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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2018-0145

DIRECT TESTIMONY

OF

LINDA J. NUNN

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
January 2018

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DIRECT TESTIMONY

OF

LINDA J. NUNN

Case No. ER-2018-0145

1 **INTRODUCTION**

2 **Q: Please state your name and business address.**

3 A: My name is Linda J. Nunn. My business address is 1200 Main, Kansas City,
4 Missouri 64105.

5 **Q: By whom and in what capacity are you employed?**

6 A: I am employed by Kansas City Power & Light Company ("KCP&L" or
7 "Company") as Supervisor - Regulatory Affairs.

8 **Q: What are your responsibilities?**

9 A: My responsibilities include the coordination, preparation and review of financial
10 information and schedules associated with Company rate case filings and other
11 regulatory filings.

12 **Q: Please describe your education.**

13 A: I received a Bachelor's of Science Degree in Business Administration with a
14 concentration in Accounting from Northwest Missouri State University.

15 **Q: Please provide your work experience.**

16 A: I became a Senior Regulatory Analyst with KCP&L in 2008, as a part of the
17 acquisition of Aquila, Inc., by Great Plains Energy. In 2013, I was promoted to
18 Supervisor - Regulatory Affairs. Prior to my employment with KCP&L, I was
19 employed by Aquila, Inc. for a total of eleven years. In addition to Regulatory, I

1 have had experience in Accounting, Audit, and Business Services, where I had
2 responsibility for guiding restructuring within the delivery division. In addition to
3 my utility experience I was the business manager and controller for two area
4 churches. Prior to that, I was an external auditor with Ernst & Whinney.

5 **Q: Have you previously testified in a proceeding before the MPSC or before any**
6 **other utility regulatory agency?**

7 A: I have provided written testimony in various filings made before the MPSC
8 relating to GMO's FAC. I have also worked closely with many MPSC Staff on
9 numerous filings as well as on rate case issues.

10 **Q: What is the purpose of your testimony?**

11 A: The purpose of my testimony is to discuss various adjustments made to the test
12 year. As explained in the testimony of Company witness Ronald A. Klote,
13 adjustments are made to the historical test year for known and measurable
14 changes along with the annualization, normalization and amortization of certain
15 assets, liabilities, revenues and expenses. In the following testimony, I will be
16 discussing several of these adjustments.

17 **ACCOUNTING ADJUSTMENTS**

18 **RB-25/CS-111 IATAN 1 & IATAN COMMON REGULATORY ASSET**

19 **Q: Please explain adjustment RB-25.**

20 A: As continued from Case No. ER-2016-0285 ("2016 Case") Adjustment RB-25
21 establishes the anticipated rate base value as of June 30, 2018 by rolling forward
22 the regulatory asset balance, which is recorded on a Missouri jurisdictional basis,

1 from the true-up date of the 2016 Case to the anticipated true-up date of June 30,
2 2018, for this current case.

3 **Q: Was this regulatory asset included in rate base in the 2016 Case?**

4 A: Yes.

5 **Q: Please explain adjustment CS-111.**

6 A: The Company continued the amortization of this regulatory asset based on the
7 amortization levels established in the 2016 Case. The test year properly reflected
8 the annual level of amortization expense.

9 **RB-26/CS-112 IATAN 2 REGULATORY ASSET**

10 **Q: Please explain adjustment RB-26.**

11 A: As continued from the 2016 Case, Adjustment RB-26 establishes the anticipated
12 rate base value as of June 30, 2018 by rolling forward the regulatory asset
13 balance, which is recorded on a Missouri jurisdictional basis, from the true-up
14 date of the 2016 Case to the anticipated true-up date of June 30, 2018, for this
15 current case.

16 **Q: Was this regulatory asset included in rate base in the 2016 Case?**

17 A: Yes.

18 **Q: Please explain adjustment CS-112.**

19 A: The Company continued the amortization of this regulatory asset based on the
20 amortization levels established in and continued through previous cases. The test
21 year properly reflected the annual level of amortization expense.

1 **RB-50 PREPAYMENTS**

2 **Q: Please explain adjustment RB-50.**

3 A: The Company normalized this rate base item based on a 13-month average of

4 prepayment balances. Prepayment amounts can vary widely during the course of

5 the year and an averaging method minimizes these fluctuations.

6 **Q: What accounts are included in prepayments?**

7 A: The most significant relate to prepaid insurance, postage and software

8 maintenance.

9 **Q: What period was used for the 13-month averaging?**

10 A: The Company used the period June 2016 through June 2017.

11 **RB-55/CS-22 EMISSION ALLOWANCES**

12 **Q: Please explain adjustment RB-55.**

13 A: The Regulatory Plan Stipulation and Agreement agreed to in Case No. EO-2005-

14 0329, with amendments approved on August 23, 2005 ("Regulatory Plan S&A"),

15 included an SO_2 Emission Allowance Management Policy. This policy provided

16 for KCP&L to sell sulfur dioxide ("SO_2") emission allowances in accordance with

17 the initial SO_2 Plan submitted to the MPSC, the MPSC Staff and other parties in

18 January 2005, as updated.

19 The Regulatory Plan S&A required KCP&L to record all SO_2 emission allowance

20 sales proceeds as a regulatory liability in Account 254. The liability was reduced

21 by premiums that resulted from the Company's purchase of lower sulfur coal than

22 specified under contracts, through the December 31, 2010, true-up date in the

23 Rate Case No. ER-2010-0355 ("2010 Case"). Subsequent to December 31, 2010,

1 the liability has been increased by sales of allowances through the Environmental
2 Protection Agency's ("EPA") annual auction and reduced by amortization of the
3 December 31, 2010 regulatory liability beginning in May 2011. In October 2015
4 with the implementation of the Fuel Adjustment Clause ("FAC"), Missouri
5 jurisdictional revenues received from EPA auctions will now flow through the
6 FAC directly back to the customer. Adjustment RB-55 reflects a net reduction in
7 the regulatory liability balance through June 30, 2018 resulting from the
8 amortization.

9 **Q: Please explain adjustment CS-22.**

10 A: This adjustment reflects an annualization of the amortization of this June 30, 2018
11 projected SO_2 proceeds regulatory liability.

12 **Q: Over what period is this regulatory liability to be amortized?**

13 A: The Non-Unanimous Stipulation and Agreement As To Miscellaneous Issues in
14 the 2010 Case, approved by the Commission on April 12, 2011, provided that the
15 amortization period for the SO_2 regulatory liability would be 21 years beginning
16 with the May 2011 effective date of rates in the 2010 Case.

17 **<u>RB-70 CUSTOMER DEPOSITS</u>**

18 **Q: Please explain adjustment RB-70.**

19 A: The Company examined customer deposit balances for Missouri customers from
20 June 2016 through June 2017. The analysis observed a fluctuating balance during
21 this period. Therefore, the Company chose to use the 13-month average of
22 customer deposits in rate base.

1 **RB-71 CUSTOMER ADVANCES**

2 **Q: Please explain adjustment RB-71.**

3 A: The Company examined customer advance balances for Missouri customers from
4 June 2016 through June 2017 and observed that the balance changed only slightly
5 during this period. Therefore, the Company chose to use the 13-month average of
6 customer advances in rate base.

7 **RB-72 MATERIALS AND SUPPLIES**

8 **Q: Please explain adjustment RB-72.**

9 A: The Company reviewed the individual materials and supplies category balances
10 during the period June 2016 through June 2017 to determine if there was a
11 discernable trend, either upward or downward. If there was a trend the test year-
12 end balance was not adjusted. Otherwise, a 13-month average was used.

13 **RB-75 NUCLEAR FUEL INVENTORY**

14 **Q: Please explain adjustment RB-75.**

15 A: The Company normalized this balance based on an 18-month average, to coincide
16 with the 18-month Wolf Creek refueling cycle. Nuclear fuel inventory balances
17 increase significantly at the time of a refueling outage and then decrease
18 systematically until the next refueling outage. An averaging method minimizes
19 these changes.

20 **Q: What period was used for the 18-month averaging?**

21 A: The Company used the period January 2017 through June 2018.

1 **RB-100/CS-100 PRE-MEEIA DSM PROGRAMS**

2 **Q: Please explain adjustment RB-100.**

3 A: KCP&L had implemented demand-side management programs since 2005. A
4 regulatory asset account is in place to allow full recovery of all DSM program
5 costs. These programs were terminated on July 6, 2014, when KCP&L's MEEIA
6 programs became effective as a result of Case No. EO-2014-0095. This
7 adjustment rolls forward the unamortized deferred DSM program costs from
8 December 31, 2016, the true-up date in the 2016 Case, to June 30, 2018, for DSM
9 program vintages 1-7. In the 2016 Case, KCP&L agreed to discontinue deferring
10 pre-MEEIA DSM costs into a regulatory asset for future recovery after the true-up
11 date except for carrying costs which were to be calculated through June 8, 2017,
12 the effective date of new rates for the 2016 Case. Therefore, there are
13 additionally included in this adjustment, carrying costs calculated from January
14 2017 through June 8, 2017. In Case number ER-2014-0370 ("2014 Case"),
15 KCP&L agreed to prospective tracking of regulatory assets and liabilities. As
16 such, after vintage 1 was fully amortized in December 2016, its remaining
17 monthly amortization amount through June 8, 2017, was applied to the vintage 2
18 unamortized balance. Vintage 2 amortization ended in October 2017. Its monthly
19 amortization amount then was applied to the vintage 3 unamortized balance from
20 October 2017 until June 30, 2018, the true-up date in this current case.

21 **Q: Please explain adjustment CS-100.**

22 A: This adjustment includes an annual amortization of deferred pre-MEEIA costs,
23 the unamortized balances of which are included in RB-100. The amortization

period included for this case for vintages 1 – 4 is ten years and for vintages 5 – 7 is 6 years. The Company is proposing the remaining carrying costs calculated from January 2017 through June 8, 2017, to also be amortized over 6 years to remain consistent with prior cases. Adjustments are made to remove amortization expense for vintages 1 and 2 from cost of service since both vintages were fully amortized in December 2016 and October 2017 respectively.

Q: Please discuss the Pre-MEEIA opt out component of adjustment CS-100?

A: KCP&L is making this adjustment to comply with conditions of the MPSC Order Approving Stipulation and Agreement in Case No. EO-2014-0029. The parties agreed that customers who opt-out of demand-side management programs would receive a credit on their monthly bills equivalent to the non-MEEIA energy efficiency charges built into base rates. The agreement also allowed KCP&L to defer the amounts credited to customers in a separate account.

KCP&L was granted deferral treatment of the "opt out" costs for determination of recovery in a future rate case. The deferral includes two components: 1) prospective crediting of opt-out charges, and 2) retroactive crediting of opt-out charges. The 2014 Case established the amortization level of the unamortized deferred balance which includes actual opt-out costs incurred through May 2015. The costs, tracked as vintage 1, are being amortized over six years. The 2016 Case established the amortization level of the unamortized deferred balance which includes actual opt-out costs incurred from June 2015 through December 2016. The costs, tracked as vintage 2, are also being amortized over six years. The Pre-MEEIA Opt-Outs adjustment provides the

1 annual amortization expense for vintage 1 and vintage 2. In addition, the
2 Company is proposing the annual amortization of deferred costs recorded from
3 January 2017 through June 2018, which is tracked as vintage 3, to be amortized
4 over six years consistent with the first two vintages. There is no rate base
5 treatment of deferred pre-MEEIA opt-out amounts.

6 **RB-101/CS-101 INCOME ELIGIBLE WEATHERIZATION PROGRAM**

7 **Q: Please explain adjustment RB-101.**

8 A: In the 2016 Case the Company agreed to include the balance of unexpended
9 Income Eligible Weatherization program funds in a liability account as an offset
10 to rate base and to amortize the balance at the December 31, 2016, true-up date
11 over 4 years. Any further underspent amounts will continue to accumulate as
12 Vintage 2. This adjustment rolls forward the unamortized deferred program costs
13 from December 31, 2016, to June 30, 2018 as the Company continues to monitor
14 overall spend.

15 **Q: Please explain adjustment CS-101.**

16 A: KCP&L's Income Eligible Weatherization Program (formerly known as Low
17 Income Weatherization program) was initially established in 2007 as one of
18 several demand response, efficiency, and affordability programs which were
19 implemented as a result of the Regulatory Plan S&A. In the 2010 Case, the
20 Company was authorized to include the program expenses in rates and to continue
21 an annual funding level of $573,888. In Case No. EO-2014-0095, the program
22 costs became recoverable under the MEEIA rider on July 6, 2014. In the 2014
23 Case, the Commission found that collecting program funds through base rates to

1 be preferable to recovery of these program costs through the MEEIA rider. The
2 Commission concluded in the Order that KCP&L should resume recovery of the
3 program in base rates at an annual rate of $573,888. Following the conclusion of
4 KCP&L's MEEIA Cycle 1, or December 31, 2015, KCP&L ceased recovery of
5 those costs in the MEEIA rider. In the 2016 Case, the Company agreed to include
6 the balance of unexpended/over recovered program funds in a liability account as
7 an offset to rate base and to amortize the balance at the December 31, 2016, true-
8 up date over four years. The level of ongoing spending in base rates continues to
9 be $573,888 annually which includes program costs, marketing costs and
10 Through-Put Disincentive-Net Shared Benefit (TD-NSB). This adjustment
11 compares the four-year amortization level to the amount expensed in the test year
12 as well as adjusts for the test year to the $573,888 expected spend level.

13 **R-1 GROSS RECEIPT TAXES**

14 **Q: Please explain adjustment R-1.**

15 A: This adjustment removes gross receipts taxes from both retail revenue, including
16 forfeited discounts, and general taxes, consistent with the adjustment made by
17 both KCP&L and the MPSC Staff in prior rate cases. This adjustment is made so
18 that annualized/normalized retail revenue reflects base or "bare" revenue only,
19 consistent with the tariffs.

20 **R-21 FORFEITED DISCOUNTS**

21 **Q: Please explain adjustment R-21.**

22 A: In R-21a, the Company normalized forfeited discounts by computing a Missouri-
23 specific forfeited discount factor based on test period forfeited discounts and

1 revenue and applying it to Missouri jurisdictional weather-normalized revenue.
2 In R-21b, the Company applied the forfeited discount factor to the requested
3 revenue increase in this rate case to obtain the annualized level forfeited discounts
4 that are applicable to the revenues established in this rate case proceeding.

5 **R-49 CCN REVENUE**

6 **Q: Please explain adjustment R-49.**

7 A: Adjustment R-49 recognizes forecasted annualized revenue at June 30, 2018,
8 from our CCN. Total company forecasted CCN revenue was multiplied by the
9 Utility Mass Allocator to establish KCP&L's estimated share of CCN revenue to
10 include in KCP&L's cost of service.

11 **R-78 EXCESS MARGIN REGULATORY LIABILITY**

12 **Q: Please explain the excess margin regulatory liability.**

13 A: In previous rate cases, KCP&L began returning to ratepayers off-system sales
14 margins realized in excess of certain percentage levels over a 10-year period. The
15 excess margin liability was recorded on the financial books as a credit to a
16 regulatory liability (FERC account 254) and a debit to retail revenue (FERC
17 account 449) in the period incurred. Interest accrues on this liability. The
18 liability is amortized beginning with the effective date of the tariffs in which the
19 revenue reduction is included. When the amortized liability account is reduced,
20 retail revenue is increased.

21 **Q: What regulatory liabilities exist for purposes of this rate case?**

22 A: Excess margins were realized in 2007 ($1,082,974) and 2008 ($2,947,332), as
23 documented in the Non-Unanimous Stipulation and Agreement in the 2009 Case

1 ("2009 S&A"). It stated that the amortization of these regulatory liabilities, plus
2 accrued interest, was to begin September 1, 2009, based on a ten-year
3 amortization period. In the 2010 Case excess margins of $3,684,939 for the
4 period September 2009 through August 2010 were ordered to be returned to
5 ratepayers over ten years beginning with the effective date of new rates in that
6 case, May 4, 2011.

7 **Q: Please explain adjustment R-78.**

8 A: Adjustment R-78 annualizes the amortization of these regulatory liabilities,
9 including new accrued interest through June 30, 2018.

