

Exhibit No.:
Issue: *Arbitration Settlement*
Witness: *Keith Majors*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2012-0174*
Date Testimony Prepared: *September 5, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

REBUTTAL TESTIMONY

OF

KEITH MAJORS

**KANSAS CITY POWER & LIGHT COMPANY
GREAT PLAINS ENERGY, INC.**

CASE NO. ER-2012-0174

Jefferson City, Missouri
September 2012

**** Denotes Highly Confidential Information ****

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1 | plant-in-service as it is of no benefit to ratepayers, it is the result of a KCPL-created legal
2 | dispute, and it would be inappropriate to include in KCPL's rate base.

3 | Q. Did Staff address this issue in its Cost of Service report?

4 | A. Yes. On pages 167-170 of Staff's Cost of Service report filed August 2, 2012,
5 | Staff recommended the removal from the cost of service of legal expenses concerning the
6 | arbitration between KCPL and The Empire District Electric Company (Empire). Staff also
7 | recommended that the effect of the settlement be removed from the cost of service which this
8 | testimony explains and describes.

9 | Q. Please provide some background history concerning the arbitration issue.

10 | A. On October 5, 2010, Empire filed a Demand for Arbitration against KCPL
11 | concerning ** _____

12 | _____ ** The specific conflict
13 | is described as follows in Empire's Demand for Arbitration obtained in KCPL's response to
14 | Staff's Data Request No. 215 in Case No. ER-2012-0174:

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Q. What is Schiff Hardin?

A. Schiff Hardin is a law firm that provided to KCPL various services related to the Iatan Construction Project. Empire described the nature of the services Schiff Hardin performed in ** _____

_____ ** that it filed in the arbitration as follows:

** _____

_____ **

Q. Who are the members of the Ownership Group?

A. The owners of Iatan Unit 2—KCPL, Empire, KCP&L Greater Missouri Operations Company (“GMO”), Kansas Electric Power Cooperative, Inc. (“KEPCO”), and the Missouri Joint Municipal Electric Utility Commission (“MJMEUC”).

Q. Why did Empire demand arbitration with KCPL?



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A. ** _____
_____ ** In its

arbitration brief Empire explained why it brought the arbitration as follows:

_____ ** _____

_____ **

Q. How was this arbitration ultimately decided?

A. ** _____

_____ **

Q. Did the other joint owners pay for Schiff Hardin expenses for and during the Iatan Construction Project?

A. Yes. KCPL passed on to the other owners their respective shares of the costs KCPL incurred in building Iatan 2 including costs related to Schiff Hardin.

Q. Was Empire the only joint owner who demanded arbitration with KCPL ** _____ **

1 A. To Staff's knowledge, neither GMO, KEPCO nor MJMEUC demanded
2 arbitration; however, in the response to Staff Data Request 215.5 in Case No. ER-2012-0174,
3 KCPL provided calculations and documentation that suggest ** _____
4 _____ ** Attached as Schedule KM-2 is
5 KCPL's response to Staff Data Request 215.5. That response shows that KCPL ** _____
6 _____
7 _____
8 _____
9 _____ ** and consequently in its rate base.

10 Q. For accounting purposes, how did KCPL treat the settlement?

11 A. KCPL transferred the settlement amount to a KCPL only account as part of
12 Iatan 2 plant-in-service.

13 Q. What effect does this have on KCPL's plant-in-service for ratemaking
14 purposes?

15 A. Unless an adjustment is made, it would be included in KCPL's rate base.
16 Based on the March 2012 cutoff Staff's rate base for KCPL includes the ** _____ **
17 amount of the settlement.

18 Q. Then what adjustment should be made?

19 A. Assuming ** _____ **
20 pursuant to the attached email communication, the entire settlement of ** _____ ** is in
21 plant-in-service as of March 2012 and KCPL's rate base should be adjusted to remove the full
22 ** _____
23 _____ **

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1 Q. Does Staff know why GMO did not arbitrate this issue?

2 A. No. All of GMO's actions are determined by KCPL, as GMO has no
3 employees of its own. However, KCPL personnel acting on GMO's behalf after GPE
4 acquired it (when it was named Aquila) failed to participate in another arbitration proceeding
5 relating to Iatan 2, namely the proceeding concerning the Section 48A Qualifying Advanced
6 Coal Project Credit for Iatan 2.

7 Q. If GMO did not receive ** _____ **
8 would GMO still have its appropriately allocated Schiff Hardin expenses in plant-in-service?

9 A. Yes. However, if an adjustment was made to GMO's books and records for its
10 share of these expenses outside of the joint owner billing process, then KCPL's plant-in-
11 service would be overstated and GMO's plant-in-service would be understated by that
12 amount. In Schedule 2, this amount was calculated to be ** _____ **

13 Q. What ratemaking treatment does Staff recommend for the settlement of this
14 issue regarding Schiff Hardin fees?

15 A. Staff recommends that the ** _____ ** amount be
16 removed from KCPL's plant-in-service (rate base), essentially reversing KCPL's transfer of
17 the settlements, and that if KCPL has issued any other similar settlements to other owners of
18 Iatan 2 for Schiff Hardin fees, they likewise be removed from KCPL's plant-in-service. The
19 expenses related to Schiff Hardin were properly charged to the joint owners. KCPL, of its
20 own volition, chose to deny Empire access to the documents it had been charged for.
21 Consequently, KCPL, not Missouri ratepayers, should pay for what amounts to KCPL's
22 withholding of these documents. Similarly, if KPCL paid for withholding these

1 | documents from other owners of Iatan 2, it is KCPL who should pay for doing so, not
2 | Missouri ratepayers.

3 | Q. Does the known ** _____ ** amount appear in Staff's updated accounting
4 | schedules attached to KCPL's rebuttal testimony?

5 | A. No. Staff was unaware that the settlement was booked to plant-in-service until
6 | after it reviewed KCPL's response to Staff Data Request No. 215.4 on August 2, 2012, the
7 | date Staff filed its Cost of Service Report. However, this settlement, and any other similar
8 | settlements, were known and measurable as of the March 31, 2012 update and should be
9 | included as a total company adjustment to plant in service in an Iatan 2 account.

10 | Q. Does that conclude your rebuttal testimony?

11 | A. Yes, it does.

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**SCHEDULE KM-1
and
SCHEDULE KM-2**

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Request for Authority to) Case No. ER-2012-0174
Implement A General Rate Increase for)
Electric Service)

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

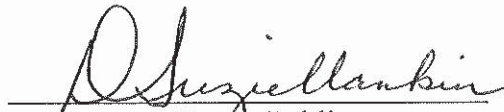
Keith Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Keith Majors

Subscribed and sworn to before me this 5th day of September, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071



Notary Public

**SCHEDULE KM-1
and
SCHEDULE KM-2**

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY