

*Exhibit No.:*

*Issues: Transmission  
Forecast/Tracker  
Transmission Revenue  
Forecast/Tracker  
Property Tax  
Forecast/Tracker  
Transmission Wholesale  
Revenue  
Greenwood Solar Project*

*Witness: Karen Lyons*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Surrebuttal Testimony*

*Case No.: ER-2016-0285*

*Date Testimony Prepared: January 27, 2017*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**

**OF**

**KAREN LYONS**

**KANSAS CITY POWER & LIGHT COMPANY**

**CASE NO. ER-2016-0285**

*Jefferson City, Missouri  
January 2017*

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

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**TABLE OF CONTENTS**  
**SURREBUTTAL TESTIMONY OF**  
**KAREN LYONS**  
**KANSAS CITY POWER & LIGHT COMPANY**  
**CASE NO. ER-2016-0285**

TRANSMISSION EXPENSE AND REVENUE/FORECAST/TRACKER..... 2

    Independence Power & Light Transmission Expense ..... 14

    SPP Open Access Transmission Tariff (“OATT”) Attachment Z2 charges ..... 15

    Midcontinent Independent System Operator (“MISO”) Compensation to SPP ..... 16

PROPERTY TAX FORECAST/TRACKER..... 18

WHOLESALE TRANSMISSION REVENUE..... 26

GREENWOOD SOLAR STATION ALLOCATION..... 28

FUEL, PURCHASED POWER, AND OFF-SYSTEM SALES ..... 35

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **KAREN LYONS**

4 **KANSAS CITY POWER & LIGHT COMPANY**

5 **CASE NO. ER-2016-0285**

6 Q. Please state your name, employment position, and business address.

7 A. Karen Lyons, Utility Regulatory Auditor with the Missouri Public Service  
8 Commission (“Commission”), Fletcher Daniels State Office Building, 615 East 13<sup>th</sup> Street,  
9 Kansas City, Missouri 64106.

10 Q. Are you the same Karen Lyons who contributed to Staff’s Revenue  
11 Requirement Cost of Service Report (“COS Report”) and provided rebuttal testimony as part  
12 of this rate proceeding?

13 A. Yes.

14 Q. What is the purpose of your surrebuttal testimony?

15 A. The purpose of my surrebuttal testimony is to respond to statements and  
16 positions taken by the following Kansas City Power & Light Company (“KCPL”) witnesses  
17 that address the issues of use of forecasts and trackers for isolated expense and revenue; the  
18 wholesale revenue credit; the allocation of the Greenwood Solar facility; and Fuel, Purchased  
19 Power, and Off-System Sales:

- 20 • Tim M. Rush – Forecast and trackers and the allocation of the Greenwood  
21 Solar facility.
- 22 • Don A. Frerking – Transmission expense and revenue forecasts, wholesale  
23 revenue credit.
- 24 • John R. Carlson – Southwest Power Pool (“SPP”) Z2 costs

- 1           • Ronald A. Klote – Greenwood Solar Facility.
- 2           • Burton L. Crawford – Fuel, Purchased Power, and Off-System Sales.

3           **TRANSMISSION EXPENSE AND REVENUE/FORECAST/TRACKER**

4           Q.     Please summarize the rebuttal testimony of KCPL witness Rush and Frerking  
5 regarding KCPL’s alternative proposals to include forecasted transmission expense and  
6 revenue in the FAC or tracking a forecasted level of these items in base rates.

7           A.     Mr. Rush suggests in his rebuttal testimony that not allowing a forecasted level  
8 of transmission expense in the Fuel Adjustment Clause (“FAC”), or not authorizing the use of  
9 a tracker based on forecasted levels of transmission expense and revenue, will continue to  
10 have a negative impact on KCPL’s earnings.<sup>1</sup> In his rebuttal testimony, Mr. Frerking  
11 addresses several factors that will impact transmission expense and transmission revenue in  
12 the future and, because of these factors, he concludes that KCPL’s primary proposal to  
13 include projected 2017-2018 transmission expense and revenue in base rates and inclusion in  
14 the FAC is the appropriate methodology to treat these costs.<sup>2</sup>

15          Q.     Please explain how Staff treated KCPL’s transmission expense and  
16 transmission revenue in its direct filing.

17          A.     Staff analyzed KCPL’s transmission expense and revenue for the period of  
18 January 2009 through June 2016. Based on a discernable upward trend, Staff included an  
19 annualized level of transmission expense and transmission revenue based on the 12-month  
20 period ending June 30, 2016 in its Accounting Schedules supporting its COS Report, filed on  
21 November 30, 2016.

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<sup>1</sup> Rush Rebuttal, page 7.

<sup>2</sup> Frerking Rebuttal, page 27.

Surrebuttal Testimony of  
Karen Lyons

1 Q. Does Staff intend to later true-up transmission expense and transmission  
2 revenue based on data through December 31, 2016?

3 A. Yes. Staff will analyze the data through December 31, 2016 and determine an  
4 appropriate level of transmission expense and transmission revenue to include in KCPL's cost  
5 of service.

6 Q. What is KCPL's position for transmission expense?

7 A. As discussed in my rebuttal testimony, KCPL is proposing two options for  
8 recovery of transmission expense and revenue:

- 9 1. KCPL's primary proposal is the inclusion of a forecasted average of 2017-  
10 2018 transmission expense and transmission revenue in base rates and flowed  
11 through the FAC.
- 12 2. If transmission expense and transmission revenue are not included in the FAC,  
13 KCPL proposes a one-way tracker using a forecasted average of 2017-2018  
14 values to represent an ongoing level of transmission expense and transmission  
15 revenue to include in KCPL's cost of service and proposes to track the  
16 forecasted levels. To the extent the actual net result of transmission expense  
17 and revenue is lower than the base level included in customer rates, KCPL will  
18 refund the difference to its customers. If the actual net expense is higher,  
19 KCPL will absorb the difference.

20 Q. Is there a difference in the mechanics of a transmission expense and  
21 transmission revenue tracker?

22 A. Yes. Staff is unclear if KCPL's proposal for a transmission expense and  
23 transmission revenue one-way tracker is intended to net the expense and revenue or to have a  
24 separate tracker for expense and revenue. If KCPL is recommending a separate tracker for  
25 expense and revenue to protect its earnings and its customers, the mechanics of a one-way

1 tracker for revenue is handled differently than explained by Mr. Rush in his Direct Testimony.  
2 For transmission expense, KCPL will refund to its customers any over-recovery of  
3 transmission expense and absorb any under-recovery of transmission expense. For KCPL  
4 customers to be protected with a transmission revenue tracker, the opposite must occur.  
5 KCPL will absorb any over-recovery of transmission revenue and refund KCPL customers for  
6 any under-recovery. The tables below illustrate how the tracker would work:

7

<b>Over-recovery of Transmission Expense</b>		
Established level in Base Rates	Actual Expense incurred	Amount <b>refunded</b> to KCPL customers
\$100	\$90	\$10
<b>Under-recovery of Transmission Expense</b>		
Established level in Base Rates	Actual Expense incurred	Amount <b>absorbed</b> by KCPL
\$100	\$110	\$10

8

<b>Over-recovery of Transmission Revenue</b>		
Established level in Base Rates	Actual Revenue incurred	Amount <b>absorbed</b> by KCPL
\$100	\$90	\$10
<b>Under-recovery of Transmission Revenue</b>		
Established level in Base Rates	Actual Revenue incurred	Amount <b>refunded</b> to KCPL customers
\$100	\$110	\$10

9

10 Q. Is Staff recommending the inclusion of all transmission expense and revenue  
11 items in this case based on an average of projected 2017-2018 levels in the FAC?

12 A. No. Instead, Staff is recommending the inclusion of only a limited amount of  
13 actual transmission expense, based on historical data, and the exclusion of all transmission  
14 revenue, forecasted or otherwise, in the FAC. Staff witness David C. Roos provides Staff's

1 recommendation of the items properly includable in KCPL's FAC in Staff's COS Report filed  
2 on November 30, 2016 and rebuttal testimony filed on December 30, 2016.

3 Q. Does Staff agree with KCPL's proposal to include an average of 2017-2018  
4 forecasted levels of transmission expense and revenue in the FAC?

5 A. No. Staff disagrees with the use of forecasted costs to set base rates for net  
6 transmission expense, because this approach does not use known and measurable data and  
7 would force customers to pay in advance for transmission costs. Staff also disagrees with the  
8 use of forecasted costs in the FAC for the same reason. The purpose of the FAC is to allow  
9 an electric utility to recover prudently incurred fuel costs outside of a general rate case.  
10 Currently KCPL has a 95%/5% sharing mechanism which means that KCPL recovers 95%  
11 of its prudently incurred fuel costs and if KCPL's fuel costs are lower than the base level,  
12 KCPL returns 95% of all fuel cost savings to its ratepayers. In its Report and Order in Case  
13 No. ER-2014-0370 the Commission stated,

14 A 95%/5% sharing mechanism, where customers would be responsible  
15 for, or receive the benefit of, 95% of any deviation in fuel and  
16 purchased power costs would provide KCPL a sufficient opportunity to  
17 earn a fair return on equity while protecting KCPL's customers by  
18 providing the company an incentive to control costs.<sup>3</sup>

19 If the Commission allowed KCPL to recover all its prudently incurred transmission  
20 expense through the FAC, under its current tariff and Staff recommendation in this case, it  
21 would recover 95% of the costs over the base level. This is true whether the base amount is  
22 set on actual costs or forecasted costs as KCPL proposes in this case. However, if the costs  
23 are lower than the base level set in a rate case, KCPL will refund 95% of the over-collection  
24 to its customers and retain 5% of the over-collection. KCPL's proposal to overstate the base

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<sup>3</sup> Case No. ER-2014-0370, Commission Report and Order, page 31.

Surrebuttal Testimony of  
Karen Lyons

1 level of transmission costs set in the rate case by proposing forecasted costs appears very  
2 likely to force its customers to pay in advance for transmission costs, of which 95% will be  
3 returned to the customer and 5% will be retained by KCPL. KCPL witnesses Ives and Rush  
4 state in their Direct Testimony that KCPL's proposed regulatory mechanisms are intended to  
5 mitigate the impact of regulatory lag and *protect its customers*.<sup>4</sup> KCPL's proposal to set the  
6 FAC base level of transmission expense and revenue using an average of 2017-2018  
7 forecasted levels appears to benefit KCPL, not its customers.

