Exhibit No.:	
Issue:	Accounting Adjustments
Witness:	Linda J. Nunn
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

LINDA J. NUNN

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

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" or "Company") 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 Testimony in both ER-2018-0145 and ER-2018-0146?

A: Yes, I am.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to rebut issues addressed in the Missouri Public Service Commission ("MPSC" or the "Commission") Staff ("Staff") Report Cost of Service filed for case Nos. ER-2018-0145 and ER-2018-0146 on June 19, 2018.

PREPAYMENTS

Q: Does the Company agree with Staff witnesses Nieto's and Lyons' position of excluding Missouri Public Service Commission Assessment ("PSC Assessment") fees from inclusion in rate base and moving those costs to the cash working capital ("CWC") calculation?

A: No. The Company prepays PSC Assessment fees quarterly. PSC Assessment fees are defined in the provisions of Section 386.370 RSMo as payment for the expenses of the MPSC, and I understand the Commission also collects an assessment for the Office of Public Counsel. The fees are properly accounted for as a prepayment in account 165 as they cover the expenses incurred by the MPSC in regulating the public utilities of the state of Missouri. Account 165 in the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts ("USOA") includes the following definition:

> Account 165, Prepayments.
>
> This account must include amounts representing prepayments of insurance, rents, taxes, interest and miscellaneous items, and must be kept or supported in such manner so as to disclose the amount of each class of prepayment.
>
> 18 CFR 367.1650 (2016)

On a quarterly basis, these costs are paid and recorded in Account 165 and are amortized monthly to account 928, Regulatory Commission Expenses, as required in the FERC's USOA.

Q: Please further explain prepayments and why they have always been included in the Company's rate base?

A: Prepayments relate to items that the Company "prepaid" so that the services required will be available during the normal course of the utility's operations. Prepayments are booked to FERC asset account No. 165. FERC Account 165 includes amounts representing prepayments of insurance, rents, taxes, interest and miscellaneous items. Just as accumulated deferred income taxes represent a prepayment of income taxes by customers, prepayments such as insurance and rents represent a prepayment of the cost of certain utility services by shareholders and are appropriately included in rate base. Additionally, please reference *The Process of Ratemaking* by Leonard Saul Goodman, page 324 which states:

> A company has the option of treating a once-a-year expense as prepaid at the time of payment; it should then be allowed to amortize the expense monthly and to include the average unamortized balance in rate base.

This is exactly the regulatory accounting that is used to record the PSC Assessments during the test year and is not a change from historical precedent.

Q: Has the Company received an opinion from their external auditors on whether the FERC Form 1 presents fairly the regulatory-basis financial statements of the Company?

A: The Company's external auditors, Deloitte and Touche, LLP, as part of their audit of the annual FERC Form 1 process have provided unqualified opinions on the balance sheet accounts in which FERC Account 165 Prepayments is included. The auditor's opinion states the following:

> We have audited the accompanying financial statements of KCP&L Greater Missouri Operations Company (the "Company"), which comprise

> the balance sheet-regulatory basis as of December 31, 2017, and the related statements of income-regulatory basis, retained earnings-regulatory basis, and cash flows-regulatory basis for the year then ended, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form 1, and the related notes to the financial statements.

The auditor's opinion section goes on to state:

> In our opinion, the regulatory-basis financial statements referred to above present fairly, in all material respects, the assets, liabilities, and proprietary capital of KCP&L Greater Missouri Operations Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

FERC Account 165 is included in the assets section which is listed in the auditor's opinion above and expressly states that the assets are presented fairly in all material respects. This should provide this Commission additional assurance that FERC Account 165 Prepayments includes the appropriate transactional recording of PSC assessment fees. The Company received a similar opinion from its auditors regarding KCP&L.

Q: Does the Company agree with Staff that since the Company pays these fees on a quarterly basis they are not prepayments?

A: No. Staff has given no rationale as to why these fees, which have consistently been included as prepayments and in rate base, should now be moved to CWC. Nothing has changed to justify or require such a move.

Q: Does the Company agree with the Commission Staff that KCC fees should be removed from the prepayment balance because they apply to Kansas only.

A: No. Since prepayments are allocated on a total prepayment basis, removing the KCC fees and then also allocating between Missouri and Kansas causes the charges to be, in essence, removed twice.

