

Exhibit No.:
Issue: DSIM
Witness: Zephania Marevangepo
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
File No.: EO-2014-0095
Date Testimony Prepared: March 28, 2014

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
Utility Services – Financial Analysis**

REBUTTAL TESTIMONY

OF

ZEPHANIA MAREVANGEPO

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. EO-2014-0095

Jefferson City, Missouri
March 2014

1 This designation is awarded based upon experience and successful completion of a written
2 examination.

3 Q. Have you filed testimony in other cases before this Commission?

4 A. Yes. Please see Schedule 1.

5 Q. Have you made recommendations in any other cases before this Commission?

6 A. Yes, I have made recommendations in finance cases, acquisition cases, small
7 water and sewer rate cases, and telephone certificate cases before this Commission.

8 Q. What is the purpose of your rebuttal testimony in this proceeding?

9 A. To respond to portions of the direct testimony of Tim M. Rush and Kevin E.
10 Bryant, witnesses for Kansas City Power & Light Company (“KCPL”). Specifically, I will
11 address the testimony each witness sponsored to address:

- 12 • Rule 4 CSR 240-3.163(2)(E) concerning estimates of the effect of the utility
13 incentive component of demand-side program investment mechanism (“DSIM”)
14 on utility earnings and key credit metrics for each of the next three years; and
- 15 • Rules 4 CSR 240-3.163(2)(G) and 4 CSR 240-20.093(2)(D) concerning changes
16 in the utility’s business risk resulting from establishment of the DSIM.

17 **EXECUTIVE SUMMARY**

18 Q. Would you please provide a summary of your rebuttal testimony as it relates to
19 the Commission Rule 4 CSR 240-3.163(2)(E) filing requirements?

20 A. Rule 4 CSR 240-3.163(2)(E) requires the electric utility to file estimates of the
21 effect of the utility incentive component of DSIM on utility earnings and key credit metrics for
22 each of the next (3) three years with and without the utility incentive component of DSIM.

1 The above mentioned estimates were filed in the direct testimony of KCPL’s witness,
2 Tim M. Rush, as Schedule TMR-3. Staff established that KCPL is in compliance with
3 Commission Rule 4 CSR 240-3.163(2)(E).

4 Upon reviewing KCPL’s filed testimony regarding its current demand-side management
5 (DSM) program cost recovery mechanism, which KCPL agreed to in its Experimental
6 Regulatory Plan in Case No. EO-2005-0329, Staff confirms that KCPL’s current DSM program
7 cost recovery mechanism only allows for recovery of DSM program costs. While Staff agrees
8 with KCPL that such treatment under the current DSM program cost recovery mechanism has a
9 negative impact on KCPL’s earnings and credit metrics, Staff finds that the impact of KCPL’s
10 proposed utility incentive components of its DSIM (including both the proposed 38.54% net
11 shared benefit component and the proposed performance incentive award component) can be
12 expected to have a *de minimis* impact on KCPL’s earnings and key credit metrics.

13 Q. Would you please provide a summary of your rebuttal testimony as it
14 relates to the Commission Rules 4 CSR 240-3.163(2)(G) and 4 CSR 240-20.093(2)(D)
15 filing requirements?

16 A. Rule 4 CSR 240-3.163(2)(G) and Rule 4 CSR 240-20.093(2)(D) regard the
17 change in business risk of the utility as a result of a DSIM. While Staff finds that the proposed
18 DSIM would most likely reduce overall business risk, Staff is not prepared to recommend a
19 reduction in KCPL’s rate of return on equity (“ROE”) at this time. However, Staff may use the
20 impact of a DSIM upon the KCPL’s overall business risk in Staff’s consideration of its
21 recommended ROE for the utility in future general rate proceedings.

1 **MEEIA RULES AND PROJECTED DSIM IMPACT**

2 **Rule 4 CSR 240-3.163(2)(E):**

3 ***Projected Impact of DSIM incentive component on earnings and key credit metrics***

4 Q. What are the requirements of Commission Rule 4 CSR 240-3.163(2)(E)?

5 A. Rule 4 CSR 240.163(2)(E) requires the electric utility to file estimates of the
6 effect of the utility incentive component of DSIM on utility earnings and key credit metrics for
7 each of the next (3) three years with and without the utility incentive component of DSIM.

8 Q. Is KCPL in compliance with Rule 4 CSR 240-163(2) (E)?

9 A. Yes.

10 Q. Would you please summarize KCPL's position regarding the projected impact of
11 the incentive component of DSIM on utility earnings and key credit metrics?