8 If the Commission allows KCPL to recover all or a portion of prudently incurred  
9 transmission expense and revenue through the FAC, Staff recommends that forecasted costs  
10 should not be used to determine a base level in KCPL's cost of service.

11 Q. Does Staff agree with KCPL's alternative proposal for a one-way tracker based  
12 on an average of 2017-2018 forecasted levels of transmission expense and revenue?

13 A. No. Staff disagrees with KCPL's proposal to utilize forecasted levels and a  
14 tracker for transmission expenses and revenues for the following reasons that are described in  
15 greater detail in my rebuttal testimony:

- 16 • KCPL's proposal to isolate certain expenses by tracking forecasted levels is  
17 "single issue" ratemaking.
- 18 • Forecasted costs, without an associated true-up within the same rate case, are  
19 not known and measurable and are developed by making assumptions that may  
20 or may not occur.
- 21 • The use of forecasted costs, as advocated by KCPL, disrupts the matching  
22 relationship among investment, revenue, and expense. KCPL's proposal for  
23 use of forecasted levels only applies to increasing cost items: it does not  
24 account for costs that may decrease and offset the cost increases in part or in  
25 whole.

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<sup>4</sup> Ives Direct, page 25, Rush Direct, page 5



Surrebuttal Testimony of  
Karen Lyons

- 1           • Trackers should be used in highly unique or unusual situations, such as when  
2           costs demonstrate high volatility over a period of time, when there are new  
3           costs for which there are no historical data to develop an ongoing level of  
4           costs, or when uncertain levels of new costs are imposed on utilities by new  
5           Commission rules.

6           Q.     Mr. Rush provides a table on page 8 of his rebuttal testimony that suggests  
7           KCPL has under-recovered transmission expense by nearly \$44 million for the period of  
8           2012-2015. Do you agree with Mr. Rush's analysis?

9           A.     If all other costs are assumed to remain constant, Staff has no reason to dispute  
10          the amount of under-recovery identified by Mr. Rush. However, the reality is that all costs  
11          do not remain constant. KCPL experiences changes to its cost of service, both up and down.  
12          Mr. Rush isolates transmission expense without consideration of other changes, both  
13          increases and decreases, in KCPL's cost of service that can impact KCPL earnings. The  
14          under-recovery of transmission expense addressed by Mr. Rush may have impacted KCPL's  
15          ability to earn the authorized return on equity in the past, \*\* \_\_\_\_\_  
16          \_\_\_\_\_

17          \_\_\_\_\_ \*\* Staff witness Keith Majors provides a historical  
18          analysis of KCPL's earnings on page 25 of his Rebuttal Testimony.

19          Further, regulatory concepts such as annualizations and normalizations are intended to  
20          match the relationship with a utility's investments, revenues, and expenses and anticipated  
21          that the same relationship will continue in the foreseeable future. The relationship is not  
22          intended to occur indefinitely. Once that relationship no longer exists (revenues are no longer  
23          covering the expenses) and costs can no longer be contained, a rate case is warranted.

24          Q.     You stated in your rebuttal testimony that the Commission denied KCPL's  
25          request for a transmission tracker in Case No. ER-2014-0370. What would be the impact on

1 KCPL's return on equity if the Commission approved a transmission tracker in Case No.  
2 ER-2014-0370 and experienced a decline in costs in other areas of KCPL's cost of service as  
3 described above?

4 A. In the 2014 rate case, KCPL proposed a two-way tracker for net transmission  
5 expense. A "two-way tracker" is used to compare the amount of a particular cost of service  
6 item actually incurred by a utility to the amount of that item currently included in a utility's  
7 base rates. Any over-recovery or under-recovery of the item in rates is then booked to a  
8 regulatory asset or liability, and would be eligible to be included in the utility's rates set in its  
9 next general rate case. If the Commission had granted a two-way transmission tracker in the  
10 2014 rate case, KCPL's ROE would be even higher due to the deferral of any increases  
11 experienced in transmission expense. If the tracker was approved in the 2014 rate case,  
12 KCPL's cost of service in this case would very likely include an annualized level of  
13 transmission expense in addition to an annual amortization of deferred transmission expense  
14 that occurred after rates were set in Case No. ER-2014-0370. As discussed in my rebuttal  
15 testimony, KCPL experienced cost increases, including transmission expense, since rates were  
16 last set in Missouri, but was able to absorb the cost increases because other areas of its cost of  
17 service declined. If the tracker had been approved in the 2014 rate case, KCPL's customers  
18 would have been expected to pay for the difference of transmission expense included in base  
19 rates in Case No. ER-2014-0370 and the actual incurred transmission expense, even though  
20 KCPL experienced declines in other areas of its cost of service during the period of time,  
21 allowing KCPL to earn \*\* \_\_\_\_\_ \*\* This hypothetical  
22 supports why it is imperative not to isolate certain expenses simply because they are  
23 increasing and, instead, analyze all of a utility's investment, revenue, and expense at a point in

Surrebuttal Testimony of  
Karen Lyons

1 time to ensure that an appropriately balanced relationship among a utility's investment,  
2 revenue, and expense remains intact.

3 Q. How does KCPL's proposal for a one-way tracker change the hypothetical  
4 scenario described above?

5 A. In this case, KCPL proposes to include a forecasted level of costs in base rates,  
6 in conjunction with a one-way tracker mechanism. Under its proposal, if actual costs are  
7 lower than what is included in base rates, KCPL would return the excess to its customers in a  
8 future rate proceeding. If the actual costs are higher, then KCPL will absorb the excess costs.

9 If the actual costs incurred were lower than the base rates set in Case No.  
10 ER-2014-0370, then an annual amortization would be set in a subsequent rate case to  
11 return the excess to KCPL's customers. If the actual costs were higher than base rates and  
12 KCPL had to absorb the increase, earnings could be impacted if the cost is isolated from other  
13 costs. However, as previously discussed, it is likely that KCPL will experience declines in  
14 other areas of its cost of service that will allow it to absorb all or a portion of the cost  
15 increases that occur during the same time period. It is important to note that in both  
16 hypothetical scenarios, a tracker isolates one expense without consideration of other areas of  
17 KCPL's cost of service that may offset, in part or in whole, the isolated expense.

18 Q. Does KCPL's proposal for forecasted costs and tracker mechanisms, including  
19 the proposal related to property taxes discussed below, shift risk to its customers?

20 A. Yes. For illustrative purposes, I utilized KCPL's accounting schedules and  
21 Mr. Rush's Schedule TMR-4, filed in support of KCPL's application to implement a general  
22 rate increase on July 1, 2016, to compare KCPL's proposed ratemaking treatment to its  
23 operating costs. The table below includes costs KCPL is proposing to recover in its FAC, and

Surrebuttal Testimony of  
Karen Lyons

1 forecasted transmission expense and property taxes. Also included are expenses that are  
 2 currently tracked by KCPL and deferred costs that are recovered through an amortization. As  
 3 reflected in the table, KCPL is asking the Commission to recover approximately \*\* \_\_\_\_ \*\*  
 4 of its total operating expense through the FAC or alternative regulatory treatment. The table  
 5 below does not include MEEIA related costs that are currently recovered by KCPL through a  
 6 rider. Consequently, the percentage of costs KCPL currently recovers or proposes to recover  
 7 through riders, trackers, and amortizations would in fact be higher than \*\* \_\_\_\_ \*\*. Schedule  
 8 KL-s1 attached to this testimony provides the table below in greater detail.

9 \*\*

[Redacted]	[Redacted]	[Redacted]
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

10 \*\*

11 Q. Would the percentage included in the table above change if off-system sales,  
 12 currently recovered in the FAC, and transmission revenues, if treated as proposed by KCPL,  
 13 are included?

14 A. Yes. If off-system sales and transmission revenues are used to offset the costs  
 15 identified above, the percentage of costs compared to total operating expense less these





1 America Electric Reliability Corporation (“NERC”) fees in his rebuttal testimony.<sup>5</sup>  
2 Specifically, he repeats KCPL’s position to recover these fees, at a forecasted level, through  
3 the FAC or through a tracker mechanism and disagrees with Staff’s annualized level based on  
4 the update period, June 30, 2016. On pages 18-21 of my rebuttal testimony, I discuss these  
5 fees, specifically that Staff will include an annualization of these costs based on actual results  
6 as of the true up period, December 31, 2016. This includes the SPP administrative fee rate  
7 that increased to 41.9 cents per MWh effective January 1, 2017. Staff also provided a table of  
8 historical fees incurred by KCPL for the period of 2012-2015 in rebuttal testimony. Staff has  
9 since received 2016 data for these fees. The table below is updated to reflect the period of  
10 2012-2016:

11 \*\*



12 \*\*

13 Q. Did KCPL project SPP administrative fees to increase in 2016?

14 A. Yes. KCPL used the same argument in Case No. ER-2014-0370 regarding  
15 SPP administrative fees that it is using in this case for transmission expense and property  
16 taxes: costs have historically increased and, therefore, recovery through the FAC or through a

<sup>5</sup> Frerking Rebuttal Testimony, pages 22-26

1 tracker is warranted. The actual SPP administrative fees incurred in 2016 by KCPL were  
2 nearly \$2 million less than the annualized level of fees Staff included in KCPL's cost of  
3 service in the 2014 rate case. This is one example of how regulatory lag benefits KCPL in  
4 some instances. Similar to KCPL's assumptions about CIP and Cyber-Security costs  
5 addressed in my rebuttal testimony, KCPL's assumptions in the 2014 rate case that SPP  
6 administrative fees would increase simply did not materialize in 2016.

7 Q. Did Staff include 2015 MISO fees in its case, as suggested by Mr. Frerking on  
8 page 24 of his Rebuttal Testimony?

9 A. Yes. Staff inadvertently included the 2015 level of MISO fees in KCPL's cost  
10 of service at the direct filing on November 30, 2016. Although MISO costs are immaterial,  
11 Staff will appropriately update these fees through December 31, 2016.

12 Q. Please summarize Staff's position on KCPL's proposal to include a forecasted  
13 level of transmission expense and transmission revenue in its base rates, and include these  
14 forecasted costs in the FAC or alternatively to track these costs.

