was built into their gross retail revenue requirement, because of differences between FERC- and MPSC-authorized ROEs, creates the improper arbitrage situation that is described above in my testimony.

Q: How is the jurisdictional rate-making authority and methodology different for the transmission facilities for which Transmission by Others expenses in Account 565 are being charged?

A: The transmission expenses in Account 565 charged to the Company are based on rates under the jurisdictional authority of the FERC and are primarily based on <u>other</u> transmission-owning companies' FERC-approved TFRs and are administered under the FERC-approved SPP OATT. The MPSC does not have rate-making authority over the rates upon which the transmission expenses in Account 565 are based, nor does it have retail rate-making authority over the transmission facilities upon which those charges to the Company are based (other than those facilities owned by the Company).

The MPSC, thus, does not have jurisdiction to authorize the ROE to be used in the rates charged to the Company for the use of transmission facilities owned by others. Thus, there is no ROE difference to adjust for, because the FERC-authorized ROEs for those other transmission-owning companies are the only relevant ROEs.

Q: Does the Company have the option to pay amounts other than those it is being charged for the use of others' transmission facilities?

A: No. KCP&L and GMO have no option to pay any other amounts for the allocated use of transmission facilities owned by other Transmission Owners that have been lawfully charged to them as a Transmission Customers under the FERC-approved SPP OATT. KCP&L and GMO are incurring these charges for the use of others' transmission facilities on behalf of their retail customers.

Q: Given these fundamental differences between the Transmission for Others revenues in Account 456.1 vs. Transmission by Others expenses in Account 565, is there any basis for making some sort of ROE adjustment for Transmission by Others expenses in Account 565?

A: No. There is no basis to make such an adjustment to the Transmission by Others expenses recorded in FERC Account 565 that are lawfully incurred by the KCP&L and GMO as a Transmission Customers under the SPP OATT for the allocated use of transmission facilities that are <u>owned by other</u> Transmission Owners in SPP. Doing so would, in my opinion, constitute an illegal taking.

Q: Is there anything else that is troubling about Staff's rationale regarding the Company's Adjustments KCP&L R-80 and GMO R-80?

A: Yes. Staff notes in its discussion of transmission expenses in the Staff Report that they "analyzed KCPL and GMO's actual transmission expenses for the period of 2009 through 2017" and that "KCPL and GMO's transmission expenses have increased substantially over this period." That substantial increase in transmission expenses certainly is not surprising to the Company, as that situation has contributed significantly to the regulatory lag that the Company has been experiencing and is precisely the reason that the Company has consistently proposed regulatory mechanisms to deal with the rising Transmission by Others expenses in each of its recent rate cases.

What is troubling though is that Staff suggests that "(c)onsequently, KCPL and GMO customers are <u>entitled to all</u> [emphasis added] transmission revenues that offset a part of the significant increases in transmission expense." Staff seems to be suggesting that, because transmission expenses are increasing significantly, retail customers are somehow entitled to the improper arbitrage revenues created by crediting back more to them in transmission revenues than was built into their gross retail revenue requirement.

III. Transmission Expense-FERC Account 565

Q: What issues would you like to address regarding Transmission Expense in the Staff Report?

A: Section VI.E.19 of the Staff Report addresses the Staff's position on transmission expense adjustments proposed by the Company in its Direct filing in this case.

- Annualized Transmission by Others Expense (Company Adjustments KCP&L CS-45 & GMO CS-45) (Staff Adjustments KCP&L E-130.1 & GMO E-85.2)

A. Annualized Transmission by Others (Company Adjustments KCP&L CS-45 & GMO CS-45) (Staff Adjustments KCP&L E-130.1 & GMO E-85.2)

Q: What is Staff's position regarding an annualized level of transmission expenses?

A: The Staff recommended annualizing transmission by other expenses based on the level of transmission expenses for 12-months-ending December 31, 2017. Staff's Adjustments KCP&L E-130.1 & GMO E-85.2 reflect this annualization.

At page 3 of the Staff Report, Staff did, however, also identify a list of issues that it anticipates will be "trued-up" to the June 30, 2018 true-up date. "Transmission" is one those issues that Staff anticipates will be "trued-up".

Q: Assuming that Staff does, indeed, "true-up" transmission for others expenses to the June 30, 2018 true-up date, will you then be in agreement with Staff's annualization of transmission revenues?

A: Perhaps, but that will depend on how Staff ultimately decides to "true-up" to June 30, 2018.

Q: What is the Company's recommendation for how to "true-up" to June 30, 2018 for transmission by others expenses?

A: Company witness Klote discusses in his Rebuttal testimony that the Company is proposing that transmission by others expenses be true-up based on an "annualized" amount, which reflects the transmission by others expenses from January 1, 2018 through June 30, 2018.

Q: What is the Company's rationale for "annualizing" based on January 1, 2018 through June 30, 2018 versus simply utilizing 12-months-ended June 30, 2018 data in the true-up?