12 A. Mr. Rush indicated, on page 7, lines 3 through 6, and page 8, lines 12 through 13,
13 of his direct testimony, that KCPL's current recovery mechanism does not allow recovery of the
14 overall costs. It only allows recovery of program expenses.

15 Mr. Kevin E. Bryant supplemented Mr. Rush's position, on page 5, lines 12 through 16,
16 of his direct testimony, by emphasizing that KCPL's current recovery mechanism is detrimental
17 to the utility's earnings. On page 8, lines 6 through 8, of the same testimony, Mr. Bryant also
18 indicated that the current recovery mechanism has a negative impact to KCPL's financial metrics
19 such as Funds from Operations to Debt (FFO to Debt).

20 Q. What is Staff's response to KCPL's position regarding the projected impact of the
21 incentive component of DSIM on utility earnings and key credit metrics?

22 A. While staff admits that a recovery mechanism that allows for the recovery of only
23 program costs generally has a negative impact on KCPL's earnings and key credit metrics,

1 Staff discerned, in this particular proceeding, from Mr. Rush’s Schedule TMR-3, that the impact
2 of the incentive component of the DSIM has a *de minimis* impact on KCPL’s key credit metrics.
3 Staff will further qualify and quantify the impact, furnished in Table 1 and Table 2, later in
4 this testimony.

5 Q. What specifically did you analyze in order to assess the projected impact of the
6 incentive component of the DSIM on the key credit metrics?

7 A. I evaluated the scenarios in Schedule TMR-3 attached to Mr. Rush’s
8 direct testimony. The schedule presents two scenarios. Schedule TMR-3, page 4 of 5, presents
9 the “with incentive component” scenario and the DSIM impact on key credit metrics.
10 Schedule TMR-3, page 5 of 5, presents the “without incentive component” scenario and the
11 DSIM impact on key credit metrics. Both scenarios are based on the consolidated financial
12 statements of KCPL’s parent company Great Plains Energy Incorporated (Great Plains Energy).
13 The reasonableness of KCPL’s requested levels of incentives is addressed as part of Staff witness
14 John Rogers’ testimony.

15 Q. Would you please provide the “with incentive” and “without incentive” scenarios
16 Mr. Rush presented in Schedule TMR-3 attached to his direct testimony?

17 A. Table 1 below shows the quantitative impact of the incentive component of the
18 DSIM on Great Plains Energy’s key credit metrics. Table 2 shows S&P’s description of Great
19 Plains Energy’s current financial risk profile¹.

20

21

22 *continued on next page*

¹ S&P’s credit ratings of KCPL are based on the consolidated credit profile of its parent company,
Great Plains Energy

1 **Table 1 – Impact of DSIM on Key Credit Metrics**

	Scenario 1 (with incentive)			DSIM Impact			Scenario 2 (without incentive)		
	After DSM Programs			of not having incentive			After DSM Programs		
Next 3 years projections	2014	2015	2016	2014	2015	2016	2014	2015	2016
Debt/Total Capitalization	56.3%	56.0%	55.0%	0.0%	(0.1%)	(0.1%)	56.3%	56.1%	55.1%
FFO/Total Debt	15.3%	14.5%	18.2%	0.0%	0.0%	(0.2%)	15.3%	14.5%	18.0%
FFO Interest Coverage	3.9	3.9	4.4	0.0%	0.0%	0.0%	3.9	3.9	4.4

2 *Source: Tim M. Rush’s direct testimony, Schedule TMR-3, page 4 of 5 and 5 of 5.*

3 **Table 2 – Great Plains Energy’s financial risk profile**

S&P’s Financial Risk Indicative Ratios (Corporates)		
Credit Descriptor	FFO/Debt (%)	Debt to Capital (%)
Aggressive	12-20	50-60
Great Plains Energy’s current financial risk profile*		
Aggressive	15.6%	57%

4 *Source: S&P Global Credit Portal.*Research Update – April 24, 2013*

5 Q. Would you please explain the impact of the utility incentive component of DSIM
6 on the utility’s key credit metrics as represented by the ratios in the tables above?

7 A. The 3-year projection of the Utility’s Key Credit Metrics in Scenario 1 (with an
8 incentive) contemplates the recovery of program costs, carrying costs and an incentive
9 component of DSIM; and the projections in Scenario 2 (without an incentive) assume the
10 recovery of only program costs.

11 Based on the 3-year projections provided by KCPL, the projected impact of the
12 absence of the incentive component of the DSIM is not significant enough to cause Great Plains
13 Energy’s Key Credit Metrics to fall outside the benchmarks for S&P’s Financial Risk Profile
14 (“FRP”) descriptor of “Aggressive.”