Q: What is the Company's argument regarding the exclusion of EEI Dues including UARG (Utility Air Regulatory Group) payments from prepayments?

A: The Company disagrees with this treatment. Please see my discussion of dues and donations later in my testimony.

Q: Should the Commission continue to allow the Company to include all current balances in prepayment Account 165 in the rate base calculations?

A: Yes, the Commission should continue to allow the Company to include all appropriately recorded current balances in Account 165 in rate base consistent with past rate cases.

MATERIALS AND SUPPLIES

Q: How does Staff's position regarding the allocation of KCP&L Materials and Supplies between the Missouri and Kansas jurisdictions differ from the Company's position?

A: The Company used the following:

- D1 allocator for Fossil Generation Related M&S, Wolf Creek Related M&S and Wind Generation Related M&S (52.6757% Missouri).
- 100% MO for the T&D Related M&S-MO locations

- 0% Missouri for the T&D Related-KS locations
- PTD allocator is used for T&D Related M&S-Allocated (53.6995% Missouri).
- Staff witness Antonija Nieto used a general plant allocator of 53.4406% as well as removing 100% of the Kansas balances.

Q: Why is the Company concerned about the difference in allocation methods?

A: For materials and supplies, the Company has taken a more detailed approach to allocating based upon the location and purpose of the particular materials and supplies. This way of allocating is consistent with how the Company's plant and reserve balances are allocated. In addition, the Company's more detailed approach is more directly related to cost causation than Staff's general allocation approach.

BAD DEBT EXPENSE AND LATE PAYMENT FEES

Q: Please discuss the bad debt issue.

A: There are two bad debt/late payment fees issues: (1) determining the level of revenues on which to apply the bad debt and late payment fees rate; and (2) deciding whether bad debt write-offs as well as late payment fee payments to be incurred as a result of the rate change ordered by the Commission in this rate case should be factored into the revenue requirement calculation.

Q: Does Staff use the proper amount of revenues on which to apply the bad debt and late payment fee factors?

A: No, for KCP&L the proper amount of revenue is weather normalized sales plus the addition of MEEIA and FAC revenue and for GMO the addition of MEEIA, FAC and RESRAM revenues.

Q: Please discuss the issue related to a bad debt factor being applied to the rate increase in this case.

A: Staff's Cost of Service Report was silent regarding the application of the bad debt write-off factor being applied to the rate increase in this case. The application of the bad debt factor to the rate increase was approved by the Commission in Case No. ER-2006-0314 ("2006 Case"). The application of the bad debt write-off percentage should be applied not only to the weather normalized revenue inclusive of MEEIA, FAC and RESRAM (if applicable) in this case, but also to the revenue requirement change in this case.

Q: Why is it necessary to add additional bad debt expense for the revenue change resulting from this case?

A: The Company's historical bad debt levels occurred when overall revenue levels were different than they will be after the rate change ordered by the Commission in this case.

Q: If the Company and Staff are in agreement regarding the application of a bad debt factor to a 12-month period of revenues, what is significant about the 12-month period of revenues to which Staff limits application of the bad debt factor?

A: Staff and Company have agreed to base the development of the bad debt write-off factor on a historical 12-month period level of revenues and a related 12-month period of write-offs. This level of historical revenues captures a point in time but is not tied to the revenues that will result from this rate case. If the methodology to create an annualized level of bad debt expense for this rate case is to create a bad debt write-off factor, this factor should be applied to the ultimate annual level of revenues that are produced from this rate case proceeding. The bad debt write-off should not be applied only to the revenue levels that are available prior to the rate change. That is not sound logic in developing an ongoing annualized level of bad debt expense.

Q: Please discuss the MPSC's handling of this same issue in the 2006 Case.

A: In that case the Commission ruled in the Company's favor on this identical issue, described by the Commission as follows:

> Should the bad debt percentage be applied to reflect the total revenues, including any rate increase in Missouri jurisdictional retail revenues awarded in this proceeding?

Report and Order, p. 62, Case No. ER-2006-0314 (Dec. 21, 2006).

As stated on page 63 of the 2006 Case Report and Order:

> 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.

Q: Should the Commission grant an adjustment for bad debt expense relating to the revenue requirement adjustment from this case?

A: Yes. The Commission should rely on this logical methodology to arrive at an annualized level of bad debt expense in this rate case. Applying the bad debt factor to the new level of revenues that will result from this rate case is a logical policy and should be re-affirmed by the Commission in this case.

Q: Should the Commission apply the "factor up" methodology to late payment fees (forfeited discounts)?

A: Yes. If the Commission grants the Company's request regarding the bad debt factor applied to the new revenue requirement, then the same methodology should be applied to late payment fees. It is reasonable to apply the same methodology to late payment fees associated with the new revenue requirement granted in this case.

INJURIES AND DAMAGES

Q: What period of averaging is staff using in their adjustment in the KCP&L case?

A: Staff calculated a 3-year average of injuries and damages claims just like the Company did.

Q: Does the Company agree with the Staff's method of valuing injuries and damages in this case?

A: Partially. The Company agrees with using an average for claims paid but does not agree with Staff's adjustment to those amounts. Staff did not include two large claim payments that were paid at the end of 2017 to a Mr. Thurman and a Mr. Philpot. The Company believes that these claims should be included as these types of costs can be incurred at any time and, while unfortunate, are a normal cost of doing business as an electric company.

Q: Is the Staff continuing to assess this adjustment?

A: Yes. Staff states in their direct testimony that once they receive additional information regarding the nature of these two large claims, they would consider including them in their revenue requirement. However, they said that if included they would use a 4-year average of claims paid. Company has subsequently met with Staff and shared more information relating to both claims.

Q: Does the Company agree with this period and, if not, what is the recommendation?

A: Partially. A 3-year average is typically the methodology that has been used in prior rate cases for injuries and damages claims. The Company requests that the Commission adopt a 3-year average of claims paid except for the Thurman and Philpot claims. For these claims, which are larger than typical, the Company requests that the Commission adopt a 4-year average.

ACCOUNTS RECEIVABLE BANK FEES

Q: Does the Company agree with Staff's position regarding KCP&L Accounts Receivable Bank Fees?

A: Yes. The Company agrees with Staff's method of annualizing the most recent month of Staff's Direct filing period of December 2017. Staff recognizes the upward trend of these fees.

Q: Does the Company believe this annualization should be the appropriate method for calculating these fees for KCP&L at True-Up?

A: Yes, because the upward trend continues throughout 2018 as the commercial paper interest rate continues to drastically rise every month in 2018.

Q: Does the Company believe this annualization should also be the appropriate method for calculating these fees for GMO at True-Up?

A: Yes, because a definite upward trend has been established from January 2018 to June 2018 as the commercial paper interest rate continues to drastically rise every month in 2018. Staff used the 12 months ending December 31, 2017 in their Direct filing but this more appropriate method should be used for True-Up.

DUES AND DONATIONS

Q: Please explain the adjustments that Staff made concerning dues and donations in its revenue requirement calculation.

A: Staff made adjustments to remove membership dues that the Company has paid. Staff believes these dues fall into four categories. They include the following:

1. The expenses are involuntary customer contributions of a charitable nature;

2. The expenses are supportive of activities which are duplicative of those performed by other organizations to which the Company belongs or pays dues;

3. The expenses are associated with active lobbying activities which have not been demonstrated to provide any direct benefit to customers; or

4. The expenses represent costs of other activities that provide no benefit or increased service quality to customers.

Staff also removed a portion of Edison Electric Institute ("EEI") dues that are recorded above-the-line claiming that the Company failed to identify any benefit to its customers from participation in EEI.

Q: What else does Staff say concerning dues?

A: Staff notes that the Company has accurately recorded charitable contribution costs below the line and has not asked for recovery of these costs in its revenue requirement calculation.

Q: Does the Company agree with this?

A: Yes, the Company agrees that charitable contributions are appropriately recorded below the line on the Company's books and records. However, one additional item that was not recorded below the line should be removed from cost of service. This is an expenditure to Boston College for membership dues. This has been determined to be a charitable donation that should be removed from the revenue requirement.

Q: How does the Staff conclude their Dues and Donations testimony?