10 **CS-11 OUT-OF-PERIOD ITEMS/MISCELLANEOUS ADJUSTMENTS**

11 **Q: Please explain adjustment CS-11.**

12 A: The Company adjusted certain expense transactions recorded during the test
13 year from the cost of service filing in this rate case. The following is a listing of
14 the various components:

15 Remove charges from test year- The Company has identified certain
16 costs recorded during the test year for which it is not seeking recovery in this
17 rate proceeding or which were adjustments to transactions recorded prior to the
18 test period, netting to approximately $2.68 million (a KCP&L total company
19 amount). These costs for which the Company is not seeking recovery primarily
20 include director and officer long-term incentive compensation, political
21 questions in customer tracking survey, and officer expense report
22 items.

1 Miscellaneous coding corrections- The Company has identified a
2 transaction where a coding correction was made after the end of the test year. The
3 original transaction was added to the test year costs netting to approximately
4 $456K (a KCP&L total company amount).

5 **CS-4/CS-20 BAD DEBTS**

6 **Q: Please explain adjustment CS-4.**

7 A: This adjustment is necessary to reflect the test year provision for bad debt expense
8 recorded on the books of Kansas City Power & Light Receivables Company
9 ("KCRec").

10 **Q: Please explain adjustment CS-20.**

11 A: In adjustment CS-20a the Company adjusted bad debt expense applicable to the
12 weather-normalized revenues calculated in adjustment R-20 by applying a
13 Missouri-specific net bad debt write-off factor to Missouri weather-normalized
14 revenue. In CS-20b, the Company established bad debt expense for the requested
15 revenue adjustment in this rate case, again using the bad debt write-off factor.

16 **Q: How was the bad debt write-off factor determined?**

17 A: The Company examined net bad debt write-offs on a Missouri-specific basis as
18 compared to the applicable revenues that resulted in the bad debts.

19 **Q: Over what period was this experience analyzed?**

20 A: Net bad debt write-offs were for the test year, July 2016 through June 2017, while
21 the related retail revenue was for the 12-month period January 2016 through
22 December 2016.

Q: Why were different periods used for the calculation?

A: There is a significant time lag between the date that revenue is recorded and the date that any resulting bad debt write-off is recorded due to time spent on various collection efforts. While the time expended can vary depending on circumstances, the Company assumed a six-month lag, representing the standard time span between when a customer is first billed and the time when an account is disconnected and the receivable subsequently written off.

Q: The term "net" write-offs is used. What does it mean?

A: This term refers to accounts written off less recoveries received on accounts previously written off.

CS-23 REMOVE FAC UNDER-COLLECTION

Q: Please explain adjustment CS-23.

A: This adjustment reverses the amount of under recovery relating to the Fuel Adjustment Clause recorded in account 557100 – Other Production, Other Expense Riders. As under-recoveries are no longer recorded directly to revenue but are recorded as a negative expense in 557100, this adjustment is necessary to remove the under-recovered amounts of net FAC costs.

CS-40/CS-41 TRANSMISSION AND DISTRIBUTION MAINTENANCE

Q: Please explain adjustments CS-40 and CS-41.

A: These adjustments are for the purpose of including an appropriate level of transmission and distribution maintenance expense in this case. Since the maintenance levels have been increasing and are projected to continue to increase through the true-up period in this case, KCP&L included test year maintenance

1 expense in its direct case as being the most representative level for ongoing
2 expense. KCP&L will re-evaluate maintenance levels at the true-up date to
3 determine if any adjustment to the test year should be made at that point.

4 **CS-42 GENERATION MAINTENANCE**

5 **Q: Please explain adjustment CS-42.**

6 A: This adjustment is for the purpose of including an appropriate level of generation
7 maintenance expense in this case. Since the maintenance level has been
8 increasing and is projected to continue to increase, KCP&L included test year
9 maintenance expense in its direct case as being the most representative level for
10 ongoing expense. KCP&L will re-evaluate maintenance levels at the true-up date
11 to determine if any adjustment to the test year should be made at that point.

12 **Q: Were there any other adjustments made to the test year amounts?**

13 A: Yes, adjustments were made to test year generation maintenance expenses related
14 to the Iatan 2 and Common tracker which is described in more detail below in my
15 testimony relating to adjustment CS-48. This tracker was established in the 2010
16 Case in order to defer and amortize Iatan 2 and Common operations and
17 maintenance expenses. Thus, there are amounts recorded in the test year
18 generation maintenance accounts related to this tracker which must be removed
19 from the test year for purposes of adjustment CS-42. There have been five
20 complete vintages of this tracker, all being amortized during the test year. An
21 adjustment was made to remove the test year amortization expense for Vintages 1
22 through 5 since these costs are considered in adjustment CS-48. By completing

these adjustments, the test year is reduced to reflect actual generation maintenance expense recorded.

CS-43 WOLF CREEK MAINTENANCE

Q: Please explain adjustment CS-43.

A: This adjustment is for the purpose of including an appropriate level of nuclear maintenance expense in this case. Since the maintenance level has been increasing and is projected to continue to increase, KCP&L included test year maintenance expense in its direct case as being the most representative level for ongoing expense. KCP&L will re-evaluate maintenance levels at the true-up date to determine if any adjustment to the test year should be made at that point.

CS-44 ECONOMIC RELIEF PILOT PROGRAM ("ERPP")

Q: Please explain adjustment CS-44.

A: As part of the Final Report and Order in the 2016 Case, the ERPP will be funded at $1,260,000 (50% from shareholders), with $630,000 included in the final revenue requirement. KCP&L filed updated tariff language that removed the maximum number of customers language from the tariff and adds language that any excess funds will be spent until exhausted. This adjustment reflects the $630,000 ratepayer funded annualized level compared to the actual expenses for the test year.

CS-48 IATAN 2 AND IATAN COMMON TRACKER

Q: Please explain adjustment CS-48.

A: In the 2010 case, KCP&L was allowed to establish a tracker for Iatan 2 and common O&M expenses. In the 2014 Case, annual amortization amounts were

1 established for vintages 1 – 5. In the 2016 Case, vintage 1 was fully recovered in
2 January 2016. Its remaining monthly amortization through December 31, 2016,
3 the true-up date in that case, was applied to the total deferred amount of vintage 2
4 with re-amortization established at June 8, 2017, the effective date of new rates.
5 Monthly amortization of vintage 1 from the true-up date continued to be applied
6 to vintage 2 through May 2017 when vintage 2 was fully amortized. The
7 remaining amounts of vintages 1 and 2 from May 2017 to June 8, 2017, were then
8 applied to vintage 4. The monthly amount of the re-amortized vintage 2 was
9 applied to vintage 4 starting June 8, 2017. Vintage 4 will be fully amortized in
10 March 2018. The remaining amount of the re-amortized vintage 2 and vintage 4
11 then were applied to vintage 5. The Iatan 2 and common tracker expense will be
12 fully recovered in April 2018. Therefore, the per book amortization expense
13 recorded during the test year for vintages 1-5 has been removed from cost of
14 service in this adjustment. Prospective tracking will be applied to the
15 amortization collected in rates through the true-up in this case and amortized back
16 to the customer in Adjustment CS-113.

17 **CS-49 CCN O&M**

18 **Q: Please explain adjustment CS-49.**

19 A: CCN expenses were annualized through June 30, 2018 by taking the projected
20 expenses from January 2018 to June 2018 and multiplying them by two (2). This
21 amount was then multiplied by the Utility Mass Allocator to establish KCP&L's
22 estimated share of CCN expenses to include in KCP&L's cost of service. Test

1 year expenses for the 12-month period through June 30, 2017 were subtracted
2 from the projected expenses resulting in the adjustment amount.

3 **CS-71 INJURIES AND DAMAGES**

4 **Q: Please explain adjustment CS-71.**

5 A: The Company normalized Injuries and Damages ("I&D") costs based on average
6 payout history during the 12-month periods ending December 2014, December
7 2015, December 2016 and the 6-month period ending June 2017 as reflected by
8 amounts relieved from FERC account 228.2. This account captures all accrued
9 claims for general liability, worker's compensation, property damage, and auto
10 liability costs. The expenses are included in FERC account 925 as the costs are
11 accrued. The liability reserve is relieved when claims are paid under these four
12 categories.

13 **Q: Does account 925 also include costs charged directly to that account?**

14 A: Yes, for smaller dollar claims that are recorded directly to expense, the Company
15 averaged these expenses over the 12-month periods ending December 2014,
16 December 2015 and June 2017.

17 **Q: Why were multi-year averages chosen?**

18 A: I&D claims and settlements of these claims can vary significantly from year-to-
19 year. A period of 3 years and 3.5 years was used to establish an appropriate on-
20 going level of this expense by leveling out fluctuations in the payouts that can
21 exist from one year to the next depending on claims activity and settlements.

1 **<u>CS-10/CS-76 CUSTOMER DEPOSIT INTEREST</u>**

2 **Q: Please explain adjustment CS-10.**

3 A: This adjustment is necessary to include test year customer deposit interest from
4 Missouri customers in cost of service.

5 **Q: Please explain adjustment CS-76.**

6 A: The Company annualized customer deposit interest in accordance with the
7 Company's tariff, which states that the interest rate established for each year for
8 Missouri customer deposits will be based on the December 1 prime rate published
9 in the *Wall Street Journal*, plus 100 basis points ("bps"). The rate used in this
10 adjustment for Missouri deposits was the prime rate of 3.50% at December 1,
11 2016, plus 100 bps to equal 4.50%. This rate will be updated in the true-up to the
12 December 1, 2017, prime rate of 4.25% plus 100 bps to equal 5.25%.

13 **Q: What customer deposit balance was this interest rate applied to?**

14 A: The interest rate was applied to the Missouri customer deposit balance determined
15 in adjustment RB-70, discussed earlier in this testimony.

16 **<u>CS-77 CREDIT CARD PROGRAM</u>**

17 **Q: Please explain adjustment CS-77.**

18 A: KCP&L annualized credit card program expenses based on actual participation
19 levels and costs at August 31, 2017.

20 **Q: What is the status of KCP&L's credit card payment program?**

21 A: KCP&L began offering credit card payment options to its residential customers in
22 2007, initially with submission and processing through its interactive voice
23 response system. Also, a one-time payment option was added later that year

1 through KCP&L's website. In February, 2008, the Company offered a recurring
2 credit card payment option with enrollment through its website. Since that time
3 participation levels have been steadily increasing, with credit/debit card payments
4 representing 20.9% of all payments in KCP&L's territory as of October 2017.

