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|---|---|
| *Exhibit No.:* | |
| *Issue:* | *Continuation of Construction Accounting, Bad Debt Expense, Clean Charge Network Electric Vehicle Chargers* |
| *Witness:* | *Keith Majors* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Rebuttal Testimony* |
| *Case No.:* | *ER-2014-0370* |
| *Date Testimony Prepared:* | *May 7, 2015* |

# MISSOURI PUBLIC SERVICE COMMISSION

## REGULATORY REVIEW DIVISION

## UTILITY SERVICES - AUDITING

# REBUTTAL TESTIMONY

# OF

# KEITH MAJORS

# KANSAS CITY POWER & LIGHT COMPANY

# CASE NO. ER-2014-0370

***Jefferson City, Missouri***
***May 2015***

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

**NP**

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**REBUTTAL TESTIMONY**

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**KEITH MAJORS**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2014-0370**

Q. Please state your name and business address.

A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

Q. By whom are you employed and in what capacity?

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission ("Commission").

Q. Are you the same Keith Majors who previously testified in this case?

A. Yes. I testified in Staff's revenue requirement cost of service report filed April 3, 2015, in this case. I testified on revenue annualization, bad debts (uncollectibles), forfeited discounts (late payment fees), income tax expense, accumulated deferred income taxes, pensions, other post-employment benefits, and rate case expense.

Q. What is the purpose of your rebuttal testimony?

A. I respond to KCPL witness Ronald A. Klote's direct testimony concerning Adjustment RB-27/CS-113 – "La Cygne Construction Accounting Regulatory Asset." I also respond to KCPL's Adjustment CS-20b, described by Witness Klote, by which KCPL adds an additional amount of bad debt expense based on KCPL's requested revenue requirement. This is referred to as a bad debt "factor up." Finally, I respond to KCPL witness Klote's direct testimony and KCPL witness Darrin R. Ives's supplemental direct testimony concerning KCPL's Clean Charge Network of electric vehicle charging stations.

## **EXECUTIVE SUMMARY**

Q. Please summarize your rebuttal testimony.

A. I respond to KCPL including in its rate base construction accounting amounts for depreciation and carrying costs of the La Cygne environmental retrofit project that KCPL based on a an accounting authority order (AAO) the Commission issued in Case No. EU 2014-0255. The Staff agreed to this deferral only on the basis that the rate recovery treatment of the deferred costs would be determined in KCPL's 2015 rate case. When the Commission issued that AAO to allow KCPL to use construction accounting, the Commission specifically stated that how it would treat those deferred cost when setting KCPL's rates would take place in a later proceeding. This is that proceeding. Staff recommends that the Commission allow no direct rate recovery of any of these La Cygne construction accounting deferred amounts. The La Cygne environmental project is not an extraordinary, unique, unusual, or non-recurring event. The cost of this project does not rise to the level of other construction projects that have received construction accounting treatment. KCPL's request to recover any deferrals of construction accounting is an unwarranted departure from traditional historic cost of service ratemaking.

I respond to KCPL's request to recover *pro forma* bad debt expense in excess of the annualized level of bad debt expense calculated in this case. KCPL's request to include an adjustment for bad debt expense associated with a revenue requirement increase (or decrease) is commonly referred to as bad debt "factor up" or "gross up." Staff recommends that this *pro forma* expense not be included in KCPL's cost of service. No direct correlation exists between an increase in rates and bad debt expense to justify including additional bad debt expense on the amount of the requested rate increase.

Finally, I respond to KCPL's request to include amounts for its investment in electric vehicle chargers in the Clean Charge Network. In its direct filing, KCPL did not include any revenues related to the Clean Charge Network, but did include operations and maintenance expense (O&M), and its investment in the chargers. This is a violation of the "matching principle", whereby costs are matched with revenues.

## **CONTINUATION OF CONSTRUCTION ACCOUNTING FOR LA CYGNE ENVIRONMENTAL RETROFIT PROJECT**

Q. What is KCPL requesting in regard to the La Cygne environmental retrofit project?

A. KCPL witness Klote identifies Adjustments CS-113 and RB-27 on pages 11-12 of his direct testimony, which relate to an expense amortization and rate base amount for the deferred depreciation and carrying costs calculated on the La Cygne environmental plant additions from the date each of the plant additions is placed in service to the date the cost of the plant additions are included in KCPL's retail rates. This extraordinary treatment of plant related costs is referred to as "continuation of construction accounting" or, abbreviated, "construction accounting." When KCPL filed direct testimony, KCPL had a pending case, Case No. EU-2014-0255, where it was seeking an AAO to allow it to use "construction accounting" for the La Cygne environmental upgrades project.

Q. What did the Commission order in Case No. EU-2014-255?

A. The Commission ordered the following:

> 1. The *Second Non-Unanimous Stipulation and Agreement*, [(between KCPL and Staff)] filed on December 15, 2014, is

approved and incorporated into this order as if fully set forth herein. The signatories shall comply with the terms of the agreement. A copy of the agreement is attached to this order as Attachment 1.

2. KCP&L is authorized to continue using construction accounting for the La Cygne Environmental Project for the period of time between when the project becomes operational and when rate recovery begins for the associated costs.

3. KCP&L is authorized to defer and record as a regulatory asset 1) depreciation expense that would otherwise be record [sic] on the company's income statement when the La Cygne Environmental Project becomes operational, and 2) carrying costs (equivalent of AFUDC recorded during construction work in progress in the last month before La Cygne Unit 2 and common plant become operational) that would otherwise cease to be recorded when the La Cygne Environmental Project becomes operational.

4. The base La Cygne Environmental Project costs on which carrying costs are calculated for deferral purposes shall not increase after the amount determined at the true-up in File No. ER-2014-0370, and no additional deferrals shall be recorded for the La Cygne Environmental Project after the effective date of rates in File No. ER-2014-0370.

5. Nothing in this order shall be considered a Commission ratemaking determination regarding the La Cygne Environmental Project construction accounting deferrals.

6. Nothing in the *Second Non-Unanimous Stipulation and Agreement* or this order shall limit the arguments (including arguments for offsets to the deferred amounts) any party to File No. ER-2014-0370 may make to contest ratemaking treatment or all, or any part, of the amounts KCP&L defers by construction accounting for the La Cygne Environmental Project.

Q. What is Staff's recommendation regarding the amounts KCPL has deferred based on the La Cygne construction accounting authority the Commission granted it?

A. Staff recommends no direct rate recovery of the La Cygne construction accounting deferrals for the following reasons:

1. The cost of the La Cygne environmental retrofit project does not rise to the level of other KCPL construction projects that have received construction accounting treatment;

2. The La Cygne environmental retrofit project is part of the ordinary and normal costs of providing electric service; and

3. Staff does not believe the La Cygne environmental retrofit project meets the Commission's standards for AAO deferrals to be associated with events that are extraordinary, unusual, and infrequent;

Q. What is La Cygne?

A. La Cygne is an electric generating station located in Kansas comprised of two coal-fired units. Unit 1 went into service in 1973 and has a net generating capacity of 736 megawatts (MW), and Unit 2 went into service in 1977 and has a net generating capacity of 682 MW. KCPL owns 50% of La Cygne, and Kansas Gas and Electric Company; a wholly owned subsidiary of Westar Energy, Inc. (Westar) owns 50% of La Cygne Unit 1 and leases the other 50% of La Cygne Unit 2. KCPL is the operating partner for both units.

Q. What is the La Cygne environmental retrofit project?

A. It is the construction at La Cygne of wet scrubbers to control sulfur dioxide ("$SO_2$"), baghouses to control particulates, and a common dual flue chimney for both Unit 1 and Unit 2. KCPL is constructing selective catalytic reduction (SCR) equipment, low-nitrogen oxide ("$NO_X$") burners, and an over-fire air (OFA) system for Unit 2 to control $NO_X$ emissions. Unit 1's SCR was installed in 2007. The cost estimate at completion of the project is $1.23 billion prior to the impact of Allowance for Funds Used During Construction ("AFUDC"). KCPL has estimated the Missouri jurisdictional rate base impact will be $302.1 million[1] with AFUDC.

[1] KCPL Workpaper CS-113. $568.3 million total company, Missouri portion at 53.17%.

Q. What is the timeline for the project?

A. It is required by a 2007 agreement between KCPL and the Kansas Department of Health and Environment (“KDHE”) to install best available retrofit technology (“BART”) equipment on or before June 1, 2015. If the La Cygne units are not in compliance with the agreement on or before June 1, 2015, KCPL is required to cease operating the units at La Cygne until the units are in compliance with the requirements of the agreement.

Q. Has the Commission already determined whether the La Cygne environmental retrofit project is an extraordinary event? In its *Order Approving Second Non-Unanimous Stipulation and Agreement* in Case No. EU-2014-0255, did the Commission specifically find the La Cygne environmental construction project and the related deferrals are extraordinary?

A. No. Generally, the Commission has said that the standards for granting the authority to a utility to defer costs incurred outside of a test year as a regulatory asset are: 1) the costs relate to an event that is extraordinary, unusual, and infrequent, and 2) the costs associated with the event are material. However, nowhere in Commission’s *Order Approving Second Non-Unanimous Stipulation and Agreement* in Case No. EU-2014-0255 did the Commission find KCPL’s request met these standards; rather, the Commission authorized deferral of the depreciation and carrying costs.

Q. Are you aware of cases where the Commission has made such statements?

A. In Case Nos. EO-91-358 and EO-91-360 (consolidated, “the Sibley Case”), the Commission, page 7 of the Commission’s *Report and Order* in that case, stated:

> Under historical test year ratemaking, costs are rarely considered from earlier than the test year to determine what is a reasonable revenue requirement for the future. Deferral of costs from one period to a subsequent rate case causes this consideration and should be allowed only on a limited basis.

> This limited basis is when events occur during a period which are extraordinary, unusual, and unique, and not recurring. These types of events generate costs which require special consideration. These types of costs have traditionally been associated with extraordinary losses due to storm damage or outages, conversions, or cancellations. *UE* at 618. The Commission in the past has also allowed accrual of Allowance for Funds Used During Construction (AFUDC) and nuclear fuel leases. These were allowed because of the size of the investments to be deferred. The USOA recognizes that only extraordinary items should be deferred. The definition cited earlier states the intent of the USOA that net income shall reflect all items of profit and loss during the period and exceptions are only for those items which are of significant effect, not expected to recur frequently, and which are not considered in the evaluation of ordinary business operations.