A: There are several reasons why an "annualization" based on only the 2018 data is more reflective of ongoing transmission by others expenses than would be a 12-months-ended June 30, 2018 amount. Some of the primary reasons are that:

- Many transmission owners update their ATRRs, which are calculated in their TFRs each year, and the rates that result from the updated ATRRs – and are charged to transmission customers, like KCP&L and GMO, under the provisions of the SPP OATT – are effective from January 1 to December 31 each year. Annualizing based on the January 1, 2018 to June 30, 2018 data, will incorporate the most recent ATRRs that are being charged to KCP&L and GMO.
- The final Balanced Portfolio Reallocation amounts, under the provisions of the SPP OATT, will be effective for a five-year period from October 2017 through September 2022. The final Balanced Portfolio Reallocation amounts are significantly different than the Balanced Portfolio Reallocation amounts in place prior to October 2017 and will have a significant impact

on the Company's transmission by others expenses associated with the Balanced Portfolio amounts being reallocated to region-wide charges. Annualizing based on the January 1, 2018 to June 30, 2018 data, will incorporate the final Balanced Portfolio Reallocation amounts that will be effective for much of the next five years.

- The final phase-in of the Independence Power & Light ("IPL") ATRR under the terms of the IPL settlement in FERC Docket No. ER15-1499 began January 1, 2018. We believe that Staff has reflected this known and measurable change in their annualization, but basing the annualization on the January 1, 2018 through June 30, 2018 data should also reflect this change.

Q: What is the impact of the final Balanced Portfolio Reallocation on the region-wide transmission charges to KCP&L and GMO?

A: As I noted previously in the discussion of the final Balanced Portfolio Reallocation impact on transmission revenues, the first part if the final Balanced Portfolio Reallocation is to adjust the overall amount reallocated from zonal changes to region-wide charges by reflecting the "true-up" for actual project costs and, thus, what the 10-year annualized amount should have been had the actual project costs been utilized in the B/C calculations. The actual project costs were less than were originally estimated at the start of the Balanced Portfolio process, so the total amount being reallocated to a region-wide charge is less for Years 6-10 than it was for Year 5.

Figure 5 below shows the Year 1-5 Balanced Portfolio amounts that were reallocated to be charged to transmission customers on a region-wide basis. Figure 5 also shows the approximate KCP&L and GMO Load Ratio Shares of those amounts that are charged to KCP&L and GMO as transmission customers under Schedule 11 of the SPP OATT.

Figure 5

Year 1-5 Balanced Portfolio Region-Wide Charges					
	Year 1 Oct 1, 2012 - Sep 30, 2013	**Year 2** Oct 1, 2013 - Sep 30, 2014	**Year 3** Oct 1, 2014 - Sep 30, 2015	**Year 4** Oct 1, 2015 - Sep 30, 2016	**Year 5** Oct 1, 2016 - Sep 30, 2017
Balanced Portfolio Region Wide ATRR	$20,524,948	$41,049,896	$61,574,844	$82,099,792	$102,624,740
KCP&L Load Ratio Share (~7.3%)	$1,498,321	$2,996,642	$4,494,964	$5,993,285	$7,491,606
GMO Load Ratio Share (~4.1%)	$841,523	$1,683,046	$2,524,569	$3,366,091	$4,207,614

Figure 6 below shows the Year 6-10 Balanced Portfolio amounts that were reallocated to be charged to transmission customers on a region-wide basis. Figure 6 also shows the approximate KCP&L and GMO Load Ratio Shares of those amounts that are charged to KCP&L and GMO as transmission customers under Schedule 11 of the SPP OATT.

Figure 6

Year 6-10 Balanced Portfolio Region-Wide Charges					
	Year 6 Oct 1, 2017 - Sep 30, 2018	**Year 7** Oct 1, 2018 - Sep 30, 2019	**Year 8** Oct 1, 2019 - Sep 30, 2020	**Year 9** Oct 1, 2020 - Sep 30, 2021	**Year 10** Oct 1, 2021 - Sep 30, 2022
Balanced Portfolio Region Wide ATRR	$73,774,679	$73,774,679	$73,774,679	$73,774,679	$73,774,679
KCP&L Load Ratio Share (~7.3%)	$5,385,552	$5,385,552	$5,385,552	$5,385,552	$5,385,552
GMO Load Ratio Share (~4.1%)	$3,024,762	$3,024,762	$3,024,762	$3,024,762	$3,024,762

Thus, the impact of the final Balanced Portfolio Reallocation results in KCP&L paying approximately $2.1 million <u>less</u> and GMO paying approximately $1.2 million <u>less</u> per year in Schedule 11 region-wide charges for Years 6-10 compared to Year 5.

Q: Is the Company's proposed annualization methodology, utilizing January 1, 2018 through June 30, 2018 data, for transmission by others expenses consistent with what it is proposing for transmission revenues?