15 A. KCPL's proposal to track a forecasted level of transmission simply because  
16 KCPL expects that expense to increase in the future is not valid. After the Commission  
17 approved a FAC for KCPL in Case No. ER-2014-0370, KCPL\*\* \_\_\_\_\_  
18 \_\_\_\_\_ \*\* for the 12 month period following the effective date of rates in Case  
19 No. ER-2014-0370, even considering the increasing transmission expense.

20 KCPL's proposal to track forecasted levels of transmission expense and revenue  
21 should be denied, and instead the Commission should approve an annualized level of  
22 transmission expense and revenue based on Staff's methodology to include in KCPL's cost of  
23 service.

**Independence Power & Light Transmission Expense**

1  
2 Q. Please summarize KCPL’s rebuttal testimony addressing Independence Power  
3 & Light (“IPL”) transmission expense and transmission revenue.

4 A. On pages 6-7 of his Rebuttal Testimony, KCPL witness Frerking discusses the  
5 FERC settlement related to IPL transmission expense and revenue, and states that KCPL’s  
6 proposed methodology of using an average of 2017-2018 forecasted levels of costs is the  
7 appropriate way to capture those transmission changes in KCPL’s cost of service.

8 Q. Please summarize Staff’s position on IPL transmission expense and revenue.

9 A. As discussed in my rebuttal testimony, beginning on page 9, FERC approved a  
10 settlement (“reduced settlement”)reducing the amount of transmission expense and  
11 transmission revenue that KCPL will incur as a result of IPL’s placement into the KCPL  
12 pricing zone in SPP. The changes to the level of transmission expense and revenue will be  
13 reflected in Staff’s true-up.

14 Q. Do you agree with Mr. Frerking when he suggests that KCPL’s proposal to use  
15 2017-2018 forecasted transmission levels allows for a true annualized amount of IPL  
16 transmission expense and revenue?<sup>6</sup>

17 A. No. Mr. Frerking uses the phrase “true annualization” throughout his  
18 testimony, suggesting that 2017-2018 forecasts are the only method that can capture the  
19 changes that have occurred, such as the settlement for IPL transmission expense and revenue.  
20 The reduced settlement is *known and measurable* since KCPL is currently incurring  
21 transmission expense and revenues based on the reduced settlement. Mr. Frerking recognizes  
22 this when he asks the following question on page 27 of his Rebuttal Testimony, “Are there

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<sup>6</sup> Frerking Rebuttal, page 29



1 any known changes to transmission expenses that would that [sic] make it even more  
2 appropriate to annualize based on the Company's proposed methodology?" The key phrase in  
3 Mr. Frerking's question is *known changes*. Mr. Frerking is suggesting to the Commission that  
4 ongoing changes to transmission expense and revenue, such as those related to IPL, are a  
5 valid reason to use a forecast. Staff will address any future changes that may occur with  
6 transmission expense or revenue in KCPL's next general rate case. Staff's annualized level of  
7 transmission expense and revenue for the true-up will reflect the known changes (i.e., reduced  
8 level) of IPL transmission expense and revenue.

9 **SPP Open Access Transmission Tariff ("OATT") Attachment Z2 charges**

10 Q. Please summarize KCPL's rebuttal testimony regarding SPP's Z2 costs.

11 A. On page 9 of his Rebuttal Testimony, Mr. Frerking's testimony provides a  
12 background of the SPP Z2 costs and on pages 42-47 he addresses both the ratemaking  
13 treatment of an ongoing level of SPP Z2 costs and the ratemaking treatment of the historical  
14 SPP Z2 related costs. For the ongoing level, he suggests that KCPL's proposed methodology  
15 of using forecasted costs is the more appropriate way to treat SPP's Z2 costs. Mr. Carlson  
16 also provides background discussion for the SPP Z2 charges and credits in his rebuttal  
17 testimony.

18 Q. Does Staff agree with the background discussions for the SPP Z2 costs  
19 provided by Mr. Frerking and Mr. Carlson?

20 A. Staff does not have any reason to dispute this portion of the testimony provided  
21 by Mr. Frerking and Mr. Carlson.

Surrebuttal Testimony of  
Karen Lyons

1 Q. Does Staff agree with Mr. Frerking's treatment of the ongoing SPP Z2 costs?

2 A. No. Consistent with its proposed treatment of IPL transmission expense and  
3 revenue discussed earlier, Mr. Frerking suggests that KCPL's proposal to use an average of  
4 2017-2018 forecasts for transmission expense and revenue is the more appropriate method to  
5 treat the SPP Z2 costs. Staff is opposed to including the ongoing level of SPP Z2 costs using  
6 a forecast for the same reasons discussed earlier in this testimony and in my rebuttal  
7 testimony. Since KCPL is now incurring SPP Z2 transmission revenue and expense, Staff  
8 will include an annualized level of the costs in the true-up.

9 Q. What is KCPL's proposal to treat the historical SPP Z2 costs?

10 A. Beginning on page 45 of his rebuttal testimony, Mr. Frerking states:

11 The Company is proposing that for the historical amounts that the net  
12 amount of the Transmission Customer and Transmission Owner  
13 payables and receivables be included in the cost of service calculation  
14 at a level that reflects an amortization of up to nine (9) years, which is  
15 roughly consistent with the time period (March 2008-August 2016)  
16 over which the historical Z2 amounts occurred.

17 Q. Does Staff agree with Mr. Frerking's proposal to amortize the historical SPP  
18 Z2 costs over 9 years?

19 A. Yes. The total net Z2 cost for the historical period is \$729,772, on a total  
20 company basis. Amortizing the net cost over a nine-year period results in an annual  
21 amortization of \$81,086. This amount will be reflected in KCPL's cost of service at the true-  
22 up.

23 **Midcontinent Independent System Operator ("MISO") Compensation to SPP**

24 Q. Please summarize KCPL's rebuttal testimony related to MISO's compensation  
25 to SPP.

Surrebuttal Testimony of  
Karen Lyons

1           A.     Beginning on page 7 of his Rebuttal Testimony, Mr. Frerking provides a  
2 background of this issue and addresses both the ratemaking treatment of an ongoing level of  
3 transmission revenue and the ratemaking treatment of the historical transmission revenue  
4 related to MISO's compensation to SPP. For the ongoing level, he suggests that KCPL's  
5 proposed methodology of using forecasted costs is the more appropriate way to treat these  
6 revenues.

7           Q.     Does Staff agree with the background of this issue provided by Mr. Frerking?

8           A.     Staff does not have any reason to dispute this portion of Mr. Frerking's  
9 testimony.

10          Q.     Does Staff agree with Mr. Frerking's treatment of the ongoing transmission  
11 revenues KCPL will receive based on MISO's compensation to SPP?

12          A.     No. Consistent with its proposed treatment of the IPL and SPP Z2 issues  
13 discussed earlier, Mr. Frerking suggests that KCPL's proposal to use an average of 2017-2018  
14 forecasts for transmission revenue is the more appropriate method to treat revenues related to  
15 this issue. Staff is opposed to using, as the ongoing level of transmission revenues, a forecast  
16 for the same reasons discussed earlier in this testimony and in my rebuttal testimony. Since  
17 KCPL is now incurring transmission revenue as a result of MISO compensating SPP, Staff  
18 will include an annualized level of the costs in the true-up.

19          Q.     How does KCPL propose to treat the historical transmission revenues related  
20 to this issue?

21          A.     KCPL received a one-time settlement payment for historical transmission  
22 revenue that represented revenues for the period of January 2014-January 2016. Mr. Frerking  
23 did not address KCPL's proposed treatment of these historical transmission revenues in his

1 testimony. However, it is Staff's understanding, based on discussions with KCPL personnel,  
2 that the historical revenues should be amortized over a two year period. The transmission  
3 revenue for the historical period is approximately \$500,000 on a total company basis. Staff  
4 will reflect an annual amortization amount in KCPL's cost of service at the true-up.

5 Q. Will the one-time settlement for MISO-related revenues change?

6 A. Mr. Frerking states the original settlement is subject to a resettlement by  
7 FERC, as a result of several SPP members filing a complaint with FERC. Consequently, Mr.  
8 Frerking suggests that using a forecast of 2017-2018 transmission revenue allows for a true  
9 annualized level of transmission revenue.<sup>7</sup>

10 Q. Does Staff agree?

11 A. No. Staff recommends the resettlement be addressed in KCPL's next general  
12 rate case, to the extent FERC changes KCPL's original settlement amount for historical  
13 transmission revenue in the future.

14 **PROPERTY TAX FORECAST/TRACKER**

15 Q. Please summarize KCPL's rebuttal testimony with regard to its request for a  
16 property tax tracker.

17 A. Based on historical and forecasted property tax increases, KCPL witness Rush  
18 continues to propose a property tax tracker using forecasted costs be used in setting rates for  
19 KCPL. Without this alternative regulatory methodology to treat property taxes, KCPL claims  
20 it will continue to experience regulatory lag and significantly under-recover property taxes.  
21 Mr. Rush states on page 5 of his rebuttal testimony, beginning on line 2:

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<sup>7</sup> Frerking Rebuttal Testimony, page 8.

1 . . . the Company expects property taxes to continue to rise and if the  
2 Commission uses the same methodology in determining the appropriate  
3 property tax levels for this rate case as before, the Company will  
4 continue to experience the significant under-recovery of property taxes.  
5 The use of forecasted property taxes would alleviate the lag that has  
6 been occurring with property taxes.

7 Q. Please summarize Staff's position on KCPL's proposal for a property tax  
8 tracker using forecasted costs.

9 A. Although Staff recognizes property taxes have increased over time, KCPL's  
10 request for a tracker using forecasted costs is not justified simply because a specific cost has  
11 increased. As discussed in detail in my rebuttal testimony, KCPL's proposal violates  
12 fundamental regulatory concepts, such as single issue ratemaking and the known and  
13 measurable standard, consistently used to develop utility rates in Missouri. In addition,  
14 trackers should only be used in unique or unusual circumstances, such as when costs  
15 demonstrate high volatility over a period of time, when there are new costs for which there are  
16 no historical data to develop an ongoing level of costs, or for uncertain levels of new costs  
17 imposed on utilities by new Commission rules.

18 Q. Mr. Rush provides a table on page 16 of his rebuttal testimony that suggests  
19 KCPL has under-recovered property taxes by nearly \$16 million for the period of 2012-2015.  
20 Do you agree with Mr. Rush's analysis?

21 A. Yes, if all other costs are assumed to remain constant, Staff has no reason to  
22 dispute the amount of under-recovery identified by Mr. Rush. However, Staff has two issues  
23 with the chart provided by Mr. Rush. First, the reality is that costs *do not* remain constant.  
24 KCPL experiences changes to its cost of service, both up and down. Mr. Rush isolates  
25 property taxes without consideration of other changes, both increases and decreases, in  
26 KCPL's cost of service that can impact KCPL earnings. As discussed in Staff witness

1 Majors' rebuttal testimony, KCPL has \*\* \_\_\_\_\_ \*\*  
2 for the twelve month period following the effective date of rates in Case No. ER-2014-0370.

3 Second, the timing of when KCPL files its rate cases and the related procedural  
4 schedule has an impact on the level of property taxes included in KCPL's cost of service. For  
5 example, property taxes are assessed on January 1 and due on December 31, of the same year.  
6 In KCPL's rate case, ER-2012-0174, the Commission ordered true-up date was August 31,  
7 2012 and the effective date of rates was January 26, 2013. Staff and KCPL's annualized  
8 property taxes used a ratio of property taxes paid and plant-in-service and applied the ratio to  
9 KCPL's plant-in-service as of January 1, 2012. The taxing authority would not have assessed  
10 any plant that was placed in service after January 1, 2012 until January 1, 2013, with property  
11 taxes not due until December 31, 2013, 16 months after the true-up period and 11 months  
12 after the effective date of rates.

13 Q. How does Staff's annualized level of property taxes as of the update period,  
14 June 30, 2016, compare to the actual property taxes KCPL paid for the calendar year 2016?

15 A. Staff's annualized level of property taxes for the update period totaled \$93.8  
16 million. This was derived by using a ratio of 2015 property taxes paid to the plant-in-service  
17 balance as of January 1, 2015 and applying that ratio to plant-in-service as of January 1, 2016.  
18 This annualization represents the level of property taxes KCPL is expected to pay in 2016.  
19 KCPL's actual property taxes paid for the 12 months ending December 31, 2016 totaled \$93.2  
20 million, approximately \$600,000 less than Staff's recommendation. Staff's methodology for  
21 annualizing 2016 property taxes accurately reflected the actual property taxes paid by KCPL  
22 in 2016. As discussed in my rebuttal testimony and by Staff witness Young in Staff's COS  
23 Report, Staff intends to true up property taxes using a 2016 ratio, calculated in the same

1 manner as discussed above, and apply the ratio to the balance of plant-in-service as of January  
2 1, 2017. It bears repeating that this is the same methodology that has been used by KCPL in  
3 the past in its rate filings.

4 Q. How did KCPL's 2016 budget compare to 2016 actual property taxes paid by  
5 KCPL?

6 A. KCPL budgeted \*\* \_\_\_\_\_ \*\* for 2016 property taxes.<sup>8</sup> \*\* \_\_\_\_\_  
7 \_\_\_\_\_ \*\*

8 Q. Mr. Rush suggests that the Commission has granted Accounting Authority  
9 Orders ("AAO") for property taxes in previous cases. Do you agree?

10 A. Yes, Staff agrees when Mr. Rush states on page 5 of his rebuttal testimony:

11 My understanding is that each of the cases mentioned above in which  
12 the Commission granted an AAO for gas safety replacement-related  
13 costs authorized the deferral, among other things, of property taxes in  
14 connection with the replaced facilities. Additionally, in at least one  
15 case, the Commission granted an AAO to Missouri Gas Energy  
16 ("MGE") which authorized MGE to defer property taxes on gas held in  
17 storage in the State of Kansas.

18 Although Mr. Rush did not list or provide details of cases in his rebuttal testimony as  
19 suggested by his statements above, Staff assumes Mr. Rush is referring to AAOs related to the  
20 System Line Replace Program ("SLRP") and MGE's Kansas property taxes. To the extent  
21 Mr. Rush may be referring to the current Infrastructure System Replacement Program  
22 ("ISRS") process too, Staff will address that as well.

23 Q. Explain how the natural gas utility SLRPs met the criteria for deferral  
24 treatment addressed above and in Staff's rebuttal testimony.

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<sup>8</sup> KCPL response to Staff Data Request 0243 in Case No. ER-2016-0285.

Surrebuttal Testimony of  
Karen Lyons

1           A.     The SLRP is the predecessor to the Infrastructure System Replace Program  
2 (“ISRS”). In the late 1980s, there were significant concerns with the safety of natural gas  
3 pipelines in Missouri as a result of several gas explosions that destroyed homes. The  
4 Commission took the initiative to develop substantial revisions to the Missouri pipeline safety  
5 regulations. The new rules became effective on December 15, 1989. As a result of the  
6 Commission rule revisions to Missouri pipeline safety regulations, Missouri gas utilities  
7 incurred substantial costs to insure Missouri residents were safe. Because of the substantial  
8 costs, gas utilities requested AAOs to defer the costs, which the Commission granted. In Case  
9 No. GO-92-185, the Kansas Power and Light Company (“KPL”) requested an AAO for  
10 depreciation expenses, property taxes, and carrying costs associated with safety upgrades of  
11 its mains and service lines done in compliance with the Commission’s safety rules. The  
12 Commission granted the AAO on April 21, 1992. In its Report and Order the Commission  
13 stated:

14                     The Commission determines that the accounting authority order  
15 requested herein by KPL should be granted since the costs to be  
16 deferred are substantially similar and greater in magnitude to costs  
17 found **extraordinary** by this Commission in other cases and deferred  
18 therein for later consideration. [Emphasis added]

19           Schedule KL-s2, attached to this testimony, provides several Commission Report and  
20 Orders addressing Missouri gas utilities’ requests for an AAO for safety related costs.

21           The Commission rules and Missouri Statute governing the ISRS allow gas utilities to  
22 recover specific infrastructure replacements costs that include related property taxes. The  
23 eligible property taxes must be due within twelve (12) months of the ISRS filing.<sup>9</sup>

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<sup>9</sup> Section 393.1009



1 Consistent with SLRP, the ISRS costs, including property taxes, incurred by gas  
2 utilities are directly related to new or revised Commission rules. In addition, the property  
3 taxes included in ISRS filings must be due within 12 months of the ISRS filing, which  
4 contradicts KCPL's proposal to track an average of 2017-2018 forecasted property taxes.

5 Q. Explain how the AAO granted by the Commission to MGE for Kansas  
6 property taxes met the criteria for deferral treatment.

7 A. Beginning in approximately 2000, the state of Kansas attempted to assess and  
8 collect property taxes from natural gas local distribution companies ("LDCs") and companies  
9 that provided transportation services for natural gas held in storage at sites physically located  
10 in Kansas. MGE, and other litigants, pursued appeals in the court system to overturn the  
11 property tax assessments on stored natural gas for several years for the benefit of MGE and its  
12 customers. In Case No. GU-2005-0095, MGE requested an AAO for Kansas property taxes,  
13 which the Commission granted. Beginning on page 14 of its Report and Order, the  
14 Commission stated:<sup>10</sup>

15 Based on the Sibley standard that the Commission has applied to  
16 requests for AAOs for the last fifteen years, an AAO is appropriate if  
17 MGE demonstrates that the costs to be deferred are "**extraordinary,**  
18 **unusual and unique, and not recurring.**" In this case, the costs that  
19 MGE seeks to defer are property taxes. In most cases, the payment of  
20 property taxes by a utility would not be a fit subject for an AAO.  
21 MGE, like all investor-owned utilities, routinely pays property taxes.  
22 Again, like all other investor-owned utilities, MGE is routinely allowed  
23 to recover the taxes it pays from its ratepayers through the inclusion of  
24 those tax payments in its cost of service when its rates are calculated in  
25 a rate case.

26 **The Kansas property tax on gas held in storage in that state is**  
27 **unusual in that MGE, which does not serve customers in Kansas,**  
28 **has never before had to pay property tax in Kansas.** However, if

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<sup>10</sup> Case No. GU-2005-0095, Report and Order, Schedule KL-s3.

1 the Kansas taxes are found to be legal in the ongoing court challenge,  
2 and MGE is required to pay the tax, it should be able to recover those  
3 tax payments for future years through its rates when it includes those  
4 taxes in its cost of service in a future rate case.

5 The problem is that, at the moment, MGE could not include the Kansas  
6 taxes in its cost of service even if it were to immediately file a new rate  
7 case. As a general rule, for an item of cost to be included in a utility's  
8 cost of service, that item of cost must be both known and measurable.  
9 A utility's customers should not be expected to pay, through their rates,  
10 for costs that are speculative and might never actually be incurred.  
11 MGE's Kansas tax liability is now measurable – it has received a bill  
12 from the Kansas tax authorities for the 2004 year, and future tax bills  
13 can be estimated – but its Kansas tax liability is not yet known because  
14 of the uncertainty resulting from the ongoing legal challenge. If MGE  
15 prevails in court, it may never have to pay the Kansas property taxes.

16 The amount of taxes that MGE might have to pay in Kansas is  
17 significant, both to MGE and to its ratepayers. It would not be  
18 appropriate to allow MGE to recover millions of dollars from its  
19 ratepayers for taxes that it might never have to pay. On the other hand,  
20 these taxes are a legitimate cost of doing business for which the  
21 ratepayers should be responsible. It would not be fair to MGE's  
22 shareholders to shift that burden on to them if those taxes ultimately  
23 must be paid. Furthermore, it was MGE's decision to challenge the  
24 legality of the Kansas taxes, a decision that could greatly benefit its  
25 ratepayers, that has placed MGE in this difficult position. If MGE had  
26 accepted the Kansas taxes without challenge, it could have simply  
27 passed the added taxes on to its ratepayers by filing a rate case. Instead,  
28 by looking out for the interest of its ratepayers, it has created the  
29 possibility that it will not be able to recover several million dollars to  
30 which it would otherwise be entitled. It is that conundrum that makes  
31 an AAO the appropriate means for dealing with the potential Kansas  
32 tax liability. By granting MGE an AAO, it will be allowed to defer the  
33 cost of paying the Kansas property taxes for consideration in a future  
34 rate case after the legality of those taxes is determined and the costs are  
35 known and measurable. If those taxes are found to be illegal and MGE  
36 does not have to pay them, then the deferred amounts will simply be  
37 written off the balance sheet and neither the ratepayers nor the  
38 shareholders will be harmed. If, on the other hand, MGE ultimately  
39 must pay the taxes, it will be able to make its case for the inclusion of  
40 its additional tax liability into its cost of service in a future rate case.

41 This uncertainty surrounding MGE's obligation to pay a significant  
42 amount of taxes is an unusual and unique situation that is not likely to

1 recur. As such it meets the Sibley standard for the granting of an AAO  
2 and the granting of such an AAO is appropriate. [Emphasis Added]

3 MGE and other litigants continued to dispute the assessments for several years. In  
4 Case No. GR-2006-0422 and GR-2009-0355, the Commission renewed the AAO. In Case  
5 No. GR-2014-0007, MGE and other litigants exhausted all of its options in court, with the  
6 exception of the United States Supreme Court.<sup>11</sup> Consequently, as part of the Stipulation and  
7 Agreement in GR-2014-0007, the parties to the case agreed to include an allowance in MGE's  
8 revenue requirement representing an ongoing level of Kansas property taxes and an annual  
9 amortization representing MGE's responsibility for historical Kansas property taxes.

10 Q. Is it appropriate to compare the AAOs granted by the Commission for SLRP  
11 and MGE's Kansas property taxes to KCPL's proposal to track forecast levels of ongoing and  
12 recurring property taxes?

13 A. No. The prior property tax deferrals cited by Mr. Rush arose from situations  
14 that the Commission specifically found to be "extraordinary" in nature, and thus eligible for  
15 deferral through an AAO. Absent situations such as those, property taxes are normal,  
16 reoccurring operating costs that can be appropriately calculated using regulatory concepts  
17 such as annualizations and normalizations. The property taxes incurred by KCPL do not have  
18 any similarity to the Kansas property taxes that MGE disputed for approximately 15 years or  
19 the costs that gas utilities incurred as a result of revisions to the Commission rules for SLRP.

20 Q. Please summarize your testimony concerning KCPL's witnesses that address a  
21 proposed property tax tracker.

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<sup>11</sup> United States Supreme Court denied MGE's Petition for a Writ of Certiorari on October 6, 2014. Case No. 13-1216.

1           A.     The common theme for KCPL's proposal to track an average of 2017-2018  
2 forecasted property taxes is the claim that rising costs will prevent KCPL from earning its  
3 authorized ROE. Staff does not dispute that property taxes have increased since KCPL's rates  
4 were last changed in September 2015. However, increases in property taxes, a normal,  
5 recurring, operating expense, are not a valid reason to warrant a tracker using forecasted costs.  
6 KCPL's proposal for property taxes isolates one expense without any consideration for  
7 changes in other areas of KCPL's cost of service that can mitigate the increase in costs.  
8 When setting rates, it is essential to address all increases and decreases in investment,  
9 expense, and revenue to determine the revenue requirement.

10 **WHOLESALE TRANSMISSION REVENUE**

11           Q.     Please summarize Staff's position regarding wholesale transmission revenue.

12           A.     KCPL is billed transmission expense from SPP as a transmission customer and  
13 receives transmission revenues from SPP as a transmission owner, both of which include  
14 ROE incentives. Staff recommends that KCPL treat transmission expense and revenue  
15 consistently by reflecting all of KCPL's revenue and expense, including the impact of FERC  
16 ROE incentives, in its cost of service.

17           Q.     How does Staff respond to Mr. Frerking's statement in his rebuttal testimony,  
18 respecting a Staff adjustment, on page 11, lines 13-15, that, "Essentially Missouri retail  
19 customers would be credited back more than they would have been charged?"

20           A.     Mr. Frerking argues that since all of KCPL's transmission assets are included  
21 in the retail revenue requirement based on a Commission authorized ROE, and transmission  
22 revenues received from SPP are based on a higher FERC ROE, an adjustment must be made  
23 to reduce revenues; otherwise, according to Mr. Frerking, KCPL's Missouri retail customers

1 would be credited back more than they have been charged. However, Staff disagrees.  
2 KCPL's participation in SPP encompasses both the financial impacts of KCPL's ownership of  
3 transmission assets and the financial impacts of the use of other SPP members' transmission  
4 assets. As a SPP transmission customer, if costs of providing transmission service increase  
5 for other members of SPP, KCPL's transmission expense will increase. Likewise, as a SPP  
6 transmission owner, if KCPL's cost to provide transmission service increases, transmission  
7 revenues received from SPP will increase. Staff considers both transmission revenue and  
8 transmission expense incurred by KCPL as costs of doing business and, as such, should be  
9 reflected in KCPL's cost of service on a consistent basis.

10 Q. Mr. Frerking, when indicating that Staff's rationale is flawed, states on page 17  
11 of his rebuttal testimony, "Staff is, thus, suggesting that Transmission for Others revenues in  
12 FERC Acct 456.1 should not be adjusted if Transmission by Others expenses in FERC Acct  
13 565 are not adjusted." Do you agree with this statement?

14 A. No. Mr. Frerking misrepresents Staff's position with regard to KCPL's adjustment  
15 to reduce transmission revenues. Staff did *not* suggest, directly or indirectly, in its COS  
16 Report that KCPL should reduce transmission expense in FERC Account 565. Staff's  
17 recommendation is to include both transmission revenues received from and transmission  
18 costs paid to SPP, including FERC incentives. Staff's treatment of transmission revenues and  
19 transmission expenses in this case is consistent. Apparently, KCPL prefers an approach that  
20 would allow it to recover, in their entirety, all transmission expenses from its rate payers, but  
21 also to adjust downward transmission revenues that would otherwise have the impact of  
22 mitigating a portion of the rising transmission expense.

23 Q. How did Staff treat KCPL's transmission expense in this case?

1           A.     As described earlier in this testimony, Staff included an annualized level of  
2 transmission expense based on the 12-month period ending June 30, 2016, and will review the  
3 costs during the true-up phase of the case. With the exception of adjustments made for  
4 Transource Missouri incentives, Staff did not eliminate any transmission expense. The  
5 adjustments to eliminate Transource Missouri incentives are consistent with the  
6 Commission’s Order in Case No. EA-2013-0098 and are discussed by Staff witness Majors in  
7 Staff’s COS Report, Rebuttal Testimony, and his Surrebuttal Testimony filed in this case.

8           **GREENWOOD SOLAR STATION ALLOCATION**

9           Q.     What is Staff’s response to KCPL witness Rush’s rebuttal with regard to the  
10 Greenwood Solar Project?

11           A.     Mr. Rush does not support allocation of any costs of the Greenwood  
12 Solar facility to KCPL “because not a single electron produced by the Greenwood Solar  
13 facility will ever reach the KCP&L system.”<sup>12</sup> He further explains that KCPL and GMO  
14 benefit from each other’s expertise in generation and distribution projects generally, for none  
15 of which costs are transferred.

16           Q.     Will the customers in St Joseph, Missouri, formerly GMO’s L&P rate district,  
17 receive any energy from the Greenwood facility?

18           A.     No. It is interesting that Mr. Rush states that the costs should not be allocated  
19 to KCPL because KCPL customers will not receive a “single electron” of energy from this  
20 facility but recommends all of GMO customers pay for the facility even though its customers  
21 in St. Joseph, Missouri will also not receive a “single electron” from this facility. In fact, a  
22 very small percentage of customers in GMO’s former MPS rate district will actually benefit

---

<sup>12</sup> Rush Rebuttal page 48.

1 from the energy produced at the Greenwood facility. The Greenwood facility is directly  
2 connected to a distribution circuit that will serve approximately 440 GMO customers. Based  
3 on the level of annualized customers for GMO used by Staff in its direct filing in Case No.  
4 ER-2016-0156, the Greenwood facility will serve approximately 0.1% of GMO's customers.  
5 Based upon the fact that the Greenwood facility will only serve approximately 0.1% of  
6 GMO's customers and Mr. Rush's confirmation that KCPL's purpose to build the facility was  
7 for KCPL employees to learn about a utility scale solar project,<sup>13</sup> the total cost of the project  
8 should be allocated to KCPL and GMO.

9 Q. What are the plant and reserve balances for the Greenwood solar facility?

10 A. As of the June 30, 2016 update period, the Greenwood solar facility plant  
11 balance is approximately \$8.4 million recorded in FERC Account 344.01, with an  
12 accumulated reserve balance of zero.<sup>14</sup> The accumulated reserve for the Greenwood solar  
13 facility, as of June 30, 2016, reflects a zero balance because it was placed in service on June  
14 20, 2016, 10 days before the update period. During the true-up phase of this case, Staff will  
15 allocate the costs based on the plant and reserve balances as of December 31, 2016.

16 Q. What is Staff's position in this case as to how the cost for the Greenwood  
17 facility should be allocated?

18 A. As discussed in Staff's COS Report, Staff recommended allocating the capital  
19 costs and related expenses of the Greenwood solar facility based on KCPL and GMO  
20 customers.<sup>15</sup> This method results in 62.27% of the facility capital costs and related expenses  
21 allocated to KCPL and 37.73% to GMO.

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<sup>13</sup> Rush Rebuttal page 47.

<sup>14</sup> Staff Data Request No. 0273.1 in Case No. ER-2016-0285. Schedule KL-s4

<sup>15</sup> Staff's Cost of Service Report, page 52

1 Q. Why is Staff recommending allocating a portion of the Greenwood Solar  
2 facility to KCPL?

3 A. Beginning on page 16 of its Report and Order in Case No. EA-2015-0256, the  
4 Commission expressed its concern that GMO ratepayers will pay for the costs of the project  
5 that is primarily being built to allow KCPL to gain experience designing, operating, and  
6 maintaining a utility scale project. In its Report and Order, the Commission expected GMO  
7 to propose an allocation methodology that would share the costs between KCPL and GMO in  
8 Case No. ER-2016-0156. Staff recommended an allocation methodology in the 2016 GMO  
9 rate case but since a global settlement was reached between the parties and approved by the  
10 Commission on September 28, 2016, the allocation of the Greenwood solar facility was not  
11 resolved.