Later in the Sibley Case *Report and Order* on page 8, the Commission stated the following regarding materiality of costs for which deferral treatment is requested:

> Staff's first criterion, which requires the event to be extraordinary, is, as stated above, the most significant inquiry in a deferral case. As MPS points out, the crux of the criterion is, what is an extraordinary event? This, of course, will be the primary focus of the Commission in any case involving a request for an AAO. The issues of whether the event has a material or substantial effect on a utility's earnings is also important, but not a primary concern. The company, under the USOA, is required to seek Commission approval if the costs to be deferred are less than five percent of the company's income computed before the extraordinary event. This five percent standard is thus relevant to materiality and whether the event is extraordinary but is not case-dispositive.

The Commission commented on the effect of regulatory lag in reference to requests for deferral on page 10 of the Sibley Case *Report and Order*:

> Lessening the effect of regulatory lag by deferring costs is beneficial to a company but not particularly beneficial to ratepayers. Companies do not propose to defer profits to subsequent rate cases to lessen the effects of regulatory lag, but insist it is a benefit to defer costs. Regulatory lag is a part of the regulatory process and can be a benefit as well as a detriment. Lessening regulatory lag by deferring costs is not a reasonable goal unless the costs are associated with an extraordinary event.

Most recently, the Commission affirmed its standard of review of AAO requests in Case No. EU-2014-0077, KCPL and GMO's request for a transmission expense tracker. The Commission denied this request in its *Report and Order* dated August 29, 2014, on the basis that the transmission costs were not extraordinary, unusual, and infrequent, which it explicitly stated in its order.

Q. Did not the Commission allow KCPL to use construction accounting for its recent Iatan project?

A. Yes.

Q. And did not the Commission allow KCPL the opportunity to recover through its rates the amounts deferred under construction accounting?

A. Yes.

Q. Are not the circumstances of the La Cygne environmental retrofit project similar to those of the Iatan project?

A. No. Iatan 2 is a baseload coal-fire unit completed by KCPL in August 2010. Iatan 2 was contemplated in KCPL's Experimental Regulatory Plan in case EO-2005-0329. The *Stipulation and Agreement* approved by the Commission in that case provided for the following:

- KCPL's voluntary agreement to forego a fuel adjustment clause for nearly 10 years;
- Authorization of construction of Iatan 2, a new coal-fired baseload unit, environmental equipment at La Cygne 1, and 100MW of wind generation;
- Parties to the agreement would not question the need for Iatan 2, referred to as decisional prudence;
- Establishment of Demand Response, Efficiency, and Affordability Programs,

- A reduced AFUDC rate for Iatan 2 during construction and for calculation of construction accounting;
- A rate moratorium through December 31, 2006;
- Continuation of Construction Accounting for Iatan 2, with offsets for test power.

There were several signatories to the *Stipulation and Agreement* in Case No. EO-2005-0329, and each party assumedly obtained some value from the terms of the agreement. In this case, other than the modifications to the calculations ordered by the Commission, there are no mitigating aspects of allowing cost recovery of any La Cygne deferrals.

Q. Are there any other circumstances that are different?

A. The circumstances underlying the construction accounting agreed to by the parties in 2005 different than they are today. At the time, the parties reached the settlement in 2005 providing for construction accounting for Iatan 2, KCPL had no rate increases for nearly 20 years. Iatan 2 was the first baseload generation constructed since the mid-1980's and a part of KCPL's Comprehensive Energy Plan. Since 2006, KCPL has completed five rate cases and now has filed a sixth rate case.

Q. How do KCPL's current Missouri retail rates compare to its Missouri retail rates in 2006?

A. According to the information filed by KCPL as part of its minimum filing requirements in the 2006 rate case, Case No. ER-2006-0314, KCPL's average rate in 2006 was 5.677 cents per kWh.[2] Today, KCPL's average rate in 2014 is 8.907 cents per kWh.[3] Thus, to date, KCPL's rates have increased by 56.9% in 8 years. Moreover, KCPL has proposed in its pending case (Case No. ER-2014-0370) to increase rates by an additional

[2] ER-2006-0314 Minimum Filing Requirements page 1 of 2 - 5.677 cents Average Price per kWh.
[3] ER-2014-0370 Minimum Filing Requirements 8.907 cents Average Price per kWh.

15.75%. Therefore, the average rate would be 10.301 cents per kWh if the full amount of its rate request is granted.[4] As such, under KCPL's proposal in the pending rate case, its average Missouri rates will have increased 81.45% from 2006. Certainly, circumstances have changed since the 2006 timeframe after 20 years of stable rates than they are today.

Q. How does the increase in KCPL's Missouri retail rates since 2006 compare to the increase in electric rates regionally and nationally?

A. The following chart shows that KCPL's rates have increased much more than the state, regional (Iowa, Kansas, Minnesota, Missouri, South Dakota and North Dakota) and national average rates, according to the most recent Edison Electric Institute (EEI) rate comparison—Typical Bills and Average Rates Report Summer 2014[5]:

| Rates as of July 1, 2014 | 2006 | 2014 | Increase |
|---|---|---|---|
| KCPL | 5.66 ¢ / kWh | 8.79 ¢ / kWh | 55.3% |
| Missouri | 5.74 ¢ / kWh | 8.53 ¢ / kWh | 48.6% |
| Regional | 6.38 ¢ / kWh | 8.64 ¢ / kWh | 35.4% |
| National | 8.89 ¢ / kWh | 10.53 ¢ / kWh | 18.5% |

Thus, KCPL's average rate has increased almost three times as fast as the national average electric rate over this period. Further, while KCPL's total average rate in 2006 was 11.3% below the regional average rate, the current 2014 average rate now exceeds the regional average rate. All of these figures are based on KCPL's current rates. KCPL has currently proposed to increase its existing rates in Missouri by 15.75%. Consequently, the difference between KCPL's rates and the current regional and national rates is likely to be even greater

[4] ER-2014-0370 Minimum Filing Requirements 10.301 cents Average Proposed Price per kWh.
[5] Edison Electric Institute – Typical Bills and Average Rates Report Summer 2014 – rates as of July 1, 2014.

following the completion of the rate case. A summary of this data is attached as Schedule KM-R1.

Q. Have all of KCPL's retail customers been impacted by it rate increases?

A. Yes. All rate classes have experienced rate increases that range from 50.1% to 57.1%. Where KCPL residential rates were 13.6% below the regional average residential rate in 2006, in 2014, the gap has narrowed to almost the same as the regional average residential rate to within 0.5%. On the other hand, while KCPL's industrial rate was 11.6% below the regional average industrial rate; it now exceeds the regional average industrial rate. Again, these figures are based upon KCPL's current rates and do not consider KCPL's proposed 15.75% rate increase.

Q. Is Staff aware of any other instances where the Commission authorized rate recovery of amounts deferred under construction accounting?

A. The table below is a non-exhaustive list of cases where the Commission authorized the use of construction accounting and the deferrals were, or are continuing to be, recovered through rates:

| **Company** | **Case No.** | **Generating Unit** |
|---|---|---|
| Union Electric | EO-85-17 & ER-85-160 | Callaway |
| Ameren Missouri | ER-2010-0036 | Sioux Environmental |
| KCPL | EO-85-185 & ER-85-128 | Wolf Creek |
| KCPL | ER-2009-0089 | Iatan 1 & Common Environmental |
| KCPL GMO (L&P) | ER-2009-0090 | Iatan 1 & Common Environmental |
| KCPL | EO-2005-0329 | Iatan 2 & Common |
| KCPL GMO (MPS) | EU-2011-0034 | Iatan 2 & Common |
| KCPL GMO (L&P) | EU-2011-0034 | Iatan 2 & Common |
| Empire | EO-2005-0263 | Iatan 1 & Common Environmental |
| Empire | EO-2005-0263 | Iatan 2 & Common |
| Empire | EO-2010-0262 | Plum Point |

A detailed list of these plants, including the construction cost and respective portions of rate base is attached to this testimony as Schedule KM-R2. It is my understanding that all of these previous authorizations for electric utilities to use construction accounting were in the context of negotiated stipulations and agreements.

Q. Briefly describe Wolf Creek and Callaway generating units.

A. Wolf Creek and Callaway are both nuclear power facilities completed in the mid-1980's. Wolf Creek, 47% of which is owned by KCPL, was completed at $2.98 billion (1985 dollars), $1.95 billion over the definitive estimate and 29 months after the original estimated date of commercial operation. The completion of Wolf Creek was so substantial that the Commission noted in its *Report and Order* in Case Nos. EO-85-185 and ER-85-128 [Cases Combined], "[E]lectric users are being burdened with the largest electric rate base addition in KCPL's history." At the time of inclusion in electric rates, Wolf Creek represented an 82% increase in KCPL's Missouri Jurisdictional rate base.

Callaway, wholly-owned by Ameren Missouri (Union Electric Company), was completed at $2.98 billion (1985 dollars), $1.89 billion over the definitive estimate and 33 months after the original estimated commercial operation date. At the time of inclusion in electric rates, Callaway represented a 60% increase of Ameren Missouri's (Union Electric) Missouri Jurisdictional rate base.

Due to the substantial delays, the uncertainty of completion, and the size of the investments for both Wolf Creek and Callaway, both of these plants received continuation of construction accounting treatment, through agreement between the parties to those rate proceedings. Essentially, so the cases could be delayed past the normal 11 month time period for setting rates after tariff rate schedules are filed, it is my understanding that Staff agreed to allow construction accounting for these sizable plant additions in the rate cases in which the nuclear units received rate base treatment.

Q. Briefly describe the Iatan 1 environmental project and the use of continuation of construction accounting for that project.

A. The Iatan 1 environmental project included the construction of wet scrubbers to control $SO_2$, and SCR to control $NO_X$ emissions, and a baghouse to control particulate emissions. Iatan 1 is owned 70% by KCPL, 18% by GMO – L&P, and 12% by The Empire District Electric Company ("Empire"). This project was quite similar in nature to the current La Cygne 2 project as the Iatan 1 and La Cygne 2 are similar base-load coal units. At the time of the completion of construction, the Iatan 1 environmental upgrades, with Iatan 1 Common totaled $496.8 million, $267.6 million of which was KCPL's Missouri jurisdictional share, and these upgrades were an increase of 21% of its existing rate base. GMO-L&P's 18% share of the Iatan 1 upgrades was an increase of 49% of its existing rate base.

The continuation of construction accounting for the Iatan 1 environmental upgrades was authorized through the Commission's approval of the *Non-Unanimous Stipulation and Agreement* in Case No. ER-2009-0089 for KCPL and Case No. ER-2009-0090 for GMO-L&P. For these upgrades the continuation of construction accounting was calculated on the amount not already included in the cost of service in the respective cases, which is slightly different than what KCPL is requesting in this case, but the principle is generally the same. In that instance of construction accounting, depreciation and carrying costs accrued on the amount greater than the amount included in rates until the effective date of rates in the next succeeding rate case.