A: In very limited testimony, Staff states the following on page 109 of their Revenue Requirement Cost of Service Report:

> While Staff recognizes the importance of charitable contributions to the communities served by utilities, donations that do not provide any direct benefit to ratepayers and are not necessary for the provision of safe and adequate service should be excluded from KCPL's and GMO's revenue requirement. In addition, recovery in rates of donations made by regulated utilities would constitute an involuntary contribution on behalf of the rate-paying customer, and thus, those donations were excluded from the Companies' revenue requirements.

Staff then provided a list of organizations that they assert fit into categories, 2, 3 or 4 from the list above and removed those costs from the Company's revenue requirement calculation. The workpaper provided by Staff does not explain why Staff believes those costs fall into categories 2, 3 or 4 listed above. The Company is left to speculate which category each disallowance falls into.

Q: Does the Company agree with these adjustments?

A: No. It is very difficult to discern why each organization has been disallowed and Staff's testimony continues to refer to the payments as donations and not dues.

Q: What is the Company's response to the dues disallowance proposed by Staff?

A: The Company has taken the list of organizations provided by Staff and categorized the list into the following four categories:

1. Dues paid to economic development agencies and chambers of commerce.
2. Dues paid to energy associations and other regulatory groups.
3. Dues paid to environmental groups that conserve and protect natural resources.

4. Dues paid in support of regional tourism facilities.

These membership dues should be a part of a utility's cost of service as they are necessary to continually improve and be a good community corporate citizen. The rebuttal testimony of Company witness Elizabeth Danforth provides a discussion of each of these four categories and the benefits to KCP&L, GMO and their customers.

Q: Did Staff provide any explanation for their dues disallowances in their Revenue Requirement Cost of Service Report?

A: No. Staff simply listed three broad categories of reasons to disallow dues and then provided a list of organizations that Staff has chosen to now disallow, despite many dues to organizations that the Company has participated in and been included in their cost of service in past cases.

Q: Staff also eliminated dues associated with EEI? What is EEI?

A: EEI is the association that represents all U.S. investor owned electric utilities. EEI is more fully explained and the benefits of participation in this organization are included in the Rebuttal Testimony of Company witness Elizabeth Danforth.

Q: Does the Commission provide guidance on how to handle EEI dues in previous cases?

A: Yes. In Case Nos. EO-85-185 and EO-85-224, KCP&L rate cases, the Commission stated in its Report and Order regarding the need for the utility to allocate EEI benefits between customers and shareholders:

> … The argument that allocation is not necessary if the benefits lessen the cost of service to the ratepayers by more than the cost of the dues, misses the point. It is not determinative that the quantification of benefits to the ratepayer is greater than the EEI

> dues themselves. **The determining factor is what proportion of those benefits should be allocated to the ratepayer as opposed to the shareholder. It is obvious that the interests of the electric industry are not consistently the same as those of the ratepayers. The ratepayers should not be required to pay the entire amount of EEI dues if there is benefit accruing to the shareholders from EEI membership as well. The Commission finds this to be the case. The Company has been informed in prior rate cases that it must allocate its quantified benefits from membership in EEI.** That has not been done herein. Therefore, no portion of EEI dues will be allowed in this case.

Q: Has the company already allocated some of the EEI dues below the line attributing them to shareholders and excluded those costs from the revenue requirement calculation?

A: Yes. The Company records approximately 21% of the EEI annual membership dues invoice below the line. This represents the portion of time that EEI is engaged in lobbying activities for the electric utility industry. This percentage is based off the invoice that is received from EEI on an annual basis which separates out any amounts that are related to lobbying activities. As such, the Company has already eliminated costs that should not be charged to customers. This is consistent with what the Commission stated in its Report and Order in Case Nos. ER-85-185 and EO-85-224. The Company has adhered to the guidance provided by this previous Commission Order and has allocated EEI dues between the customers and shareholders.

Q: Should Staff's EEI adjustment and dues and donations disallowance be accepted by the Commission?

A: No. As indicated above, the Company has already removed donations that were not recorded below the line. In addition, as more fully described in Company witness Danforth's Rebuttal Testimony, the EEI membership dues provide access to services that assist the Company in providing more reliable and efficient services and provide benefits to KCP&L and GMO customers. The costs associated with lobbying which benefit only shareholders are already recorded below the line during the test year and not included in the cost of service for this rate case. Staff's attempt to eliminate the beneficial costs of EEI should be rejected by the Commission.

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 Rebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company, consisting of sixteen (16) 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 27th day of July 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