12 “Experience gained” formed the primary basis of the application requesting  
13 permission to construct and operate the Greenwood Solar facility in Case No. EA-2015-0256.  
14 The Commission based its decision to authorize the construction and operation of this solar  
15 facility on that stated purpose to gain experience for KCPL employees. All employees who  
16 manage and operate GMO are KCPL employees. GMO has no employees. KCPL supplies  
17 all operating services to GMO under an agreement between the two entities. Because KCPL  
18 has all the employees under its structure, KCPL will be the direct recipient of the experience  
19 of operating and maintaining the Greenwood solar facility, and that experience will ultimately  
20 benefit both KCPL and GMO on future solar projects. Consequently, all of KCPL and GMO  
21 customers will benefit from the experience KCPL employees will gain from operating and  
22 maintaining the solar facility.



1 Q. Did Staff recommend an allocation methodology using energy in Case No. ER-  
2 2016-0156 as stated by Mr. Rush in his rebuttal testimony in this case?<sup>16</sup>

3 A. Yes. In Staff's COS Report in Case No. ER-2016-0156, Staff recommended  
4 an allocation methodology based on energy. Staff's proposal was based on GMO's response  
5 to Data Request No. 0197 in Case No. ER-2016-0156. In the response, GMO stated that if the  
6 MPS and L&P rate districts were not consolidated in this rate case, then the costs for the  
7 Greenwood facility would be allocated to MPS and L&P based on an energy factor using  
8 2015 MWh values. However, in surrebuttal testimony,<sup>17</sup> Staff suggested that the costs could  
9 also be allocated using KCPL and GMO customers. The table below reflects the allocation  
10 between KCPL and GMO using both customer and energy factors:<sup>18</sup>

11

<b>Methodology</b>	<b>KCPL</b>	<b>%</b>	<b>GMO</b>	<b>%</b>	<b>Total</b>
Energy (MWh)	14,698,066	64.84%	7,970,619	35.16%	22,668,685
Customers	524,999	62.27%	318,150	37.73%	843,149

12  
13 A very small percentage of GMO customers, and none of KCPL customers, will  
14 actually receive the energy produced from the Greenwood Solar facility. Since the experience  
15 gained by KCPL employees will benefit all of KCPL and GMO's customers in the future  
16 from increased use of solar power, but a very small percentage of customers will benefit from  
17 the energy the facility produces, Staff now recommends allocating the costs using customers.  
18 Regardless of the particular allocation methodology used, KCPL will receive the higher  
19 allocation by virtue of its size. While KCPL has more customers, those customers will get the  
20 most benefit from the solar experience in the future and should be allocated more of the cost.

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<sup>16</sup> Rush Rebuttal page 46

<sup>17</sup> Lyons Surrebuttal testimony

<sup>18</sup> Data from KCPL, MPS and L&P Annual Report filed on May 31, 2016.

1 Staff's recommendation to allocate approximately 62% of the capital costs and related  
2 expenses of the Greenwood solar facility to KCPL results in a relatively small revenue  
3 requirement increase, and as stated on page 16 of the Commission Report and Order in Case  
4 No. EA-2015-0256:

5 The small increase in rates that may result from this project will be  
6 amply offset by the less tangible benefits that will result from the  
7 lessons GMO will learn from the project and the benefits that will  
8 result from the increased use of solar power in the future; made  
9 possible by construction and operation of this pilot solar plant.

10 Q. Does Staff suggest any other alternatives to allocate the Greenwood  
11 Solar facility?

12 A. In addition to the options provided above, the Commission could take a  
13 conservative approach and allocate the costs between KCPL and GMO on an equal sharing  
14 basis of 50%.

15 Q. Although KCPL's primary position is to allocate no costs for the Greenwood  
16 facility to KCPL, does Mr. Rush provide a proposal to allocate the costs in the event the  
17 Commission orders this treatment?

18 A. Yes. Mr. Rush states on page 49 of his Rebuttal Testimony:

19 I believe that no more than ½ of the overall incremental cost of the  
20 solar facility above the costs of a less expensive renewable resource  
21 could be allocated to KCP&L, however, I do not believe it should be  
22 done by simply placing plant and all off [sic] the costs, revenues, taxes  
23 and other attributes in the KCP&L cost of service. I would recommend  
24 an allocation methodology for the solar facility based on an allocation  
25 between an alternative renewable energy source capital costs versus the  
26 cost of the solar facility, with the difference between the two allocated  
27 equally between KCP&L and GMO. If you looked at wind versus the  
28 solar project, the difference in capital would be roughly \$2 million for  
29 the same size system. This would result in roughly \$1 million in  
30 capital cost allocated to KCP&L. Because of all the other impacts on  
31 the investment such as specific tax benefits, REC's, the energy from the  
32 facility, and operating costs which would remain with GMO, using a

Surrebuttal Testimony of  
Karen Lyons

1 plant investment allocation is not practical. As such, if the  
2 Commission Ordered the Company to make an allocation, I would  
3 recommend an allocation of no more than \$100,000 to KCP&L in  
4 expenses to be reflected in KCP&L cost of service and future  
5 ratemaking.

6 Q. Does Staff agree with Mr. Rush's recommendation?

7 A. No. It bears repeating that the Greenwood Solar facility was constructed to  
8 allow KCPL employees to gain experience. Both KCPL and GMO will benefit from the  
9 experience of designing, constructing, maintaining, and operating the solar facility. To  
10 suggest that KCPL should be allocated a meager \$100,000 of these facility costs is  
11 unreasonable under these circumstances. Although Mr. Rush did not provide any workpapers  
12 to support his recommendation, his testimony indicates his calculation is based on the  
13 incremental costs of the solar facility above the costs of a less expensive renewable resource. It  
14 is interesting that GMO rejected the least cost option in Case No. EA-2015-0256 and instead  
15 proposed that the entire project should be paid for by GMO customers, but the Company  
16 bases its recommendation in this case on the incremental capital costs of a solar facility and  
17 wind facility.

18 Q. Does Mr. Rush provide any other reasons why the Greenwood Solar facility  
19 should not be allocated to KCPL?

20 A. Yes. Mr. Rush states the following on page 48 of his Rebuttal Testimony:

21 As a corporation with multiple operating utilities, many projects, both  
22 generation and distribution, are often done at one utility subsidiary and  
23 may result in benefits of an intangible nature to the other. One of the  
24 benefits identified during the acquisition of GMO by Great Plains  
25 Energy was the expertise that GMO had in maintenance of its natural  
26 gas plants. That expertise was shared with KCP&L. Likewise, KCP&L  
27 had substantial expertise in maintenance of its coal fleet and that was  
28 then shared with GMO, without compensation through allocation of  
29 costs. KCP&L was one of the first utilities in the nation to implement  
30 an automated meter reading system many years ago. Both KCP&L and

Surrebuttal Testimony of  
Karen Lyons

1 GMO are now in the deploying next generation automated metering  
2 (AMI) and GMO is receiving the benefit of KCP&L's expertise,  
3 without any transfer of costs to KCPL for that knowledge. The  
4 Company believes it is not appropriate to transfer costs of the  
5 Greenwood Solar facility to KCP&L

6 Q. Do Mr. Rush's arguments quoted above have any merit?

7 A. No. The Greenwood Solar facility is a renewable technology that KCPL  
8 constructed so KCPL employees can gain experience operating a utility scale solar facility.  
9 The Greenwood project has been categorized as a pilot program because KCPL does not have  
10 any experience designing, maintaining, and operating a utility scale solar facility. Contrary to  
11 Mr. Rush's argument, KCPL has experience maintaining natural gas plants in its own fleet.  
12 They include Hawthorn units 6-9, West Gardner Units 1 through 4, and Osawatomie.  
13 Likewise, GMO has experience maintaining several coal plants in its fleet, including the  
14 Sibley Station. While KCPL may have had more experience operating coal units and GMO  
15 operating natural gas peaking units, the fact is what Mr. Rush refers to with his examples are  
16 nothing more than the benefits of sharing information and experience when two utilities  
17 merge, as was the case in July 2008 when Aquila was acquired by Great Plains Energy. The  
18 Greenwood Solar facility is not one of these "shared" experiences. Neither KCPL nor GMO  
19 has the experience to operate a utility-scale solar facility. Thus, the reason for the request to  
20 construct such a facility was to become more familiar with solar generating technology, as  
21 well as obtaining an understanding of how to operate and maintain a solar facility on a large  
22 utility-scale basis. The sole purpose of constructing the Greenwood Solar facility was to gain  
23 experience with a renewable technology that KCPL and GMO do not have. Mr. Rush's  
24 comparison of the operating power plants and AMI meters with the Greenwood Solar facility  
25 is not valid.

1 Q. Please summarize Staff's position on the allocation of the Greenwood Solar  
2 facility.

3 A. The Greenwood Solar project was constructed to allow KCPL employees to  
4 gain experience designing, constructing, maintaining and operating a utility-scale solar  
5 facility. The percentage of GMO customers that will actually benefit from the energy are  
6 approximately 0.1%. However, all the rate districts, KCPL-Missouri, KCPL-Kansas, and  
7 GMO, will benefit with the acquired knowledge from building and operating a utility-scale  
8 solar facility. For this reason, and to be consistent with the Report and Order in Case No.  
9 EA-2015-0256, Staff recommends the Commission allocate the costs between KCPL and  
10 GMO based on customer levels.

11 **FUEL, PURCHASED POWER, AND OFF-SYSTEM SALES**

12 Q. In its rebuttal testimony, did KCPL address concerns with Staff's Fuel,  
13 Purchased Power, and Off-System Sales amounts included in its accounting schedules filed on  
14 November 30, 2016?

15 A. Yes. Mr. Crawford states the following in his rebuttal testimony:

16 There are at least three issues that should be addressed at true-up.  
17 These are related to (1) the treatment of a firm wholesale sales contract,  
18 (2) the computation of capacity sales revenue, and (3) the exclusion of  
19 energy purchases from a new wind purchased power agreement.<sup>19</sup>

20 Q. What is the issue related to the firm sales contract?

21 A. KCPL and the city of Chanute, Kansas participated in a firm energy sales  
22 agreement that was effective through December 31, 2016. Since the agreement was active as  
23 of the update date period, June 30, 2016, Staff included the sales related to the agreement. To

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<sup>19</sup> Crawford Rebuttal Testimony, page 1-2.

Surrebuttal Testimony of  
Karen Lyons

1 the extent this contract is not renewed by KCPL, Staff will exclude the sales and energy  
2 related to this contract in the true up phase of the case.