Empire's 12% share of the expenditures related to the Iatan 1 environmental upgrades received continuation of construction treatment authorized by Commission approval of the *Stipulation and Agreement* in Case No. EO-2005-0263, more commonly referred to as Empire's "Experimental Regulatory Plan" docket. Empire's share of the Iatan 1 upgrades was an increase of 7% of its existing rate base. However, in the same time frame that these upgrades were being constructed, Empire was participating in the construction of Iatan 2 and Plum Point, as discussed later in this testimony. These three investments in combination represented $363.5 million Missouri jurisdictional investment, increasing Empire's rate base from Case No. ER-2010-0130 by 50%.

Q. Briefly describe Iatan 2 and the use of continuation of construction accounting for that project.

A. Iatan 2 is an 850 MW supercritical coal-fired baseload unit completed in August 2010. Iatan 2 is owned 54.71% by KCPL, 18% by GMO, 12% by Empire, with the remainder owned a power cooperative and a municipal entity. This was the first baseload unit constructed by KCPL since Wolf Creek and was completed at a cost of approximately $2 billion, $525.6 million of which was KCPL's Missouri jurisdictional share, and this new unit represented an increase of 34% of existing rate base for that Company.

The continuation of construction accounting for Iatan 2 was authorized through the Commission's approval of the *Stipulation and Agreement* in Case No. EO-2005-0329, more commonly referred to as KCPL's "Experimental Regulatory Plan" docket, for KCPL's ownership share. The use of construction accounting for KCPL's share of Iatan 2 was based on a negotiated settlement reached between the signatory parties to Case No. EO-2005-0329, including KCPL and Staff. Essentially, each party received some type of value from the settlement, which included allowing KCPL to use construction accounting for this project. Other parties received benefits from other aspects of the settlement.

For GMO's share of Iatan 2, the Parties to Case No. ER-2010-0356 agreed in the *Stipulation and Agreement / Proposed Procedural Schedules* that GMO would file an application for an AAO requesting continuation of construction accounting, and that the non-utility Signatory Parties would not oppose the AAO. The Commission authorized GMO's AAO, Case No. EU-2011-0034, was effective October 8, 2010. GMO's share of Iatan 2 represented an increase of 18% and 36% of GMO-MPS and GMO-L&P rate base, respectively.

Empire's 12% share of the expenditures related to Iatan 2 received continuation of construction accounting treatment authorized by Commission approval of the *Stipulation and Agreement* in Case No. EO-2005-0263, more commonly referred to as Empire's "Experimental Regulatory Plan" docket. Empire's share of Iatan 2 represented an increase of 34% of its Missouri jurisdictional rate base.

Q. Briefly describe Plum Point and the use of continuation of construction accounting for that project.

A. Plum Point is a 665 MW coal-fired baseload generating unit located in Osceola, Arkansas, completed in August 2010. Empire owns 50 MW of the unit and leases an additional 50 MW portion. Empire's share of Plum Point was completed at a cost of $105 million, $87.5 million of which was Empire's Missouri Jurisdictional share, and this new unit represented an increase of 13% of existing rate base. For Empire's share of Plum Point, the Parties to Case No. ER-2010-0130 agreed in the *Stipulation and Agreement* that Empire would file an application for an AAO requesting continuation of construction accounting, and that the non-utility Signatory Parties would not oppose the AAO. The Commission authorized Empire's AAO, Case No. EO-2010-0262, effective May 15, 2010.

Q. Briefly describe the Sioux environmental upgrade project and the use of continuation of construction accounting for that project.

A. Sioux is a two-unit coal-fired generating station wholly owned by Ameren Missouri. Ameren Missouri constructed scrubbers on both units for reduction of $SO_2$ completed at a cost of $574 million, Ameren's Missouri Jurisdictional share, and this construction project represented an increase of 9% of Ameren Missouri's existing rate base.

The continuation of construction accounting for the Sioux environmental upgrades was authorized through the Commission's approval of the *First Non-Unanimous Stipulation and Agreement* in Case No. ER-2010-0036.

Q. What is the cost of the La Cygne environmental project in total, compared to KCPL's existing rate base?

A. The La Cygne environmental project's budget is $1.23 billion. Using KCPL's $302.1 million Missouri Jurisdictional figure, the La Cygne investment is 14.7%[6] of KCPL's rate base in Case No. ER-2012-0174. Using the current rate base as of December 31, 2014, the La Cygne investment is 13.8% of existing rate base. The La Cygne project represents a lesser portion of existing rate base compared to KCPL's share of the Iatan 1 environmental upgrades and Iatan 2 at the time period of their construction.

Q. What does Staff surmise concerning the historical use of construction accounting in Missouri?

[6] ER-2012-0174 Missouri Jurisdictional Rate Base - $2,051,747,213.

A. Compared to most other instances of construction accounting, the La Cygne project represents a smaller increase to rate base. Every general rate case reflects additional investment in plant-in-service by the utility, as well as additional accumulated depreciation calculated on existing plant-in-service from the prior rate case. Plant construction projects are routinely included in rate base to establish the cost of service; the magnitude of KCPL's investment aside, the La Cygne project is no different than any other construction project.

Q. Early in your rebuttal testimony (page 6) you testify, "Generally, the Commission has said that the standards for granting the authority to a utility to defer costs incurred outside of a test year as a regulatory asset are: 1) the costs relate to an event that is extraordinary, unusual, and infrequent, and 2) the costs associated with the event are material." Do you know of any relevant definitions of "extraordinary"?

A. As defined by FERC USOA General Instruction 7, which the Commission has adopted by rule, extraordinary means:

> 7. Extraordinary Items
>
> It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate.) To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items.

> Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (See accounts 434 and 435.)

Q. USOA General Instruction 7 identifies a materiality standard for extraordinary items as being more than 5% of net income. Are the La Cygne construction accounting deferrals extraordinary by this standard?

A. No. The USOA standard for extraordinary treatment is an *historical cost* standard. That is, if a utility believes an extraordinary event has occurred it would compute net income before the impact of the item. Although KCPL has received deferral authority from the Commission *before* any of the actual expenses have been incurred, no one can judge what KCPL's net income will be in the future, and whether or not the construction accounting deferrals would be 5% of that amount.

Q. Are the La Cygne deferral amounts KCPL seeks to recover through Missouri retail rates unusual or unique?

A. No. As a vertically integrated electric utility, KCPL is continually building new plant, retiring and replacing old plant, and making capital improvements in all aspects of its generation, transmission, and distribution systems. KCPL has a long history of making significant capital additions as a regulated utility. Staff has identified several major investments KCPL made without the use of construction accounting and in some cases without immediate rate relief:

*continued on next page*

| Generating Unit | Year Completed | Missouri Jurisdictional Plant Amount, ER-2006-0314 |
|---|---|---|
| West Gardner Units 1-4 | 2003 | $ 63,567,824 |
| Osawatomie | 2003 | $ 16,833,624 |
| Hawthorn 6 | 1997 | $ 23,396,286 |
| Hawthorn 9 | 2000 | $ 39,174,555 |
| Hawthorn 7 & 8 | 2000 | $ 27,997,459 |
| Total | | $ 170,969,748 |
| True-up Rate Base, ER-2006-0314 | | $ 1,250,250,731 |
| Percentage of Construction to Rate Base | | 13.7% |
| Spearville Wind | 2006 | $ 84,759,931 |
| Percentage of Construction to Rate Base with Spearville Wind | | 20.5% |

The table above is a list of the investments Staff included in KCPL's rate base in the true up of Case No. ER-2006-0314 ("2006 Rate Case"). The 2006 Rate Case was KCPL's first rate case since 1985. In the interim, KCPL completed construction of several combustion turbines and a combined cycle unit, Hawthorn 9. KCPL did not receive direct rate relief for those generating assets until January 1, 2007, the date of rates in its 2006 Rate Case; several years after the assets were constructed and dedicated to utility service. The investments represented 13.7% of KCPL's Missouri jurisdictional rate base in the 2006 Rate Case. In addition to these assets, KCPL completed the Spearville 1 wind farm, which was also included its rate base in the 2006 Rate Case. Combined, these assets represented 20.5% of KCPL's Missouri jurisdictional rate base in KCPL's 2006 Rate Case. Yet, KCPL never requested, nor did it receive, construction accounting for any of these assets. KCPL's 2006 Rate Case was completed when KCPL was in a significant construction cycle, with large retrofit projects at La Cygne 1 and Iatan 1, and the construction of Iatan 2.

In this case, the La Cygne environmental retrofit project is projected to equal 13.8% of KCPL's rate base in this current rate case. KCPL has in the past completed construction projects of approximately the same magnitude of its current investment in La Cygne, without direct rate recovery of amounts deferred under construction accounting.

Q. What are KCPL's actual construction investment for past years and budgeted future construction investment?

A. The responses to Staff Data Requests Nos. 0006, 0006.1, and 0006.2 in Case No. EU-2014-0255 detailed the actual and budgeted amounts of KCPL construction expenditures from 2007-2018:

| **Year** | **KCPL Construction Budget in Millions** | **Actual/Budget** |
|---|---|---|
| 2007 | ** ____ ** | Actual |
| 2008 | ** ____ ** | Actual |
| 2009 | ** ____ ** | Actual |
| 2010 | ** ____ ** | Actual |
| 2011 | ** ____ ** | Actual |
| 2012 | ** ____ ** | Actual |
| 2013 | ** ____ ** | Actual |
| 2014 | ** ____ ** | Budget |
| 2015 | ** ____ ** | Budget |
| 2016 | ** ____ ** | Budget |
| 2017 | ** ____ ** | Budget |
| 2018 | ** ____ ** | Budget |

This data, which includes the timeframe for construction of the La Cygne project, shows no overall discernable trend in KCPL's construction expenditures, and no overall upward trend. From 2014 on, the data does show a downward trend through 2018. The La Cygne environmental retrofit project should not be viewed as extraordinary, unusual, or unique.

**NP**

Q. Are the costs KCPL seeks to defer non-recurring?

A. No. Again, as a vertically integrated utility, KCPL is constantly constructing new assets and replacing old assets. While it can be argued that the specific environmental project being constructed at La Cygne is non-recurring in its own right, this assertion does not make the in-service of this equipment a unique, non-recurring, or extraordinary event.

The costs for which KCPL is requesting recovery of result from basic operating decisions made by KCPL in response to the need to build and maintain sufficient generating capacity to service its customers with an adequate reserve. All electric utilities in this state are faced with the same fundamental issue of capacity planning that is basic to providing electric service to the public. KCPL is not at all unique in Missouri in considering and completing environmental retrofits. In fact, Empire is currently completing a large environmental construction project at its Asbury generating station, but has not requested, and is not receiving, construction accounting treatment for that asset. Empire completed several major plant additions for its State Line Combustion Turbine and State Line Combined Cycle units completed in the late 1990s and 2001 yet received no construction accounting. Empire has also added plant at its Energy Center and Riverton stations, again with no construction accounting.

In regards to environmental compliance, KCPL is no stranger to capital investment to meet the requirements of governmental mandates. Iatan 1 has been retrofitted and KCPL completed an SCR upgrade at La Cygne 1 in 2007. Hawthorn 5 was retrofitted during its reconstruction from the February 1999 explosion, but did not receive construction accounting. KCPL's affiliate, GMO has made several investments to comply with environmental rules at Sibley 3 and Jeffrey Energy Center without the need for construction accounting. These types of investments and the resulting expenses of committing them to service are clearly not non-recurring.

Another way to evaluate whether expenses are non-recurring is if they can be planned ahead of time by a utility and considered in the appropriate time a utility would file for rate relief. The La Cygne environmental retrofit project was contemplated by KCPL since late 2007 and has been under construction since mid-2011. This contrasts with typical "act of God" extraordinary events such as major ice storms, floods, and other weather events which can be prepared for, but cannot be predicted or controlled. KCPL has planned the La Cygne environmental retrofit project, knows with a high degree of accuracy when it will be dedicated to the provision of utility service, and has filed a rate case before the Commission to include the expenses related to the project in its cost of service. There is nothing unpredictable about these events, and KCPL has complete control of when it will file rate cases, and complete control of the management of the La Cygne environmental project.

Q. Are the costs KCPL seeks to defer material?

A. In the Sibley Case, the Commission referenced USOA General Instruction 7 which established a materiality standard that events that have an impact on net income of more than 5% are presumed to be subject to special accounting treatment as extraordinary events, with specific Commission authorization needed if a utility seeks to treat as extraordinary a cost amounting to less than 5% of net income. However, any specific materiality test relating to a La Cygne project deferral would not be strictly applicable at this time, as the costs in question have yet to occur, and the 5% measure is a back looking evaluation, not a forward looking measure. Generally speaking, adding large generating assets to a company's rate base, and their resulting expenses such as depreciation, are material to a utility's cost structure. But major plant additions do not by themselves create the need to change rates, as can be seen by the period before KCPL's 2006 rate case when KCPL completed $170 million of plant (Missouri jurisdictional) not only without construction accounting but also without immediate rate relief—in fact, it did not have rate relief for some of these units for several years after the units were completed.

At the time KCPL filed its request for the La Cygne construction accounting AAO in June 2014, current rates had been in effect for a year and a half, with no pending rate case. A premise of utility regulation is that, until the point when a utility files for a rate increase, it must be presumed that it is covering all of its current costs through its ongoing rate levels and therefore, rates are adequate. If a utility determined it was consistently earning below its authorized rate of return, logic dictates that the utility should file for a rate increase. KCPL has determined that its current revenue levels do not support its cost of service and has filed a rate case to recover the very expenses for which it is requesting for recovery in this case, among many other items. In fact, a central element of KCPL's filed rate case is the inclusion of the La Cygne environmental retrofit project in its cost of service when the project is dedicated to utility service.

Q. What is Staff's recommendation regarding KCPL's request for recovery of amounts it has deferred by construction accounting?

A. Staff recommends the Commission reject KCPL's request for recovery for the following reasons:

> 1) The expenses KCPL seeks to recover do not meet the Commission's standards for deferral. The expenses are not extraordinary, unique and unusual, and are not non-recurring;
>
> 2) KCPL has had levels of investment similar to the amount of the La Cygne environmental project in the recent past without the use of construction accounting; and

> 3) The La Cygne environmental project does not rise to the level of most other investments that have been granted construction accounting by the Commission.

Q. If the Commission allows KPCL to recover through rates amounts it has deferred under construction accounting, does Staff recommend any modifications to KCPL's proposed construction accounting calculations, or offsets to the deferred amounts?

A. Staff recommends the following modifications be ordered to KCPL's construction accounting calculations:

> 1) Offset the base on which carrying costs are calculated by the additional non-environmental LaCygne depreciation reserve from the true-up date through the effective date of rates.
>
> 2) Offset the base on which carrying costs are calculated by the monthly depreciation expense deferral recorded to the regulatory asset.
>
> 3) Offset the base on which carrying costs are calculated by the accumulated deferred income taxes created by the La Cygne environmental plant.
>
> 4) Offset the base on which carrying costs are calculated by the accumulated deferred income taxes created by the monthly regulatory asset deferral.
>
> 5) Use actual depreciation and carrying costs based on the actual unadjusted AFUDC rate, less Staff's adjustment to the equity rate.
>
> 6) For the calculation of AFUDC rate, a 250 basis point (2.50%) reduction should be assumed in the cost rate of common equity component of the AFUDC rate.
>
> 7) No additions to the base on which carrying costs or depreciation are calculated after the true-up in Case No. ER-2014-0370. (agreed to in the La Cygne 2nd Stipulation and ordered by the Commission in Case No. EU-2014-0255); and
>
> 8) No additional deferrals after the effective date of rates in Case No. ER-2014-0370 (agreed to in the La Cygne 2nd Stipulation and ordered by the Commission in Case No. EU-2014-0255).

**ADDITIONAL DEPRECIATION RESERVE – ADJUSTMENTS 1 AND 2**

Q. How should additional depreciation reserve offset the base on which carrying costs are calculated, per Adjustment 1 recommended by Staff?

A. The current KCPL rate case will include a true-up of costs which will include an amount of accumulated depreciation reserve on all KCPL plant investment at May 31, 2015. The continuation of construction accounting provides earnings protection for a utility through the effective date of rates. Generally speaking, the amount of accumulated reserve would increase between the true-up cutoff and the effective date of rates, reducing rate base and consequently the revenue requirement.

To most accurately reflect the actual investment and financial impact of construction accounting, the additional depreciation reserve on all plant investment at La Cygne should be included as an offset to the base on which carrying costs should be accrued. As the actual depreciation amounts will not be known until the update and true-up periods in Case No. ER-2014-0370, Staff does not know the actual amount of the offset. An approximation of the offset is the current monthly amount of depreciation at December 31, 2014. The offset using this method would be $551,293[7] per month. This amount would offset the carrying cost base for the months between the true-up and effective date of rates.

Q. In reference to Staff Adjustment 2, why should the amount of depreciation included in the construction accounting deferral be removed from the amount on which carrying costs are calculated?

A. Depreciation is the recovery of the investment in an asset or group of assets. Carrying costs are determined by applying a carrying cost rate to the unrecovered investment.

[7] Staff Direct Filed Missouri Jurisdictional Annual La Cygne Depreciation - $6,615,511, One month - $551,293.

The unrecovered investment is determined by reducing the investment by accumulated depreciation. Depreciation does not begin to be calculated until an asset is completed and included in plant in service; no depreciation is calculated for Construction Work In Progress (CWIP). Therefore, CWIP carrying costs (AFUDC) are calculated on the dollars invested in CWIP without regard to depreciation.

KCPL has calculated carrying costs based on the gross investment in the La Cygne environmental project without consideration of depreciation. However, KCPL has also added depreciation expense to the total cost of the AAO deferral. It would be appropriate to calculate carrying costs without consideration of depreciation if KCPL did not add depreciation expense to the deferral. If depreciation expense is to be added to the deferral then KCPL should not also receive carrying costs on the depreciation expense. In other words, carrying costs should be calculated only on the unrecovered investment: gross investment less depreciation expense.

**ACCUMULATED DEFERRED INCOME TAXES – ADJUSTMENTS 3 AND 4**

Q. What are accumulated deferred income taxes (ADIT)?

A. ADIT are assets or liabilities that represent the cumulative amount of additional income taxes owed to or previously paid to the Internal Revenue Service (IRS), in a different period in which the financial impact of the income taxes is reported in the utility's financial statements according to Generally Accepted Accounting Principles (GAAP). The deferred income tax is a cumulative liability and represents a net prepayment of income taxes by KCPL's customers in rates before the actual payment of the income taxes to the IRS. This prepayment is a cost-free source of capital to KCPL and is therefore not included in the net investment upon which KCPL earns a return when establishing rates, also referred to as a "rate base offset." Deferred taxes are included as a reduction to rate base in every case Staff calculates a revenue requirement and represent a cost-free source of capital.

Q. How and why should deferred income taxes offset the amount of the base on which carrying costs are calculated, Adjustments 3 and 4 recommended by Staff?

A. There are two categories of deferred taxes that should be considered.

The first category of deferred taxes is the deferred taxes accrued on the La Cygne environmental equipment from the date of in-service through the effective date of rates. Once an asset is declared in-service and used in the production of electricity, depreciation is charged to income. As explained above, accelerated tax depreciation in excess of book depreciation creates ADIT which is a source of cost-free capital to the utility. Although the actual income taxes may not be paid until some point in the future, the financial impact of the deferred tax accumulation should be considered as an offset to the accrual of carrying costs, in this case the reduction of the proposed construction accounting.

The second category of deferred taxes is the deferred taxes accrued on the deferral of the regulatory asset, comprised of depreciation and carrying costs. For each month these expenses are deferred, ADIT is accrued on the amount. For income tax purposes, the expenses charged to the deferral are deductible in the year incurred; there is no special treatment for tax purposes. For financial reporting purposes, the deferral would be charged to income (expensed) over the amortization period; in this case, for the remaining service life of La Cygne. Since there is a higher tax deduction in the first year, KCPL reduces its income tax expense for tax purposes but does not do this for ratemaking purposes. This difference between tax treatment and book treatment creates the ADIT balance, similar to accelerated depreciation, and should be considered in the calculation of the carrying costs.

**CARRYING COST RATE – ADJUSTMENT 5**

Q. If the Commission allows KCPL to recover the La Cygne construction accounting deferred amounts in rates, what carrying cost rate does Staff recommend be used to calculate carrying costs?

A. In its direct filing, KCPL estimated the AFUDC rate in effect at the time of the deferrals. The Commission authorized the rate used in the calculation of carrying costs to be the AFUDC rate in the last month before La Cygne Unit 2 and common plant become operational. This rate will be known before the filing of the May 31, 2015 true-up.

**EQUITY RATE ADJUSTMENT – ADJUSTMENT 6**

Q. Are there any adjustments to the AFUDC rate that should be made?

A. Yes. The AFUDC rate is calculated using several component rates contained within the overall cost of capital calculation: short-term debt, customer deposits, long-term debt, and equity rates. Staff recommends a 250 basis point (2.50%) reduction be assumed in the cost rate of common equity component of the AFUDC rate. The USOA defines the cost of equity rate used in the overall AFUDC calculation as follows:

> The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. (FERC USOA Paragraph 18, Subpart (b))

The return on equity rate currently being used in KCPL's AFUDC calculation is 9.7%, the return on equity authorized for KCPL in Case No. ER-2012-0174. Generally, the return on equity compensates shareholders for the risks inherent in owning equity in a utility. Part of that risk is regulatory lag, both positive and negative. If the Commission authorizes recovery of construction accounting deferrals for the La Cygne environmental project, a substantial amount of risk to shareholders will be removed. To reflect this reduction in risk a complementary reduction in the equity rate used to calculate for construction accounting carrying costs should be used.

Q. Has the equity rate been reduced in prior instances of construction accounting?

A. Yes. The construction accounting for Iatan 2 included a reduction in the equity rate for carrying costs for both the AFUDC accrued during construction and the carrying costs for the deferral. This was included as part of the Regulatory Plan authorized by the Commission in Case No. EO-2005-0329. This reduction was 250 basis points (2.50%), the same reduction Staff recommends for this deferral, if the Commission approves recovery.

**<u>LIMITS TO THE DEFERRALS – ADJUSTMENTS 7 AND 8</u>**

Q. Please explain adjustments 7 and 8.

A. These can be described more as conditions than adjustments.

The Commission ordered in Case No. EU-2014-0255, in ordered paragraph 4, that the base on which carrying costs are calculated shall not increase after the amount determined at the true-up in Case No. ER-2014-0370, and that no additional deferrals shall be recorded after the effective date of rates in this case.

Q. What are the amounts of the deferrals KCPL and Staff have calculated?

A. In its direct filing, KCPL calculated a deferral of $8,251,886. This amount did not include any deferrals for September 2015, and assumes a 4.67% carrying cost. Staff has calculated a deferral of $10,494,839 through the effective date of rates and assuming a carrying cost rate of 5.03%. This amount is based on a six month average of January through June 2014 actual AFUDC, less Staff's recommended 2.50% reduction to the equity rate, along with Staff adjustments to the deferrals. As ordered by the Commission, the carrying cost rate to be used is the AFUDC rate effective the last month before La Cygne Unit 2 and common plant become operational. The amounts are estimates, but are believed by Staff to be reliable for purposes of determining if recovery of the deferrals should be approved or denied. A summary of Staff's estimated La Cygne deferrals are attached as Schedule KM-R3.

**<u>OTHER MITIGATING COST DECREASES</u>**

Q. On page 6 of KCPL witness Klote's Direct testimony, he discusses the concept of "regulatory lag." Are there specific examples related to show that regulatory lag can benefit shareholders?

A. Yes. KCPL has reduced its employee headcount after its last rate case, Case No. ER-2012-0174, by a net of 169 employees. This has resulted in substantial savings retained by KCPL.

KCPL has been able to refinance significant amounts of its long term debt, which has produced interest savings. These interest savings accrue to shareholders before they are reflected in the cost of service. Staff witness Cary G. Featherstone discusses both the interest savings and payroll savings in detail in his rebuttal testimony

There are several amortizations of regulatory assets that have been fully recovered since the 2012 KCPL rate case. The amount in rates for these items accrue to shareholders before the reduction is reflected in the cost of service. Staff recommends this over-collection be recognized and returned to customers over three years. *See pages 145-148 of Staff's Cost of Service Report.*

Until May 16, 2014, the Department of Energy (DOE) was charging a fee of 1 (one) "mil" (1/10 of one cent, or 1/1000 of one dollar) per kWh of electricity produced at Wolf Creek to the owners of Wolf Creek for the storage of spent nuclear fuel and materials used in the production of electricity at Wolf Creek. Until the reduction of this fee is reflected in rates, KCPL will retain the related savings. Staff recommends the amount of savings be recognized and returned to customers over five years. *See pages 97-100 of Staff's Cost of Service Report.*

These cost reductions are examples of regulatory lag providing benefits to a utility that offset against increases in other expenses and decreases in revenues.

Q. If the Commission grants recovery of the deferred amounts, does Staff have any other recommendations?

A. Construction accounting is unique because it recognizes expenses past the May 31, 2015 true-up cutoff date. This extraordinary rate treatment should be applied infrequently. Staff has identified several amortizations that have been over-collected by KCPL, as well as a benefit of reduced DOE nuclear waste fund fees. Staff recommends return of these amounts to customers. If the Commission allows rate recovery of the La Cygne deferrals, Staff recommends the amounts of the amortizations and DOE fees, which KCPL will collect through the effective date of rates should be recognized through that date and returned to customers.

Q. If the Commission does not grant rate recovery of the La Cygne construction accounting deferrals, is there still a benefit from the deferral and amortization?

A. There is a benefit because the financial impact of the event is spread across multiple accounting reporting periods (years) rather than reflecting the entire impact in the year the event occurred. Absent the deferral treatment authorized by the Commission, the utility would have to charge the costs as current expenses in the year costs were incurred.

An example of this scenario is the AAO authorized in Case No. EU-2002-1048 for KCPL's expenditures related to the 2002 ice storm impacting the majority of its distribution system. The Commission ordered amortization of KCPL's deferral to begin September 2002 and end January 2007. KCPL did not file a general rate case from the mid-1980s until February 1, 2006. In the interim between authorization of this AAO and early 2006, KCPL amortized the regulatory asset to expense and determined that earnings were adequate and that no rate relief was necessary during the amortization period. In that case, the Commission's grant of an AAO functioned in practice more as a tool to "smooth" earnings over several accounting periods rather than to provide rate recovery of extraordinary costs.

In response to Data Request No. 0222, KCPL did not "write off" any of the amounts deferred in Case No. EU-2002-1048; therefore, KCPL recovered the amounts in rates indirectly.

Q. Please summarize your rebuttal testimony concerning the La Cygne construction accounting deferred amounts.

A. Staff recommends the Commission reject recovery of La Cygne construction accounting deferrals. The expenses in question do not meet the Commission's standard of extraordinary. The expenses are not extraordinary, unique, and unusual, or non-recurring. The La Cygne environmental project does not rise to the level of other more substantial construction projects that have been authorized for construction accounting. Therefore, KCPL's request to recover deferred costs relating to the La Cygne environmental retrofit project should be denied.

**BAD DEBT EXPENSE**

Q. Please summarize Staff's position with regard to bad debt expense.

A. In this testimony, I respond to KCPL's request to recover bad debt expense in excess of the annualized level of bad debt expense calculated in this case. KCPL's request to include an adjustment for bad debt expense associated with the revenue requirement increase (or decrease) is commonly referred to as bad debt “factor up” or “gross up.” KCPL has included an additional $946,144 of Missouri jurisdictional bad debt on its direct filed revenue requirement, and $486,148 as of the December 31, 2014 update.

KCPL’s rationale for making this request is based on the assumption that any increase in revenue requirement granted by the Commission will cause bad debt expense to also directly increase proportionally. However, KCPL has not demonstrated a direct correlation between the level of rates and the percentage of bad debts that would justify the reflection of increased bad debt expense in rates. KCPL’s request is based upon an assumption that is speculative and is not based upon known and measurable changes. Staff has based its recommendation on actual historical levels of bad debt. Staff’s analysis concludes that there is no direct correlation between bad debts and the level of rate increases, or even the level of revenue growth of KCPL. Staff’s analysis of the actual net write-offs to related revenues depicted in the attached charts and graphs indicates that bad debt expense sometimes moves in the opposite direction or not in direct proportion when levels of rates and revenues increase.

Staff recommends that the Commission deny KCPL’s request to adopt KCPL’s proposed bad debt “factor up” for bad debts. However, in the event that the Commission does grant KCPL’s request to “factor up” bad debt expense proportionate with an increase in revenue requirement, Staff recommends it also reflect in the bad debt “factor-up” for additional forfeited discounts (late payment fees) that will increase as result of the rate increase. If the Commission concludes that it is reasonable and appropriate to “factor up” bad debt expense for purposes of setting rates, on the theory that KCPL will experience a higher level of bad debts as a result of a rate increase, then it is reasonable to conclude that KCPL will also experience a higher level of late payment revenue resulting from those higher rates.

Q. Does Staff believe that it is reasonable to assume that there will be bad debts associated with the revenue requirement increase granted in this rate case?

A. In theory, it might be assumed that bad debts should increase as rates increase or as revenues increase. However, upon examining actual historical bad debts in relationship to revenues, there usually is not a direct relationship of bad debts for increases in revenues. Thus, any increase in a Company's revenues will not automatically cause bad debt expense to directly increase proportionally, on a dollar-for-dollar basis. Staff's analysis demonstrates no evidence of this direct correlation for KCPL, and KCPL has not produced any evidence of a direct correlation in its testimony or workpapers. In fact, at various times as revenues increased, bad debts have actually declined. In other instances, when revenues decreased, bad debts increased. The conclusion is there is no direct relationship between bad debts and revenue increases.

The justification for use of the bad debt "factor up" is the belief that it is necessary to match dollar-for-dollar the level of bad debt expense established in a rate case with the amount of additional revenue requirement increase approved by the Commission. This additional amount of bad debt expense, if the "factor up" is granted, will be calculated and added to the annualized and normalized level of bad debt expense found reasonable for inclusion in the utility's revenue requirement. The amount of any ordered bad debt "factor up" will be derived by applying the bad debt expense ratio to the expected revenue requirement increase to be granted by the Commission.

Q. How does Staff respond to KCPL's assumption regarding a proportional increase in bad debt expense?

A. While Staff believes that this generalized view may seem reasonable on a theoretical basis, Staff has found from looking at actual results, this assumption does not hold true. In other words, the use of bad debt "factor up" means it is a virtual certainty that, with each rate increase, bad debts will be increased using the same bad debt percentage. This is simply not the reality of what actually occurs. As Staff's evidence demonstrates, there is no direct correlation between how bad debt responds to increases in revenues.

KCPL has provided no evidence there is a direct correlation between revenue increases and bad debts. Staff's analysis concludes KCPL's proposed bad debt "factor up" request should not be adopted in this case. Therefore, Staff recommends that the Commission does not adopt KCPL's request.

Q. Does KCPL's requested bad debt "factor up" work in the same way as an income tax "factor up"?

A. Yes. KCPL's proposed bad debt "factor up" methodology is in essence the same as the income tax "factor up." However, it is improper to use this "factor up" method for bad debt because it assumes the same relationship exists as that of income taxes and increased revenues. This assumption is not supported by evidence for bad debt and revenues. The income tax factor assumes that for every increase in earnings to a utility resulting from a rate case there will be a direct and absolute proportional increase in income taxes. This is a well-established relationship in ratemaking, and in this case both KCPL and Staff have applied an income tax "factor up" to the additional revenue requirement calculation to determine the proper level of rate increase recommended in this case. If the Commission authorizes a rate increase in this proceeding, then a corresponding income tax amount will have to be added to the additional revenue requirement amount or KCPL may not be able to recover the authorized amount of increase in revenue requirement. However, it is clear from the analysis conducted by Staff that no such direct relationship exists between increased rates and increased bad debt expenses.