1 **Rule 4 CSR 240-20.093 (2)(D) and Rule 4 CSR 240-3.163 (2)(G):**

2 *Changes in business risk and effects on allowed ROE:*

3 Q. What are the requirements of Commission Rule 4 CSR 240-20.093 (2)(D)?

4 A. Rule 4 CSR 240-20.093 (2)(D) requires the Commission to consider any
5 additional changes in business risk experienced by the electric utility that result from the
6 establishment, continuation, or modification of the DSIM in setting the electric utility's allowed
7 return on equity in general rate proceedings.

8 Q. Is Staff contemplating adjusting, for purposes of future rate-making, KCPL's
9 allowed ROE based changes in business risk emanating from the establishment, continuation, or
10 modification of the DSIM?

11 A. Staff is not proposing any specific adjustment at this time. However, holding
12 everything else equal, business risk may decrease, which may be a consideration in determining
13 a fair and reasonable allowed ROE.

14 Q. What are the requirements of Commission Rule 4 CSR 240-3.163 (2)(G)?

15 A. Rule 4 CSR 240-3.163 (2)(G) requires an electric utility to provide a complete
16 explanation of any change in business risk to the electric utility resulting from implementation
17 of a utility incentive related to the DSIM in setting the electric utility's allowed return on equity,
18 in addition to any other changes in business risk experienced by the utility.

19 Q. Is KCPL in compliance with the Commission's Rule 4 CSR 240-3.163 (2)(G)?

20 A. Yes, although Staff notes that the degree of the change in business risk may be a
21 matter of debate in future rate cases.

1 Q. Did KCPL request a specific allowed ROE percentage adjustment consideration
2 for purposes of its next rate case as a result of a change in business risk to the utility as a result of
3 the implementation of DSIM?

4 A. No. KCPL has not proposed an adjustment to the allowed ROE for purposes of its
5 next rate case.

6 Q. In context of this case, did Staff propose and quantify a potential adjustment to
7 KCPL's allowed ROE in its next rate case?

8 A. No. Although the Staff is not proposing a specific adjustment at this time, holding
9 all else constant, KCPL's business risk should be lower under a DSIM as compared to its current
10 recovery of demand side and efficiency investments.

11 Q. Did Mr. Rush and Mr. Bryant provide any qualitative information indicating other
12 possible factors that may impact KCPL's business risk?

13 A. Yes. Mr. Rush and Mr. Bryant both indicated that the current recovery
14 mechanism takes a "rearview mirror approach" or creates a regulatory lag and does not provide
15 an opportunity to earn a return on the capital invested in demand-side programs.² On page 9,
16 lines 5-7, Mr. Bryant stated the following:

17 The adverse financial impacts of the current DSM recovery
18 mechanism exacerbates regulatory lag and discourages potential
19 investors, leading to a discount on the company's stock price and
20 an increase in the cost of equity capital.

21 Q. Did KCPL quantify the impact of any of the regulatory lag on KCPL's
22 business risk?

² Tim M. Rush direct testimony, page 8, lines 11-13 and 19-21; Kevin E. Bryant direct testimony, page 6, lines 18-23.

1 A. No. Staff expert witness, Mark L. Oligschlaeger, addressed throughout his
2 testimony the regulatory lag issue and provided justification for a reasonable approach that
3 should be adopted in this case.

4 Q. Did Mr. Bryant at least provide an estimate of the amount by which the cost of
5 equity has increased and/ or KCPL's stock price has been discounted to date as a result of the
6 current recovery mechanism?

7 A. No. However, Staff is not disputing whether KCPL should recover the incentive
8 component of the DSIM because this is allowable pursuant to the MEEIA rules.

9 Q. What would be the impact on business risk if the Commission approves a
10 mechanism that allows for recovery of an incentive component of DSIM?

11 A. The DSIM would likely be viewed as a reduction in business risk. However, it is
12 Staff's opinion that the ultimate shift in the business risk depends on the aggressiveness of the
13 DSM program portfolio.

14 Q. What would be the impact on business risk if the Commission approves a
15 recovery mechanism that eliminates regulatory lag?

16 A. Such a recovery mechanism may be viewed as a further reduction in business risk.
17 However, it is Staff's expert opinion that investors' primary concern is the assurance of recovery
18 of program costs and lost opportunities if it invests in demand response programs. The delay in
19 recovery is more a matter of when the recovery occurs not whether the recovery occurs.

20 Q. Was the "rearview mirror approach" discussed in Mr. Rush and Mr. Bryant's
21 testimony ordered by the Commission in KCPL's last rate case, Case No. ER-2012-0174?