A: Yes.

IV. Transource Adjustments - Transource – FERC Incentives

Q: What are the Transource Adjustments?

A: As noted in Section VI.E.30 of the Staff Report, the Company included in its Direct revenue requirement filing in these cases three adjustments related to the Stipulation and Agreement reached by the parties and included in the Commission's Report and Order in File No. EA-2013-0098 ("Transource Missouri CCN Case"). In my Rebuttal testimony I will address only the adjustment below:

- Transource – FERC Incentives (Company Adjustments KCP&L CS-108 & GMO CS-108) (Staff Adjustments KCP&L E-130.2 & GMO E-85.4)

Q: Can you briefly describe the purpose of this Transource FERC Incentives adjustment?

A: Yes. As noted in Section VI.E.30 of the Staff Report, this adjustment is intended to address certain rate treatment agreements made by KCP&L and GMO in the Transource Missouri CCN Case. These rate treatment agreements made by KCP&L and GMO are discussed on pages 27-28 of the Commission Report and Order in File No. EA-2013-0098 in Appendix 4, Section 2 and are also shown below.

> 2. In particular, Section II(A) of the Stipulation provides for certain rate treatment respecting costs allocated to KCP&L or GMO by SPP involving FERC items such as authorized return on equity ("ROE"), capital structure, construction work in progress ("CWIP"), or other FERC transmission rate incentives for the Iatan-Nashua Project and the Sibley-Nebraska City Project facilities located in KCP&L's and GMO's respective service territories that are constructed by Transource Missouri. KCP&L and GMO

have agreed to make these adjustments in all rate cases so long as the transmission facilities are in service.

A. Rate Treatment – Affiliate Owned Transmission

1. With respect to transmission facilities located in KCP&L certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, KCP&L agrees that for ratemaking purposes in Missouri the costs allocated to KCP&L by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if KCP&L's authorized ROE and capital structure had been applied and there had been no Construction Work in Progress ("CWIP") (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. KCP&L will make this adjustment in all rate cases so long as these transmission facilities are in service.

2. With respect to transmission facilities located in GMO certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, GMO agrees that for ratemaking purposes in Missouri the costs allocated to GMO by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if GMO's authorized ROE and capital structure had been applied and there had been no CWIP (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. GMO will make this adjustment in all rate cases so long as these transmission facilities are in service.

Q: What is Staff's position regarding the Transource FERC Incentives adjustment?

A: Staff reviewed KCP&L's proposed adjustment and recommended that it be revised in various respects in order to, as they state in the Staff Report, "make it consistent with the Commission's Report and Order in File No. EA-2013-0098."

Q: What revisions did Staff make to the Company's proposed Transource FERC Incentives adjustment?

A: As noted on Page 155 of the Staff Report:

> Staff's recommended changes are as follows:
>
> - Cost of debt – differences in the assumed cost of long term debt do not result from FERC Transmission Rate Incentives, and therefore should not be included in the difference calculation
>
> - Federal income tax rate – Staff calculated the adjustment based on the current federal income tax rates effective January 1, 2018.

Q: Do you agree with Staff's revision regarding the cost of debt?

A: No. Staff's suggestion that "differences in the assumed cost of long-term debt do not result from FERC Transmission Rate Incentives" is illogical.

In Transource Missouri's application in FERC Docket No. ER12-2554, and specifically in the direct testimony of Transource Missouri witness Matt Vermillion, Transource Missouri discussed the risks and challenges that Transource Missouri would face in obtaining financing for each of the Projects and how the rate incentives requested would help support investment grade credit ratings, which in turn would bolster Transource Missouri's ability to obtain debt capital on reasonable terms. The requested, and subsequently approved, rate incentives helped to mitigate lender concerns regarding uncertainties in cash flows. It is highly unlikely that Transource Missouri would have been able to acquire debt financing on terms as favorable as it did without the rate incentives that FERC granted.

Staff's adjustment to remove the rate incentives, while at the same time keeping the debt rates at levels that would likely not have been available to Transource Missouri absent the accompanying rate incentives, is inconsistent and, thus, inappropriate.

Q: Do you agree with Staff's revision regarding the federal income tax rate?

A: Yes. The Company intends to make the same revision to the Transource FERC Incentives adjustment, when it files True-up testimony in these cases. The Company did not reflect the new federal tax rate in the Transource FERC Incentives adjustment when it filed its Direct testimony in these cases, because the Tax Cuts and Jobs Act of 2017 ("TJCA"), which lowered the federal tax rate had not yet been enacted at the time of the Company's Direct filings.

Q: Does that 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 DON A. FRERKING

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Don A. Frerking, being first duly sworn on his oath, states:

1. My name is Don A. Frerking. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Regulatory Analyst – Lead.

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 twenty-seven (27) 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.

Don A. Frerking

Subscribed and sworn before me this 27th day of July 2018.

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