Q. Has Staff performed any analysis that would support the position that no direct relationship exists for bad debts relating to additional revenue requirement for KCPL?

A. Yes. Attached to this rebuttal testimony, as Schedule KM-R4, is a historical monthly analysis of KCPL's bad debts and retail revenue levels for KCPL. KCPL's own historical data does not support the position that there is always a corresponding direct relationship between revenues and bad debt expense; whereby any rate increase will always result in an automatic increase in bad debt expense in the same magnitude and proportion.

Q. How did Staff review KCPL's historical relationship of bad debt expense to sales revenue?

A. Staff reviewed historical revenues and bad debts over several years, yet none of those analyses produced any substantive support that a direct relationship exists between revenues and bad debts to justify inclusion of the bad debt "factor up" in this case. Staff utilized both numerical and graphical presentations in its review. These are attached as Schedules KM-R5, KM-R6, KM-R7, and KM-R8.

Q. What does Schedule KM-R4 show?

A. The information shown in Schedule KM-R4 clearly demonstrates there is no direct relationship between bad debts and increased revenues that would have to exist to justify a bad debt "factor up" calculation.

Q. What are some historical examples specific to KCPL when bad debts did not increase proportionately to increased revenues?

A. Staff reviewed the changes or variations that occurred between electric retail revenues and actual bad debt write-offs for a 10-year period from January 2005 through June 2014[8] (see attached schedules). In other words, using KCPL's data, Staff reviewed how bad debts varied in relation to revenues for a nearly 10-year period (114-month period).

About half of the data reviewed showed that there was no direct correlation or proportionate relationship. That is, while electric revenues increased (or decreased), actual bad debt write-offs tend to decrease (or increase) by different amounts and in different directions. In fact, during KCPL's summer peaking months[9], there was at least one month each year where revenues and bad debts had an inverse relationship beginning January 2007 through December 2011. Even in situations where revenues and bad debts tend to move in the same direction, Staff observed that they were either increased or decreased by different and disproportionate amounts. This situation does not, in any way, support the theory that bad debt write-offs have a proportional relationship to revenues. The following table identifies several examples during the peak summer months when the increase or decrease in revenues is not consistent with the increase or decrease in bad debts:

*continued on next page*

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[8] The approximate time to "write-off" bad debts is six months. Therefore, bad debts in a given month relate to revenues six months prior. Staff's December 31, 2014 cutoff analysis through December 31, 2014 updates through December bad debts that relate to June 2014 revenues.
[9] KCPL Witness Burton L. Crawford identifies KCPL peak load periods as June through September in his Direct Testimony in Case No. ER-2014-0370, on page 8, lines 17-18.

| Month/Year | Revenue Percentage Change | Bad Debt Percentage Change |
|---|---|---|
| July 2005 | 12.55% | -15.19% |
| August 2006 | -3.15% | 2.65% |
| June 2007 | 21.84% | -6.64% |
| July 2007 | 16.73% | -5.94% |
| August 2007 | 12.46% | -32.38% |
| September 2007 | -29.50% | 54.24% |
| July 2008 | 16.06% | -27.77% |
| September 2008 | -28.02% | 19.72% |
| July 2009 | 9.03% | -43.44% |
| September 2009 | -14.75% | 100.78% |
| June 2010 | 38.88% | -11.71% |
| August 2010 | 0.13% | -63.04% |
| September 2010 | -31.56% | 97.45% |
| July 2011 | 21.98% | -4.43% |
| July 2013 | 15.06% | -17.68% |

Q. What is the significance of the January 2007 date and the summer peaking months discussed above?

A. January 2007 represents the effective date of rates of the first of four KCPL rate cases. Beginning January 1, 2007, KCPL customers have experienced four rate increases as a result of the 2005 Regulatory Plan. The summer peaking months of June through September represent the months KCPL revenues are its highest during a given year. For KCPL's argument to hold true, bad debts would increase when revenues increased beginning with the first rate increase effective January 1, 2007, and during its summer peaking months. Based on the table above, KCPL's argument simply does not hold true.

Q. On an annual basis, what is the comparison of Missouri bad debts to revenues?

A. The ratio of bad debts to revenues has recently decreased to a level around the 2006 levels, before KCPL's first rate increase since the mid 1980's. Schedules KM-R9 and KM-R10 show that bad debts, as a percentage of revenues, actually decreased after the 2006, 2007, and 2010 rate increases. The percentage of bad debts to revenues in December 2006 was ** ____ **. As can been seen from the data, this ratio has fluctuated both up and down, and as of June 2014, the ratio is ** ____ **.

Q. What are "forfeited discounts"?

A. Forfeited discounts also known as "late payment fees" and are fees that KCPL charges its customers for making late payments of customer bills whenever they become due. The charges are assessed on the remainder of the unpaid bill.

Q. How are "forfeited discounts" or late payment fees booked by KCPL?

A. Late fees payments are considered additional revenue and, as such, are booked as revenue by KCPL.

Q. Did KCPL propose to "factor up" late payment fees consistent with its requested bad debt "factor up" for revenue requirements increase?

A. No.

Q. Has Staff performed any analysis that would support there is a relationship between increased revenues and late payment fees?

A. Yes. Attached to this rebuttal testimony, as Schedules KM-R11, KM-R12, and KM-R13, is a historical monthly analysis of KCPL's late payment fees and retail revenue levels for KCPL. Contrary to Staff's bad debt analysis, the relationship between late payment fees and increased revenues does exist. Although the relationship between late payment fees and increased revenues is not a perfect correlation, Staff's analysis indicates the relationship is much closer to a direct correlation than the relationship of bad debt expense to increased revenues rates as KCPL would have the Commission believe.

**NP**

Q. Is it consistent to treat forfeited discounts or late payment fees in the same manner as bad debt expense levels with respect to the "factor up" issue?

A. Yes. Staff's recommends that if the Commission decides to grant KCPL's request to increase bad debt expense proportionate to any increase in revenue requirement, then it should also "factor up" late payment fees for the same reason. If the Commission concludes that KCPL will experience a proportionately higher level of bad debt as a result of a rate increase then it would follow that KCPL will experience a higher level of late payment revenue as well.

**<u>CLEAN CHARGE NETWORK ELECTRIC VEHICLE CHARGERS</u>**

Q. What is KCPL's Clean Charge Network?

A. It is KCPL and GMO's planned installation of more than 1,000 electric vehicle charging stations throughout the greater Kansas City region. Staff describes this proposal at pages 204 to 205 of its revenue requirement cost of service report filed April 3, 2015, and explains in the following eight pages of the cost of service report why Staff did not include costs of it in Staff's revenue requirement for KCPL.

Q. Did KCPL include in its direct filed case expenses and investment associated with the Clean Charge Network?

A. Yes. KCPL included Adjustment CS-49 – Miscellaneous Expense, which is its estimate of the operations and maintenance expense related to the Clean Charge Network. KCPL's estimate is $385,947; approximately 55% is allocated to Missouri. KCPL also included a budgeted amount of plant-in-service expected to be installed at the end of the true-up period—$7 to $9 million, total company (Kansas and Missouri).

Q. Did KCPL include any revenues associated with its Clean Charge Network in its direct case?

A. KCPL did not include any revenues related to the Clean Charge Network in its direct filing, neither actual nor projected.

Q. Is it significant that KCPL included expenses for the Clean Charge Network, but not revenues?

A. Yes. The traditional cost of service ratemaking in Missouri relies on the "matching principle." The utility's current cost to serve is matched with the revenues it gets from its customers at a particular time. KCPL has violated that matching principle by including only expenses associated with its Clean Charge Network proposal in this case.

KCPL was readily able to estimate the expense and investment related to the vehicle chargers, but was somehow unable to estimate the revenues. The O&M expenses that KCPL estimated will likely not be incurred before the May 31, 2015, but in this case, KCPL has requested them. This inconsistency should not go unnoticed by the Commission.

Q. Does Staff have any additional recommendations concerning the Clean Charge Network?

A. Following Staff's recommendation detailed by Staff witness Michael L. Stahlman in the direct filed cost of service report, KCPL should keep proper accounting of all revenues and expenses related to the vehicle chargers by:

- Fully allocating costs related to the Clean Charge Network pursuant to the Commission approved cost allocation manual (CAM);
- Record the costs related to the Clean Charge Network to "below the line" accounts; and
- Segregate the revenues and expenses for ease of identification.

Q. Does that conclude your rebuttal testimony?

A. Yes.

**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 | )<br>)<br>)<br>) | Case No. ER-2014-0370 |

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 41 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

Keith Majors

Subscribed and sworn to before me this 6th day of May, 2015.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public

## Kansas City Power & Light Company
## Case No. ER-2014-0370

Rate Analysis
Source: EEI Typical Bills and Average Rates Report
Winter 2007 and Summer 2014

**Electric Rates Comparison** All figures are cents per kilowatt hour (kWh)

| Total Retail Rates | Year 2006 as of 1/1/06 | EEI Reference | Year 2014 as of 7/1/14 | EEI Reference | percentage change |
|---|---|---|---|---|---|
| KCPL | 5.66 | page 180 | 8.79 | page 178 | 55.3% |
| Missouri Average | 5.74 | page 180 | 8.53 | page 178 | 48.6% |
| West North Central Region | 6.38 | | 8.64 | page 180 | 35.4% |
| National Average | 8.89 | | 10.53 | page 195 | 18.4% |
| **Residential Rates** | | | | | |
| KCPL | 6.90 | page 214 | 10.84 | page 212 | 57.1% |
| Missouri Average | 6.96 | page 214 | 10.43 | page 212 | 49.9% |
| West North Central Region | 7.99 | | 10.90 | page 213 | 36.4% |
| National Average | 10.62 | | 12.56 | page 228 | 18.3% |
| **Commercial Rates** | | | | | |
| KCPL | 5.49 | page 247 | 8.41 | page 244 | 53.2% |
| Missouri Average | 5.56 | page 247 | 8.16 | page 244 | 46.8% |
| West North Central Region | 6.38 | | 8.70 | page 245 | 36.4% |
| National Average | 9.33 | | 10.71 | page 260 | 14.8% |
| **Industrial Rates** | | | | | |
| KCPL | 4.21 | page 280 | 6.32 | page 276 | 50.1% |
| Missouri Average | 4.14 | page 280 | 5.81 | page 276 | 40.3% |
| West North Central Region | 4.76 | | 6.16 | page 277 | 29.4% |
| National Average | 6.00 | | 7.10 | page 292 | 18.3% |