5 **CS-9/CS-78 ACCOUNTS RECEIVABLE SALES FEES**

6 **Q: Please explain adjustments CS-9 and CS-78.**

7 A: Bank fees are first included in cost of service through adjustment CS-9, wherein
8 fees incurred during the test year by KCRec are reflected. The Company then
9 annualized these fees by projecting annual fees based on June 2017 actuals,
10 determined by (a) calculating monthly interest, based upon the actual rate in effect
11 at June 30, 2017, applicable to the monthly advance amount of $110 million
12 established in the accounts receivable sales agreement renegotiated in September
13 2017; (b) calculating the monthly Program Fee based on this monthly advance
14 amount and a Program Fee Rate of 60.0 bps (the applicable level for the accounts
15 receivable securitization in the renegotiated agreement in effect at June 30, 2017);
16 and (c) calculating the monthly Commitment Fee based upon a fee rate of 25 bps
17 (again, the applicable level in the renegotiated agreement in effect at June 30,
18 2017). The sum of (a), (b), and (c) represents the total projected bank fees for a
19 30-day period. This amount was annualized and compared to test year amounts
20 ending June 30, 2017.

CS-80 RATE CASE COSTS

Q: Please explain adjustment CS-80.

A: The Company annualized rate case costs by including projected costs for the current rate proceeding normalized over four years which will be trued-up as part of the true-up process in this rate case. Annualized rate case costs were then compared to rate case expense amortizations included in the test year (of which the amount was zero) to properly reflect rate case expense in cost of service in this rate case.

Q: How was rate case cost related to the current Missouri rate proceeding estimated?

A: KCP&L estimated costs based on the consultants and attorneys it anticipates will be used in this case and based on the scope of work anticipated.

Q: In making this estimate did KCP&L anticipate a full rate case, including hearings, briefs, etc., as opposed to a settled case?

A: Yes, a full rate case was assumed.

CS-85 REGULATORY ASSESSMENTS

Q: Please explain adjustment CS-85.

A: The Company annualized Missouri regulatory assessments based on quarterly assessments in effect at June 2018. KCP&L annualized FERC Schedule 12 fees based upon budgeted fees for 2018.

CS-86 SCHEDULE 1-A FEES

Q: Please explain adjustment CS-86.

A: KCP&L annualized SPP Schedule 1-A fees based upon actual rates in July 2017 and then average rates projected through June 2018. KCP&L is using projected

1 SPP Schedule 1-A fees to be consistent with its requested treatment of
2 transmission expenses in this case.

3 **CS-88 CIPS/CYBER SECURITY O&M**

4 **Q: Please explain adjustment CS-88**.

5 **A:** Adjustment CS-88 is an adjustment that includes capturing increased costs
6 associated with the Company's investment and ongoing maintenance and support
7 of systems and infrastructure for cyber and physical security needs related to the
8 North American Electric Reliability Corporation Critical Infrastructure Protection
9 Standards. The adjustment projects annualized costs based on budgeted O&M
10 expenses for 2018.

11 **CS-89 METER REPLACEMENT CONTRACT RATE**

12 **Q: Please explain adjustment CS-89.**

13 A: Beginning in 2014, the Company began installing AMI technology that would
14 replace all of the Company's Automated Meter Reading meters. Adjustment CS-
15 89 computes the incremental increase in the meter reading contract that will be
16 associated with the newly installed AMI meters. The new AMI meters are a new
17 technology that will bring increased functionality such as providing load profile
18 data for each meter and provide increased functionality around power outages and
19 restoration events. This adjustment annualizes the composite meter reading cost
20 per meter which is $0.67 cents per meter for 2018. The annualized amount is
21 based on the average of the 12 months ended September 2017 meters read.

1 **CS-90 ADVERTISING**

2 **Q: Please explain adjustment CS-90.**

3 A: Most of this adjustment is to recognize a credit of MEEIA expenses that were
4 incurred before the test year but were subsequently reversed during the test year.
5 These expense reversals need to be added back to the cost of service. In addition,
6 any expenses such as event sponsorships and public image advertising have been
7 removed with this adjustment.

8 **CS-91 DSM ADVERTISING COSTS**

9 **Q: Please explain this adjustment.**

10 A: Pursuant to the 2009 and 2010 Cases KCP&L was authorized to capitalize and
11 amortize deferred Missouri jurisdictional demand-side management advertising
12 costs of $279,521 and $230,341 over ten years; respectively. No additional
13 adjustment is necessary as the test year is reflective of the appropriate on-going
14 level of expense.

15 **CS-92 DUES AND DONATIONS**

16 **Q: Please explain adjustment CS-92**

17 A: This adjustment removes certain types of dues and donations from the test year
18 cost of service that relate to educational sponsorships or charity type
19 organizations and events.

20 **CS-98 MEEIA**

21 **Q: Please explain adjustment CS-98**

22 A: In Case No. EO-2015-0240, KCP&L's MEEIA Cycle 2 filing, the company was
23 granted a Demand Side Investment Mechanism ("DSIM") rider. As such, the

1 MEEIA expenses which are recovered through the DSIM should be removed
2 from the test year in this rate case filing. This adjustment removes MEEIA
3 related expenses recorded during the test year from its cost of service. The
4 expenses include non-labor MEEIA actual program costs, MEEIA over and under
5 collection amount, as well as non-labor Income Eligible Weatherization program
6 costs recovered through MEEIA Cycle 1.

7 **CS-99 FLOOD REIMBURSEMENT**

8 **Q: Please explain adjustment CS-99.**

9 A: In the 2014 Case, a regulatory liability was established with amortization over
10 three years to provide for the return of insurance proceeds to customers associated
11 with the 2011 flooding event that impacted the Iatan 2 generation station. The
12 insurance proceeds received were for insurable expenses over deductible amounts
13 associated with the preservation of property and recovery of damaged items. The
14 total amount of KCP&L insurance proceeds was $1,650,911. The three-year
15 amortization period began in October of 2015 and will end in September 2018
16 prior to the effective date of new rates in this case. Therefore, the test year
17 amortization has been removed from cost of service in this adjustment.