3 Q. What is the issue related to capacity sales revenue?

4 A. KCPL entered into a capacity sales contract with GMO on June 1, 2016. At  
5 the update period, June 30, 2016, KCPL received one month of revenues as a result of the  
6 contract. Staff inadvertently included one month of revenues in Staff's Accounting Schedules  
7 filed on November 30, 2016, which is not representative of an annualized amount. Staff will  
8 include an annualized level of capacity sales revenues for the GMO contract during the true-  
9 up phase of the case.

10 Q. Is Staff aware of any other issues related to fuel, purchased power, and off-  
11 system sales?

12 A. Yes. KCPL advised Staff that there was an error with the annualized level of  
13 border customer costs included in Staff's Accounting Schedules filed on November 30, 2016.  
14 Staff agrees with KCPL's assessment and will correct the adjustment during the true-up phase  
15 of the case.

16 Q. Does this conclude your surrebuttal testimony?

17 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                                    )

Case No. ER-2016-0285

**AFFIDAVIT OF KAREN LYONS**

STATE OF MISSOURI    )  
                                                          )  
                                                          )    ss.  
COUNTY OF JACKSON    )


**COMES NOW KAREN LYONS** and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
KAREN LYONS

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 26<sup>th</sup> day of January, 2017.

  
Notary Public



BEVERLY M. WEBB  
My Commission Expires  
April 14, 2020  
Clay County  
Commission #12464070

**SCHEDULE KL-s1**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**



STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 18th  
day of July, 1990.

In the matter of the application of United Cities Gas Company )  
for the issuance of an accounting order relating to its gas ) Case No. GO-90-215  
operations. )  
)

ORDER GRANTING REQUEST FOR ACCOUNTING ORDER

On February 27, 1990, United Cities Gas Company (UCGC) filed an application for issuance of an accounting order relating to its gas operations. UCGC stated that it was seeking Commission approval to defer and record expenditures and costs incurred in connection with its gas safety projects from January 1, 1989, to the effective date of rates established in UCGC's next general rate case. UCGC stated it was specifically requesting authority to defer and book to Account 186 the costs that would normally be expensed.

On May 24, 1990, the Commission Staff (Staff) filed a memorandum recommending UCGC's application be denied. Staff stated it opposed UCGC's application for several reasons. First, the expenditures are not of an extraordinary nature and therefore to defer and not to expense them is inappropriate accounting treatment. Second, since no rate case is pending for UCGC, its proposal to defer its costs to some indefinite rate case date would distort its financial statements. Staff also stated that because of the company's inability to provide estimates for costs to be deferred for 1990, Staff is unable to determine whether the magnitude of these costs justifies the accounting treatment requested.

Staff also noted that the instant application differs from similar ones granted by the Commission. The application differs from The Kansas Power and Light Company's (KPL's) and Missouri Public Service's (MoPub's) because each of those companies had imminent rate cases.

On June 1, 1990, UCGC filed a response to Staff's recommendation. In its response UCGC attributes its increase in expenditures for complying with gas safety rules to its acquisition of Great River Gas Company, and characterizes the increase as extraordinary, unusual and nonrecurring. UCGC points out that KPL Gas Service and UtiliCorp/Missouri Public Service had received similar authority to defer, and UCGC dismisses Staff's concerns about it not having an imminent rate case by stating it was not in its best interest to defer costs for an extended period.

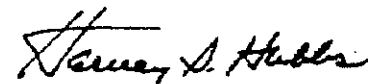
UCGC seeks Commission approval to defer costs, which are normally expensed, of its operations and maintenance expenditures and deferral of depreciation, property taxes, and carrying charges on plant items already in service. All of these items are related to UCGC's compliance with the Commission's gas safety rules.

[ It is indisputable that compliance to these rules imposed certain additional costs upon UCGC. It is the Commission's opinion UCGC should be allowed to preserve these costs on its books so that it can have the opportunity to request that they can be recovered in its next rate case. Similar treatment has been accorded Kansas Power & Light Company and Missouri Public Service Company. Therefore, the Commission finds the accounting authority order should be granted. ]

IT IS THEREFORE ORDERED:

1. That the application for an authority order be hereby granted.
2. That this order shall become effective on the 31st day of July, 1990.

BY THE COMMISSION



Harvey G. Hubbs  
Secretary

(S E A L)

Steinmeier, Chm., McClure and  
Latsch-Roderique, CC., Concur.  
Mueller and Rauch, CC., Dissent.

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 17th  
day of January, 1992.

In the matter of the application of Missouri Public  
Service for the issuance of an accounting order relat-  
ing to its gas operations.

)  
) Case No. GO-91-359  
)  
)

ORDER GRANTING AUTHORITY

Procedural History:

On May 10, 1991, Missouri Public Service (MPS or Company) applied for an accounting authority order (AAO). In effect, Company proposes that the Commission reissue an AAO it granted Company in Case No. GO-90-115, which involved substantially the same issues as the instant matter. Company states that its accelerated compliance with the Commission's gas safety rule and order has caused Company to incur out-of-period gas line replacement and carrying cost expenses. Company proposes, as it did in Case No. GO-90-115, to defer certain items of depreciation expense and carrying costs in Account 186 from January 1, 1991 until Company's "next general gas rate case." Company does not specify the present or expected amount of said expense, but states that the entire project "is expected to exceed \$10 million over several years."

Public Counsel (PC) and the Staff oppose Company's request. PC has also moved for what, in effect, would be retroactive notice to the customers of MPS. The Commission has considered PC's motion for hearing and notice. For the reasons below stated, the Commission denies said motion.

On November 18, 1991, Staff filed its recommendation under seal. Staff continues to oppose Company's request and made copious recommendations regarding AAOs, AAOs in general, and other matters. Staff does not recommend that a hearing be conducted in this particular case, inasmuch as the issues

herein are substantially similar to the two cases previously decided by the Commission, see *infra*. Staff does not, however, oppose Public Counsel's motion for hearing.

On December 2, 1991, MPS replied to Staff's recommendation. Company's central point is that it is asking for nothing more than the Commission permitted in its previous application, and that Company requires an order in this matter which will be effective before January 31, 1992.

Companion Cases:

This case was filed one day after Company filed applications for AAOs regarding certain expenses in its electrical operations. In these companion cases, EO-91-358 and EO-91-360, Company requested an expedited proceeding. Staff and Public Counsel requested, and were granted, a full evidentiary hearing. After hearings and briefs, the Commission issued its Report And Order on December 20, 1991, effective on December 31, 1991. In nearly all respects, the Commission's order in these companion cases disposes of all questions in the instant case. There are, however, issues unique to this case.

Issues Unique to This Case:

At pages 5 and 6 of its decision in EO-91-358, the Commission states that neither a hearing nor notice is required to process an application for an AAO. The Commission fully adopts this statement in this case. Section 393.140(4), R.S.No. 1986, requires neither hearing nor notice and the Commission has determined that applications for AAOs are made pursuant to that authority.

[ The only other issue in this case which is different from the companion electric cases is the particular event or events which give rise to Company's application. Here, Company states that its "accelerated" compliance with the Commission's gas safety rules argues for deferral of said expenses. ] In the electric cases, Company sought to defer certain costs associated with its

Sibley Plant rebuild and long term power purchase commitments. Although the facts giving rise to Company's applications in its gas and electric operations are different, the facts are not in dispute. [The only question before the Commission, therefore, is whether Company's gas operations expenses are "extraordinary." The Commission finds that said expenses are extraordinary inasmuch as they result from Company's compliance with the Commission's gas safety orders.] By so finding, the Commission reminds both applicant and the parties that an accounting order does not mandate the recovery of said expenses in rates. That question, as it has always been, is reserved for said time when, as Company states, it seeks a rate increase.

The Commission also finds that for the same reasons as stated in EO-91-358, a time limitation on deferrals is reasonable since deferrals cannot be allowed to continue indefinitely. The Commission finds that a rate case must be filed within a reasonable time after the deferral period for recovery of the deferral to be allowed. In this particular case, the Commission finds that 24 months is a reasonable period. If Company does not file a gas rate case on or before December 31, 1992, no recovery of these costs shall be allowed in any subsequent rate case unless said costs were, in whole or part, incurred in the approved test year.

**IT IS THEREFORE ORDERED:**

1. That Missouri Public Service, a division of UtiliCorp United Inc., be hereby granted authority to book certain of its gas operations costs in Account 186 as described in its application and by this order. If no rate case is filed on or before December 31, 1992, no recovery of these costs shall be allowed in any subsequent rate case unless said costs were, in whole or part, incurred in the approved test year.

2. That Missouri Public Service, a division of UtiliCorp United Inc., shall maintain its books and records in the same manner as directed in the

order in Case No. 80-90-115, and by this order, for the deferrals approved in ordered paragraph 1.

3. That Missouri Public Service, a division of UtiliCorp United Inc., is directed hereby to maintain detailed supporting work papers relating to the monthly accruals of each item booked in Account No. 186 and any capital costs booked to capital accounts in regard to the deferrals approved in ordered paragraph 1.

4. That nothing in this order shall be considered as a finding by the Commission of the reasonableness of the expenditures herein involved, nor as an acquiescence in the value placed upon said properties by Missouri Public Service. Furthermore, the Commission reserves the right to consider the ratamaking treatment to be afforded these expenditures, and their resulting cost of capital, in any later proceeding.

5. That nothing in this order shall be considered as a finding by the Commission of the in-service criteria regarding the costs to be deferred by ordered paragraph 1, the reasonableness of the expenditures, or the recovery of the expenditures.

6. That the motion for hearing and notice filed by the Office of Public Counsel on October 24, 1991, is overruled.

7. That this order shall become effective on 28th day of January, 1992.

BY THE COMMISSION

*Brent Stewart*

Brent Stewart  
Executive Secretary

( S E A L )

McClure, Chm., Reach and Perkins, CC.,  
concur.  
Mueller, C., dissents.  
Kinchelov, C., not participating.

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office  
in Jefferson City on the 10th  
day of April, 1992.