# Kansas City Power and Light Company
# Case No. ER-2014-0370

| **Comparative Construction Analysis** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Prepared by Keith Majors, Case No. ER-2014-0370** | | | | | | | | | |
| **Company** | **Construction Accounting Case No.** | **Construction Project** | **Total Company Share Constructed Plant in Service** | **Source** | **Missouri Jurisdictional Constructed Plant in Service** | **Source** | **Missouri Jurisdictional Net Rate Base Excluding Construction Project** | **Source** | **Construction Project % of Net Rate Base** |
| Union Electric | EO-85-17 & ER-85-160 | Callaway | 2,978,248,000 | Commission Reports, Volume 27, p.189 | 2,442,300,000 | Commission Reports, Volume 27, p.189 | 4,055,088,934 | Commission Reports, Volume 27, p. 270 | 60.23% |
| Ameren Missouri | ER-2010-0036 | Sioux Environmental | 574,098,132 | Gary Weiss True-Up Direct, ER-2011-0028 | 574,098,132 | Gary Weiss True-Up Direct, ER-2011-0028 | 6,135,560,194 | Gary Weiss True-Up Direct, ER-2011-0028 | 9.36% |
| KCPL | EO-85-185 & ER-85-128 | Wolf Creek | 1,366,496,000 | Commission Reports, Volume 28, p. 279 | 924,812,000 | Commission Reports, Volume 28, p. 279 | 1,126,914,700 | Commission Reports, Volume 28, p. 415 | 82.07% |
| KCPL | ER-2009-0089 | Iatan 1 & Common Environmental | 496,841,343 | DR 193, Case No. ER-2012-0174 | 267,648,432 | DR 193, Case No. ER-2012-0174 | 1,269,458,884 | Staff Direct Accounting Schedules, ER-2009-0089 | 21.08% |
| KCPL GMO - L&P | ER-2009-0090 | Iatan 1 & Common Environmental | 94,684,505 | DR 141, Case No. ER-2012-0175 | 94,684,505 | DR 141, Case No. ER-2012-0175 | 190,475,404 | Staff Direct Accounting Schedules, ER-2009-0090 | 49.71% |
| KCPL | EO-2005-0329 | Iatan 2 & Common | 982,476,091 | DR 193, Case No. ER-2012-0174 | 525,673,764 | DR 193, Case No. ER-2012-0174 | 1,524,610,061 | Staff Revised True-Up Accounting Schedules, ER-2010-0355 | 34.48% |
| KCPL GMO - MPS | EU-2011-0034 | Iatan 2 & Common | 206,289,001 | DR 141, Case No. ER-2012-0175 | 205,257,556 | DR 141, Case No. ER-2012-0175 | 1,108,183,457 | Staff Revised True-Up Accounting Schedules, ER-2010-0356 | 18.52% |
| KCPL GMO - L&P | EU-2011-0034 | Iatan 2 & Common | 109,333,171 | DR 141, Case No. ER-2012-0175 | 109,333,171 | DR 141, Case No. ER-2012-0175 | 300,554,763 | Staff Revised True-Up Accounting Schedules, ER-2010-0356 | 36.38% |
| Empire | EO-2005-0263 | Iatan 1 & Common Environmental | 62,209,942 | Mertens Direct, ER-2011-0004 | 51,835,750 | Mertens Direct, ER-2011-0004 | 717,938,940 | Staff Direct Accounting Schedules, ER-2010-0130 | 7.22% |
| Empire | EO-2005-0263 | Iatan 2 & Common | 269,059,140 | Mertens Direct, ER-2011-0004 | 224,190,569 | Mertens Direct, ER-2011-0004 | 641,697,501 | Staff Direct Accounting Schedules, ER-2011-0004 | 34.94% |
| Empire | EO-2010-0262 | Plum Point | 105,097,322 | Mertens Direct, ER-2011-0004 | 87,571,187 | Mertens Direct, ER-2011-0004 | 641,697,501 | Staff Direct Accounting Schedules, ER-2011-0004 | 13.65% |
| **KCPL** | **EO-2014-0255** | **LaCygne Environmental** | **568,343,874** | **KCPL Direct Workpapers** | **302,188,438** | **KCPL Direct Workpapers** | **2,184,820,259** | **Staff Direct Accounting Schedules, ER-2014-0370** | **13.83%** |

Case No. ER-2014-0370
Summary of Estimated Staff Deferral

| Year | Period | Missouri Jurisdiction Depreciation Deferral | Missouri Jurisdiction Carrying Costs | Less: Impact of Deferral ADIT | Total Estimated Regulatory Asset |
|---|---|---|---|---|---|
| 2015 | April | 297,118 | 518,877 | (1,313) | 814,682 |
| 2015 | May | 659,968 | 1,152,005 | (4,229) | 1,807,744 |
| 2015 | June | 725,699 | 1,262,410 | (7,428) | 1,980,681 |
| 2015 | July | 725,699 | 1,257,210 | (10,619) | 1,972,290 |
| 2015 | August | 725,699 | 1,252,010 | (13,801) | 1,963,908 |
| 2015 | September | 725,699 | 1,246,810 | (16,975) | 1,955,534 |
| Total | | 3,859,882 | 6,689,321 | (54,364) | 10,494,839 |

**SCHEDULES**
**KM-R4 through KM R10**

**HAVE BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN THEIR ENTIRETY**

## Kansas City Power & Light Company
## Case No. ER-2014-0370
**Missouri Forfeited Discounts - January 2005 through September 2010**

| | MO Total Retail Revenue | MO Forfeited Discounts | Change in Revenues% | Change in Forfeited Discounts % | No. of Occurence ** |
|---|---|---|---|---|---|
| Jan-05 | $ 38,837,702 | $ 99,464 | | | |
| Feb-05 | 34,205,072 | 99,068 | -11.93% | -0.40% | |
| Mar-05 | 36,452,702 | 91,310 | 6.57% | -7.83% | 1 |
| Apr-05 | 33,467,075 | 91,610 | -8.19% | 0.33% | 2 |
| May-05 | 41,124,531 | 99,293 | 22.88% | 8.39% | |
| Jun-05 | 56,078,592 | 90,424 | 36.36% | -8.93% | 3 |
| Jul-05 | 63,423,544 | 120,039 | 13.10% | 32.75% | |
| Aug-05 | 62,123,258 | 154,009 | -2.05% | 28.30% | 4 |
| Sep-05 | 49,914,183 | 141,496 | -19.65% | -8.12% | |
| Oct-05 | 36,995,007 | 127,606 | -25.88% | -9.82% | |
| Nov-05 | 33,911,260 | 90,274 | -8.34% | -29.26% | |
| Dec-05 | 39,541,375 | 95,977 | 16.60% | 6.32% | |
| Jan-06 | 36,303,519 | 110,064 | -8.19% | 14.68% | 5 |
| Feb-06 | 36,046,531 | 107,946 | -0.71% | -1.92% | |
| Mar-06 | 36,885,006 | 91,305 | 2.33% | -15.42% | 6 |
| Apr-06 | 35,031,829 | 104,904 | -5.02% | 14.89% | 7 |
| May-06 | 43,795,018 | 101,807 | 25.01% | -2.95% | 8 |
| Jun-06 | 56,669,012 | 101,042 | 29.40% | -0.75% | 9 |
| Jul-06 | 66,884,748 | 137,870 | 18.03% | 36.45% | |
| Aug-06 | 65,319,637 | 166,145 | -2.34% | 20.51% | 10 |
| Sep-06 | 44,499,438 | 147,033 | -31.87% | -11.50% | |
| Oct-06 | 37,763,280 | 130,900 | -15.14% | -10.97% | |
| Nov-06 | 34,841,131 | 106,639 | -7.74% | -18.53% | |
| Dec-06 | 37,743,640 | 100,214 | 8.33% | -6.03% | 11 |
| Jan-07 | 44,261,292 | 137,840 | 17.27% | 37.55% | |
| Feb-07 | 40,958,135 | 123,878 | -7.46% | -10.13% | |
| Mar-07 | 40,012,229 | 129,576 | -2.31% | 4.60% | 12 |
| Apr-07 | 38,409,071 | 122,114 | -4.01% | -5.76% | |
| May-07 | 48,099,820 | 124,347 | 25.23% | 1.83% | |
| Jun-07 | 58,882,700 | 118,484 | 22.42% | -4.72% | 13 |
| Jul-07 | 68,723,789 | 149,411 | 16.71% | 26.10% | |
| Aug-07 | 77,114,245 | 178,036 | 12.21% | 19.16% | |
| Sep-07 | 55,747,736 | 144,756 | -27.71% | -18.69% | |
| Oct-07 | 41,202,044 | 162,957 | -26.09% | 12.57% | 14 |
| Nov-07 | 38,859,081 | 127,986 | -5.69% | -21.46% | |
| Dec-07 | 43,701,227 | 115,639 | 12.46% | -9.65% | 15 |
| Jan-08 | 45,710,932 | 144,412 | 4.60% | 24.88% | |
| Feb-08 | 46,959,039 | 129,995 | 2.73% | -9.98% | 16 |
| Mar-08 | 43,052,464 | 117,191 | -8.32% | -9.85% | |
| Apr-08 | 42,131,310 | 108,632 | -2.14% | -7.30% | |
| May-08 | 48,483,145 | 113,720 | 15.08% | 4.68% | |
| Jun-08 | 62,732,154 | 126,975 | 29.39% | 11.66% | |
| Jul-08 | 72,765,270 | 158,805 | 15.99% | 25.07% | |
| Aug-08 | 71,909,598 | 178,529 | -1.18% | 12.42% | 17 |
| Sep-08 | 52,639,422 | 208,799 | -26.80% | 16.96% | 18 |
| Oct-08 | 43,725,874 | 175,683 | -16.93% | -15.86% | |
| Nov-08 | 39,046,805 | 96,750 | -10.70% | -44.93% | |
| Dec-08 | 46,213,179 | 184,379 | 18.35% | 90.57% | |
| Jan-09 | 47,737,364 | 158,946 | 3.30% | -13.79% | 19 |
| Feb-09 | 41,383,277 | 127,116 | -13.31% | -20.03% | |
| Mar-09 | 45,155,064 | 100,034 | 9.11% | -21.30% | 20 |
| Apr-09 | 41,657,762 | 112,652 | -7.75% | 12.61% | 21 |
| May-09 | 46,511,598 | 121,955 | 11.65% | 8.26% | |
| Jun-09 | 62,916,870 | 113,737 | 35.27% | -6.74% | 22 |
| Jul-09 | 69,202,559 | 146,391 | 9.99% | 28.71% | |
| Aug-09 | 66,643,608 | 173,689 | -3.70% | 18.65% | 23 |
| Sep-09 | 57,399,681 | 140,392 | -13.87% | -19.17% | |
| Oct-09 | 52,378,254 | 152,904 | -8.75% | 8.91% | 24 |
| Nov-09 | 45,218,105 | 116,222 | -13.67% | -23.99% | |
| Dec-09 | 56,481,043 | 133,384 | 24.91% | 14.77% | |
| Jan-10 | 50,506,211 | 156,355 | -10.58% | 17.22% | 25 |
| Feb-10 | 57,857,901 | 143,772 | 14.56% | -8.05% | 26 |
| Mar-10 | 52,164,805 | 145,993 | -9.84% | 1.54% | 27 |
| Apr-10 | 48,628,159 | 126,156 | -6.78% | -13.59% | |
| May-10 | 55,998,631 | 111,026 | 15.16% | -11.99% | 28 |
| Jun-10 | 77,999,013 | 126,582 | 39.29% | 14.01% | |
| Jul-10 | 88,699,315 | 173,783 | 13.72% | 37.29% | |
| Aug-10 | 89,281,470 | 204,270 | 0.66% | 17.54% | |
| Sep-10 | 62,370,429 | 204,688 | -30.14% | 0.20% | 29 |

**Note:** Prior to Case No ER-2012-0174, % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by the KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year)

** This shows the number of times Revenue and Forfeited Discounts moved in different directions based on change in Revenues and change in Forfeited Discounts.