18 **CS-107 TRANSOURCE ACCOUNT REVIEW**

19 **Q: Please explain adjustment CS-107.**

20 A: In the 2014 Case, KCP&L established a regulatory liability based upon the Report
21 & Order from File No. EA-2013-0098, in the amount of $136,880 Missouri
22 jurisdictional to be amortized over three years. The amortization became
23 effective October 1, 2015 and will end in September 2018 prior to the effective

1 date of new rates in this case. Therefore, the test year amortization expense is
2 removed from cost of service in this adjustment.

3 **CS-110 2011 FLOOD AAO AMORTIZATION**

4 **Q: Please explain adjustment CS-110.**

5 **A:** On December 19, 2011, KCP&L filed a request for an Accounting Authority
6 Order in Case No. EU-2012-0130 to defer non-fuel O&M costs, incremental fuel
7 and purchased power costs and lost opportunity for off system sales margin
8 incurred by the Company as a result of the 2011 Missouri River flooding. The
9 Company, as part of the Second Non-Unanimous Stipulation and Agreement as to
10 Certain Issues in the 2012 case ("2012 Second Stipulation"), agreed to only defer
11 the incremental non-fuel O&M costs of $1,412,290 incurred as a result of the
12 2011 flood. These costs are being amortized over 5 years which began in
13 February 2013 and will end in January 2018. Therefore, the test year amortization
14 expense has been removed from cost of service with this adjustment. Prospective
15 tracking will be applied to the amortization collected in rates through the true-up
16 in this case and amortized back to the customer in Adjustment CS-113.

17 **CS-113 PROSPECTIVE TRACKING AMORTIZAITON**

18 **Q: Please explain adjustment CS-113.**

19 A: Adjustment CS-113 provides for prospective tracking of a regulatory asset or
20 liability that will be amortized over an appropriate period in a future case.
21 Pursuant to the Partial Non-Unanimous Stipulation and Agreement to Certain
22 Issues in the 2014 case ("2014 Partial S&A") as well as Non-Unanimous Partial
23 Stipulation and Agreement in the 2016 Case:

1 In each future KCP&L general rate case, the Signatories
2 agree that the balance of each amortization relating to
3 regulatory assets or liabilities that remains, after full
4 recovery by KCP&L (regulatory asset) or full credit to
5 KCP&L customers (regulatory liability), shall be applied as
6 offsets to other amortizations which do not expire before
7 KCP&L's new rates from that rate case take effect. In the
8 event no other amortization expires before KCP&L's new
9 rates from that rate case take effect, then the remaining
10 unamortized balance shall be a new regulatory liability or
11 asset that is amortized over an appropriate period of time.

12 This adjustment consists of two components. The first component addressed the
13 regulatory asset associated with lease abatement for 1 KC Place. In the 2010
14 Case, KCP&L agreed to establish a regulatory liability for lease costs that would
15 not be incurred during an "abatement period" recognized in the lease and which
16 ended June 2010. These costs were to be returned to ratepayers over a five-year
17 period beginning with the effective date of new rates in that case. The five-year
18 amortization ended in April 2016 and the regulatory liability amortization was
19 removed from the 2016 Case. A regulatory asset was established to track over-
20 refunded amount from May 2016 to the true-up date December 31, 2016, and was
21 authorized to be amortized over four years in the 2016 Case. The regulatory asset
22 continued to be tracked from December 2016 through the effective date of new
23 rates in that case. KCP&L has proposed to amortize the resulting regulatory asset
24 over four years in this adjustment.

25 **Q: Please discuss the second component of adjustment CS-113.**

26 A: The second component addressed the regulatory liability associated with Wolf
27 Creek refueling outage number 18, Iatan 2 and common O&M tracker, and the
28 2011 Flood Costs deferral. In the 2012 Case, the Company established a
29 regulatory asset as proposed by Staff similar to the 2009 Case for recovery of

1 certain non-routine refueling costs associated with refueling outage number 18
2 over a five-year period which began in February 2013 and ends in January 2018.
3 Over recovery from February 2018 to the true-up date June 30, 2018 in this case
4 will be tracked as a regulatory liability. In the 2014 case, Iatan 2 and common
5 O&M tracker annual amortization amounts were established for vintages 1 – 5.
6 This expense will be fully recovered in April 2018. Over recovery from April
7 2018 to the true-up date in this case will be tracked as a regulatory liability. Per
8 Case No. EU-2012-0130 the Company was authorized to amortize deferred costs
9 incurred as a result of the 2011 Missouri River flooding over five years which
10 began in February 2013 and ends in January 2018. Over recovery from February
11 2018 to the true-up date in this case will also be tracked as a regulatory liability.
12 KCP&L has proposed to amortize the regulatory liability associated with these
13 over-recovery amounts over four years in this adjustment.

14 **CS-114 LA CYGNE REGULATORY ASSET – INVENTORY**

15 **Q: Please explain adjustment CS-114.**

16 A: In the 2014 Case, KCP&L established a regulatory asset in the amount of
17 $475,574 to be amortized over five years relating to obsolete inventory caused by
18 the La Cygne environmental equipment upgrades. The amortization became
19 effective October 1, 2015. Thus, an annual amortization amount was reflected in
20 this adjustment.