22 A. Yes.

1 Q. Did the Commission make any specific adjustments to the allowed ROE for this
2 “rearview mirror approach” in this most recent rate case?

3 A. No.

4 Q. If this is the case, then what does this imply about any consideration the
5 Commission should give to the allowed ROE if the proposed DSIM recovery mechanism
6 is approved?

7 A. Although the Staff is not proposing any specific adjustment at this time, holding
8 all else constant, the lower business risk would support a lower allowed ROE as compared to the
9 current recovery treatment. Staff will consider the information in this case as part of its
10 determination of the ROE in the next rate case.

11 ***Additional changes to earnings, key credit metrics and business risk***

12 Q. Did KCPL request any additional incentive, other than the net shared benefits
13 incentive component of DSIM?

14 A. Yes. Consistent with the Commission’s Rule 4 CSR 240-3.163(1)(F), KCPL
15 requested a performance incentive component of the DSIM. Details of the performance incentive
16 are furnished in the rebuttal testimony of Staff expert witness Mr. Oligschlaeger.

17 Q. What is the purpose of a performance incentive?

18 A. It is a bonus or award that provides cash flows that go over and above what is
19 needed by KCPL to be earnings neutral. The performance incentive is awarded to KCPL for
20 achieving certain performance targets for energy and demand savings achieved.

21 On page 18, lines 20-22, of his direct testimony, Mr. Rush stated that KCPL will be
22 provided an opportunity to earn a performance incentive of up to \$5.89 million.

Rebuttal Testimony of
Zephania Marevangepo

1 Q. What is Staff's view of the performance incentive as it relates to KCPL's
2 earnings, key credit metrics and business risk profile?

3 A. Depending on the level of energy and demand savings achieved, a performance
4 incentive provides KCPL with surplus cash inflow (over what is needed to be revenue neutral)
5 that would in turn create an earnings buffer, create a surplus earnings base for distribution to
6 shareholders, improve KCPL's key credit metrics and reduce business risk.

7 Q. Does this conclude your rebuttal testimony?

8 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

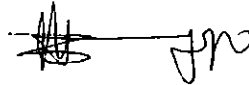
In the Matter of Kansas City Power &)
Light Company's Filing for Approval of)
Demand-Side Programs and for Authority)
To Establish a Demand-Side Programs)
Investment Mechanism)

Case No. EO-2014-0095

AFFIDAVIT OF ZEPHANIA MAREVANGEPO

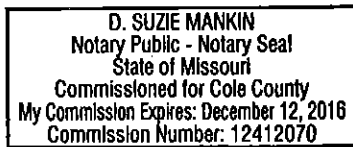
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

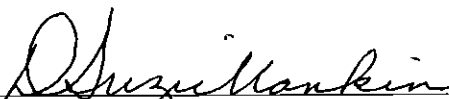
Zephania Marevangepo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Zephania Marevangepo

Subscribed and sworn to before me this 28th day of March 2014.





Notary Public

**SUMMARY OF CASE PARTICIPATION
ZEPHANIA MAREVANGEPO**

Date Filed	Issue	Case Number	Exhibit	Case Name
03/04/2014	Rate of Return	GR-2014-0007	Rebuttal	Missouri Gas Energy
01/29/2014	Rate of Return	GR-2014-0007	Cost of Service Report	Missouri Gas Energy
04/29/2013	Rate of Return	SR-2013-0016	Surrebuttal	Emerald Pointe Utility Company
04/13/2012	DSIM	EO-2012-0142	Rebuttal	Union Electric Company d/b/a AmerenUE
03/20/2012	DSIM	EO-2012-0009	Rebuttal	KCP&L Greater Missouri Operations Company
08/08/2011	Rate of Return	HR-2011-0241	Cost of Service Report	Veolia Energy Kansas City, Inc.
11/08/2010	Rate of Return	GR-2010-0363	Cost of Service Report	Union Electric Company d/b/a AmerenUE
07/20/2010	Rate of Return	GR-2010-0171	Surrebuttal	Laclede Gas Company
06/24/2010	Rate of Return	GR-2010-0171	Rebuttal	Laclede Gas Company
06/04/2010	Rate of Return/ Cost of Capital	GR-2010-0192	Cost of Service Report	Atmos Energy Corporation
05/24/2010	Rate of Return/ Cost of Capital	GR-2010-0171	Cost of Service Report	Laclede Gas Company
03/16/2010	Finance Case	GR-2009-0450	Rebuttal	Laclede Gas Company
02/23/2010	Finance Case	GR-2009-0450	Direct	Laclede Gas Company