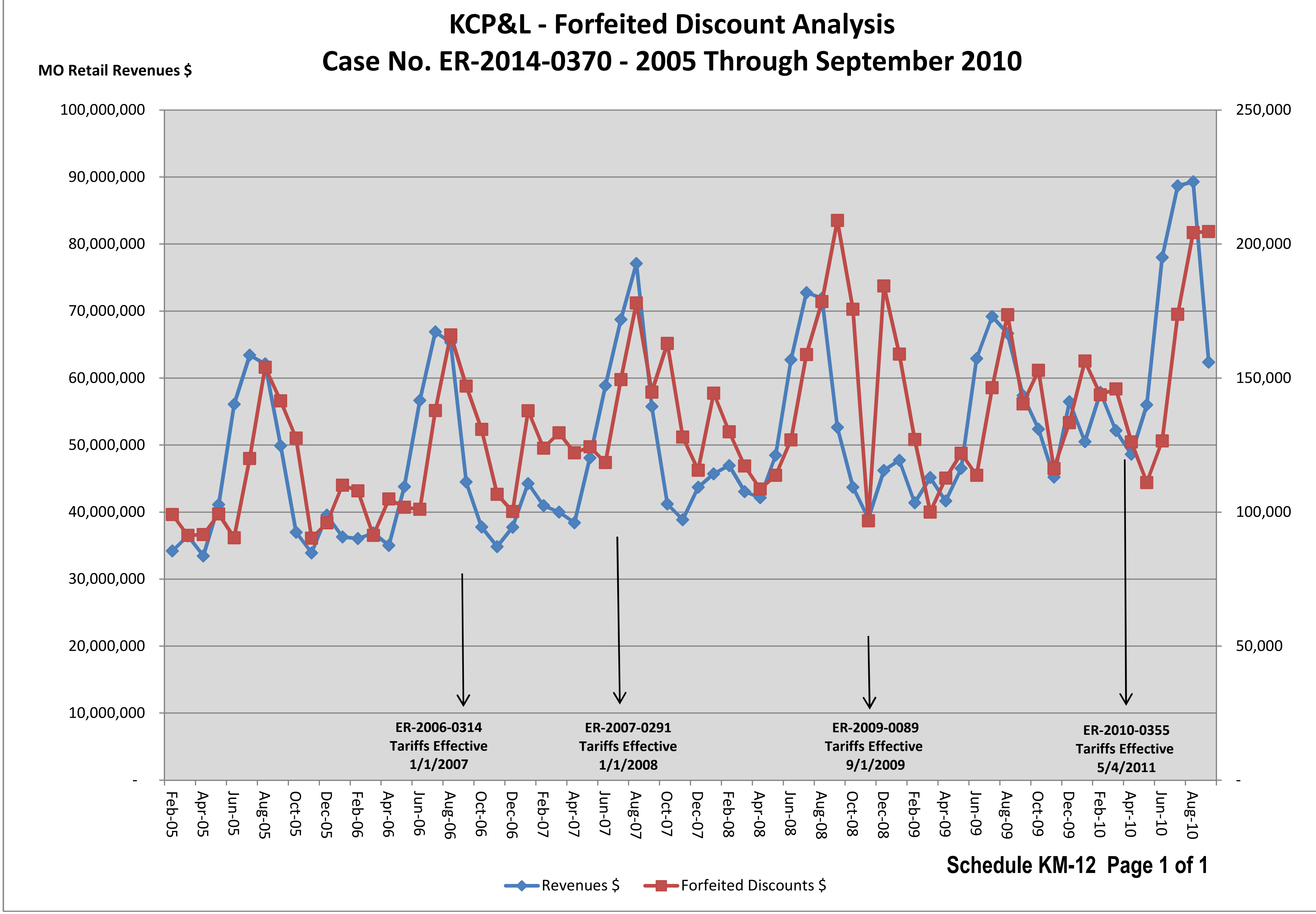
# Kansas City Power & Light Company
## Case No. ER-2014-0370
### Missouri Forfeited Discounts - October 2010 through December 2014

| | MO Total Retail Revenue Net of GRT | MO Forfeited Discounts Net of GRT | Change in Revenues% | Change in Forfeited Discounts % | No. of Occurence ** |
|---|---|---|---|---|---|
| Oct-10 | 44,843,482 | 149,219 | -28.10% | -27.10% | |
| Nov-10 | 45,555,835 | 131,231 | 1.59% | -12.05% | 30 |
| Dec-10 | 50,546,732 | 112,638 | 10.96% | -14.17% | 31 |
| Jan-11 | 50,880,253 | 117,665 | 0.66% | 4.46% | |
| Feb-11 | 47,449,546 | 107,420 | -6.74% | -8.71% | |
| Mar-11 | 47,577,291 | 116,480 | 0.27% | 8.43% | |
| Apr-11 | 44,630,894 | 154,325 | -6.19% | 32.49% | 32 |
| May-11 | 52,997,498 | 219,685 | 18.75% | 42.35% | |
| Jun-11 | 77,349,117 | 210,091 | 45.95% | -4.37% | 33 |
| Jul-11 | 94,351,066 | 145,651 | 21.98% | -30.67% | 34 |
| Aug-11 | 83,481,154 | 96,647 | -11.52% | -33.64% | |
| Sep-11 | 54,086,580 | 107,275 | -35.21% | 11.00% | 35 |
| Oct-11 | 52,241,107 | 163,163 | -3.41% | 52.10% | 36 |
| Nov-11 | 47,324,234 | 111,927 | -9.41% | -31.40% | |
| Dec-11 | 50,769,775 | 110,917 | 7.28% | -0.90% | 37 |
| Jan-12 | 50,289,339 | 136,233 | -0.95% | 22.82% | 38 |
| Feb-12 | 48,596,289 | 124,800 | -3.37% | -8.39% | |
| Mar-12 | 49,063,322 | 114,981 | 0.96% | -7.87% | 39 |
| Apr-12 | 47,154,390 | 123,092 | -3.89% | 7.05% | 40 |
| May-12 | 59,400,860 | 110,902 | 25.97% | -9.90% | 41 |
| Jun-12 | 76,279,227 | 109,615 | 28.41% | -1.16% | 42 |
| Jul-12 | 93,935,116 | 162,238 | 23.15% | 48.01% | |
| Aug-12 | 79,288,166 | 237,557 | -15.59% | 46.43% | 43 |
| Sep-12 | 56,548,845 | 154,369 | -28.68% | -35.02% | |
| Oct-12 | 50,904,708 | 156,165 | -9.98% | 1.16% | 44 |
| Nov-12 | 46,015,799 | 125,698 | -9.60% | -19.51% | |
| Dec-12 | 50,171,648 | 113,049 | 9.03% | -10.06% | 45 |
| Jan-13 | 51,107,856 | 135,472 | 1.87% | 19.83% | |
| Feb-13 | 53,587,208 | 128,443 | 4.85% | -5.19% | 46 |
| Mar-13 | 57,183,177 | 131,512 | 6.71% | 2.39% | |
| Apr-13 | 51,699,175 | 124,935 | -9.59% | -5.00% | |
| May-13 | 61,392,338 | 134,965 | 18.75% | 8.03% | |
| Jun-13 | 75,513,189 | 120,191 | 23.00% | -10.95% | 47 |
| Jul-13 | 86,882,229 | 172,642 | 15.06% | 43.64% | |
| Aug-13 | 86,046,087 | 201,225 | -0.96% | 16.56% | 48 |
| Sep-13 | 66,408,595 | 172,197 | -22.82% | -14.43% | |
| Oct-13 | 53,282,413 | 128,615 | -19.77% | -25.31% | |
| Nov-13 | 52,490,727 | 92,443 | -1.49% | -28.12% | |
| Dec-13 | 58,043,678 | 141,534 | 10.58% | 53.10% | |
| Jan-14 | 59,369,270 | 174,244 | 2.28% | 23.11% | |
| Feb-14 | 55,961,495 | 154,209 | -5.74% | -11.50% | |
| Mar-14 | 55,493,865 | 123,308 | -0.84% | -20.04% | |
| Apr-14 | 50,797,624 | 131,379 | -8.46% | 6.55% | 49 |
| May-14 | 62,974,293 | 123,274 | 23.97% | -6.17% | 50 |
| Jun-14 | 76,631,505 | 132,743 | 21.69% | 7.68% | |
| Jul-14 | 83,254,847 | 163,553 | 8.64% | 23.21% | |
| Aug-14 | 90,362,430 | 181,526 | 8.54% | 10.99% | |
| Sep-14 | 62,178,123 | 187,771 | -31.19% | 3.44% | 51 |
| Oct-14 | 53,719,652 | 172,711 | -13.60% | -8.02% | |
| Nov-14 | 55,983,006 | 103,407 | 4.21% | -40.13% | 52 |
| Dec-14 | 57,723,673 | 163,572 | 3.11% | 58.18% | |

**Note:** Prior to Case No ER-2012-0174, % of Retail revenues was calculated based on Gross Retail Revenue and Gross Forfeited Discounts. This was identified by the KCPL in Case No ER-2010-0355. The percentage was based on Revenues and Forfeited Discounts net of Gross Receipts Tax beginning with the 12 month period September 30, 2011 (Test Year)

** This shows the number of times Revenue and Forfeited Discounts moved in different directions based on change in Revenues and change in Forfeited Discounts.

Kansas City Power and Light Company
Case No. ER-2014-0370



**Kansas City Power and Light Company**
**Case No. ER-2014-0370**

## KCP&L - Forfeited Discount Analysis
## Case No. ER-2014-0370 - October 2010 Through December 2014