1 **<u>CS-116 RENEWABLE ENERGY STANDARDS COSTS</u>**

2 **Q: Please explain adjustments CS-116.**

3 A: As part of the 2012 Second Stipulation, the Company was granted recovery of all
4 Renewable Energy Standards ("RES") costs through the true-up date in that case
5 which was August 31, 2012. These costs were tracked as RES vintage 1 costs and
6 were being amortized over a three-year period. Pursuant to the 2014 Case, RES
7 costs for vintage 2 recorded from September 2012 through May 2015 were
8 authorized to be amortized over five years. In the 2016 Case, vintage 1
9 amortization ended in January 2016. Per the 2014 Partial Stipulation, KCP&L
10 applied prospective tracking of the vintage 1 amortization to the vintage 3 costs
11 incurred from June 2015 through December 2016. Vintage 3 was authorized to be
12 amortized over 2.6 years. In addition, all RES costs recorded after December of
13 2016 would be allowed to be deferred. The Company has recorded these costs as
14 vintage 4. The Company continued to apply prospective tracking of vintage 1
15 amortization to vintage 4 from January 2017 to June 8, 2017, the effective date of
16 new dates in the 2016 Case. Vintage 1 test year expense is removed from cost of
17 service in this rate case proceeding. Adjustment CS-116 is the proposed annual
18 amortization of RES costs for vintages 2-4 costs.

19 **Q: How was the amortization amount for vintage 4 determined?**

20 A: The Company limited the total amount of annual amortization of RES costs to 1%
21 of retail revenues from KCP&L's previous rate case. Since vintage 1 ended
22 amortization in January 2016, its annual amount is excluded from the calculation
23 of annualization limit. After computing 1% of retail revenues, vintages 2 and 3

1 costs were subtracted from the total 1% of the retail revenue amount granted. The
2 resulting amount was divided by the total projected RES deferred costs as of June
3 30, 2018 and resulted in an amortization life of vintage 4 of 3.6 years.

4 **Q: Why has the Company elected to include one percent (1%) of normalized**
5 **revenues in amortization expense in this rate case?**

6 A: The Company believes that their request falls within the parameters as set forth in
7 the Code of State Regulations. Pursuant to 4 CSR 240-20.100 (6)(D), the rule
8 provides guidance for recovery of RES compliance costs:

9 …an electric utility may recover RES compliance costs
10 without use of the RESRAM procedure through rates
11 established in a general rate proceeding. In the interim
12 between general rate proceedings the electric utility may
13 defer the costs in a regulatory asset account, and monthly
14 calculate a carrying charge on the balance in that regulatory
15 asset account equal to its short-term cost of borrowing. All
16 questions pertaining to rate recovery of the RES
17 compliance costs in a subsequent general rate proceeding
18 will be reserved to that proceeding, including the prudence
19 of the costs for which rate recovery is sought and the period
20 of time over which any costs allowed rate recovery will be
21 amortized. Any rate recovery granted to RES compliance
22 costs under this alternative approach will be fully subject to
23 the rate limit set forth in section (5) of this rule.

24 Pursuant to 4 CSR 240-20.100 (5)(A), the rule provides the Retail Rate Impact
25 (RRI) may not exceed one percent (1%) for prudent costs of renewable energy
26 resources directly attributable to RES compliance.

27 Secondly, the Company entered into a Stipulation and Agreement in Case
28 No. ET-2014-0071. In this Stipulation and Agreement, KCP&L agreed that any
29 cost recovery in future general rate proceedings or RESRAM proceedings will be
30 consistent with 4 CSR 240-20.100(6), and that any recovery of RES compliance
31 costs related to solar rebate payments will not exceed one percent (1%) of the

1 Commission-determined annual revenue requirement in the proceeding. As a
2 result, KCP&L believes its request has fallen within the parameters established.

3 **Q: Does the deferred cost balance include carrying costs?**

4 A: Yes, consistent with the 2012 Second Stipulation, carrying costs based on a short-
5 term debt rate are applied to the unamortized deferred balance.

6 **CS-130 CUSTOMER MIGRATION – LOST REVENUES**

7 **Q: Please explain adjustment CS-130.**

8 A: This adjustment has been included as a placeholder for the recovery of potential
9 lost revenues that may be associated with rate design changes established in this
10 case. The need for an adjustment will be analyzed as the case progresses and
11 customer migration impacts can be calculated.

12 **Q: Does this conclude your testimony?**

13 A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))	Case No. ER-2018-0145

AFFIDAVIT OF LINDA J. NUNN

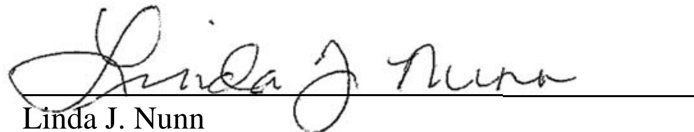
STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Linda J. Nunn, being first duly sworn on her oath, states:

1. My name is Linda J. Nunn. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Supervisor - Regulatory Affairs.

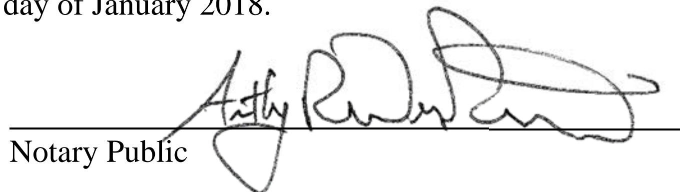
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas City Power & Light Company, consisting of thirty (30) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Linda J. Nunn

Subscribed and sworn before me this 29th day of January 2018.



Notary Public

My commission expires: 4/26/2021