In the matter of the application of The Kansas  
Power and Light Company for the issuance of an  
accounting order relating to its gas operations. )

CASE NO. GO-92-185

ORDER CONDITIONALLY GRANTING ACCOUNTING AUTHORITY

On February 4, 1992, The Kansas Power and Light Company (KPL) filed an application with this Commission for the issuance of an accounting authority order to defer to Account 186 of the Uniform System of Accounts (USOA), depreciation expenses, property taxes and carrying costs associated with the safety upgrade of its mains and service lines done in compliance with the Commission's safety rules, for the period beginning July 1, 1991, to the effective date of rates established in KPL's next general rate case.

On February 26, 1992, the Office of the Public Counsel (OPC) filed a motion requesting that the Commission either dismiss this application or establish a procedural schedule to address this matter. The Commission denied the OPC's motion by order issued March 18, 1992. On March 30, 1992, the Commission's Staff (Staff) filed a memorandum in this case recommending that the Commission conditionally grant KPL the requested accounting authority. In the ten days since Staff's memorandum was filed, no party has opposed its recommendation.

The Commission, upon consideration of the verified application of KPL and the recommendation filed herein by Staff, determines that a hearing is unnecessary to resolve the matters at issue herein and finds and concludes as follows.

KPL is a Kansas corporation authorized to conduct business in the State of Missouri with its principal office and place of business located at 818 Kansas

Avenue, Topeka, Kansas 66612. KPL distributes and sells natural gas in portions of west and southwest Missouri as a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended.

Staff recommends approval of KPL's application subject to certain conditions because the expenses that KPL requests to be deferred are substantially the same type and larger in magnitude than costs which the Commission has permitted to be deferred by KPL in Case No. GO-90-51; United Cities Gas Company in Case No. GO-90-215; and UtiliCorp United, Inc. in Case Nos. GO-90-115 and GO-91-359.

Staff recommends that the accounting authority granted to KPL be limited to 24 months from the beginning of the proposed deferral period to the filing by KPL of a general rate increase to seek recovery of the costs deferred pursuant to this order. Thus, if KPL fails to file a rate case on or before July 1, 1993, KPL would forfeit recovery in rates of the costs deferred pursuant to the order requested herein. In addition, Staff recommends that the Commission reserve the right to consider the ratemaking treatment to be afforded any expenditures deferred pursuant to this order in any later proceeding.

[ The Commission determines that the accounting authority order requested herein by KPL should be granted since the costs to be deferred are substantially similar and greater in magnitude to costs found extraordinary by this Commission in other cases and deferred therein for later consideration. ] The Commission will permit these expenses to be deferred conditioned upon KPL's seeking their recovery in rates on or before July 1, 1993.

**IT IS THEREFORE ORDERED:**

1. That the accounting authority order requested by The Kansas Power and Light Company in this case to defer to Account 186 of the Uniform System of Accounts, depreciation expenses, property taxes and carrying costs associated with the safety upgrade of its mains and service lines done in compliance with



the Commission's gas safety rules, for the period beginning July 1, 1991, to the effective date of rates in The Kansas Power and Light Company's next general rate case, be granted hereby, provided that The Kansas Power and Light Company seek recovery in rates of the expenses deferred pursuant to this order on or before July 1, 1993.

2. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures involved herein, or as an acquiescence in the value placed by The Kansas Power and Light Company upon the properties involved, and the Commission reserves the right to consider the ratemaking treatment to be afforded these expenditures in any later proceeding.

3. That this order shall become effective on April 21, 1992.

BY THE COMMISSION

*Brent Stewart*

Brent Stewart  
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,  
Parkins and Kincheloe, CC., Concur.



The parties have agreed that Laclede will book pensions and OPEB's (other post-retirement benefits), for financial purposes, and amortize unrecognized gains and losses over a ten-year period, according to Financial Accounting Standards Board Statements (FAS) 87 and 106, and in compliance with Section 386.315, RSMo Supp. 1994. Laclede will fund its OPEB obligations in accordance with Section 386.315 which requires an external funding mechanism. The parties agree that, for the purposes of this case, the expense calculations for pensions and OPEB's made by Laclede's actuaries and accountants shall be deemed to be based on sound actuarial assumptions, satisfying the requirements of Section 386.315.1. The parties agree that Laclede should be allowed to defer and book to Account 186 any over- or under-recovery for these expenses up to an annualized allowance of \$6.1 million between September 1, 1994, and the effective date of tariffs approved in its next general rate case. The company has agreed to forego its rights under Section 386.315.3 to file a set of tariffs to bring its ratemaking accounting mechanism into compliance with the statute.

The parties have agreed that the Supplemental Retirement Benefit Plan and Directors' pension plan expenses should be accounted for on a payment basis. The parties have also agreed that the company should be allowed to defer and book to Account 186 any over- or under-recovery for these expenses up to an annualized allowance of \$218,000 between October 1, 1994, and the effective date of tariffs approved in its next general rate case.

Laclede has agreed to investigate the feasibility of implementing a leveraged Company-owned life insurance program.

[ The parties have agreed that the company should be allowed to defer and book to Account 186 its expenses for replacing lines and mains as described in paragraph 11 of the Stipulation and Agreement during the period

from September 1, 1994, until the effective date of tariffs approved in its next general rate case. The Stipulation and Agreement provides that this deferral of expenses is conditioned on the company's filing a general rate case no later than September 1, 1996.]

The parties have agreed that the company should be allowed to defer and book to Account 186 its expenses and payments received in connection with the dismantling of former manufactured gas operations and disposal of materials as described in paragraph 12 of the Stipulation and Agreement during the period from September 1, 1994, until the effective date of tariffs approved in its next general rate case. The Stipulation and Agreement provides that this deferral of expenses is conditioned on the company's filing a general rate case no later than September 1, 1996.

[Ordinarily the granting of authority to defer expenses is allowed only for extraordinary expenses since it violates the matching principle. Although the issue of whether the expenses granted deferral by the Stipulation and Agreement in this case was not litigated, the Commission finds that these expenses are extraordinary and that deferral is appropriate under the terms of the Stipulation and Agreement filed.]

The company has agreed to adopt, effective September 1, 1994, Staff's proposed method for calculating booked, tax-related depreciation expense as described in paragraph 14 and Attachment 2 of the Stipulation and Agreement.

The parties have agreed that Laclede's depreciation rates should be changed, effective September 1, 1994, to reflect the depreciation rates set out in Attachment 3 of the Stipulation and Agreement.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**



In the Matter of Missouri Gas Energy's  
Tariff Sheets Designed to Increase Rates  
for Gas Service in the Company's Missouri  
Service Area.

)  
) Case No. GR-98-140  
) Tariff File No. 9800264

In the Matter of Missouri Gas Energy's  
Proposed Modifications to its Facilities  
Extension Policy.

)  
) Case No. GT-98-237  
) Tariff File No. 9800387

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**REPORT AND ORDER**

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**Issue Date: August 21, 1998**

**Effective Date: September 2, 1998**

205

c. Issuance of Another Accounting Authority Order (AAO)

MGE requests that the Commission issue another accounting authority order for MGE's extraordinary SLRP investment as it has numerous times in the past, using language similar to that adopted in Case No. GO-97-301. Staff is opposed to the issuance of another AAO at this time. Staff believes that it is premature for the Commission to issue another accounting authority order for MGE's SLRP investment in this case. Staff believes it is more appropriate to address this issue in a separate AAO application. OPC supports Staff's position.

[ The Commission finds that another AAO related to the SLRP costs, property taxes, and depreciation cost should be authorized by the Commission. These SLRP related costs have been considered "extraordinary items" since the gas safety rules issued by the Commission have required the companies to replace main and service lines within their service areas. ] As the majority of the SLRP project is almost complete, the Commission finds that MGE's position is just and reasonable and there is competent and substantial evidence to support MGE's request for an AAO. The Commission shall issue an AAO authorizing MGE to defer and book costs relating to SLRP deferral carrying costs, property taxes and depreciation expenses. The balance of the account for the deferral period beginning the day after the effective date of this Report and Order shall begin with a zero balance. MGE may book these costs at a reasonable rate as determined by the Company. In determining the rate at which it should book the deferral costs related to the SLRP, the Company should keep in mind the past ratemaking decisions which have determined that the SLRP carrying costs are recovered at the AFUDC rate. If for other reasons, including tax implications, the Company chooses to book the SLRP deferral rates at a higher rate than AFUDC, MGE should also keep in mind that it

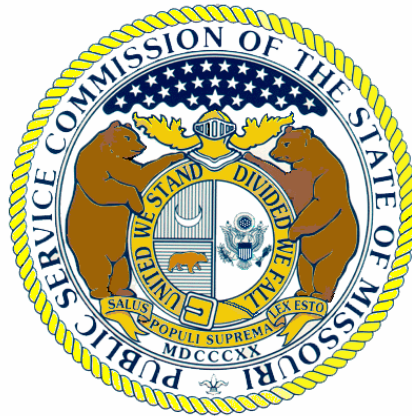
is not guaranteed any specific rate of return. Further, the period for which this AAO authorizes that costs be deferred and booked as an extraordinary expense begins on the day after the effective date of this Report and Order in Case No. GR-98-140 and GT-98-237. The period shall end at the end of the test year, or at the end of the known and measurable period following the test year, or at the end of true-up period, as applied in the next rate case filed by the Company. Nothing in this order authorizing the deferral of SLRP carrying costs, property taxes or depreciation expenses shall be considered to have any effect for the purpose of ratemaking treatment.

1.3 Billing Process Improvement Costs/Billing Correction Costs; Uncollectibles

MGE requests inclusion in the revenue requirement of its costs incurred for the billing process improvements project, certain billing correction costs not previously waived, and bad debt amounts uncollectible from the customers to whom the gas services were provided. At issue are the costs associated with the contract services of Theodore Berry & Associates (TBA) for its role in facilitating the billing process improvement project referred to as Billing Accuracy and Service Improvement Commitment (BASIC) Team Project. MGE stated that the beneficial results of the billing process improvement effort are demonstrated by the absence of any significant billing issues occurring in the winter of 1997-1998.

Staff took the position that these billing process improvements were actually improvements to MGE's Customer Service System which is booked to Account 303, Miscellaneous Intangible Plant. Staff stated that it would agree with the inclusion of any reasonable and prudently incurred costs related to the billing process as long as those costs were

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**



In the Matter of the Application of Missouri Gas    )  
Energy, a Division of Southern Union Company,    )  
for an Accounting Authority Order Concerning the    )  
Kansas Property Tax for Gas in Storage.            )  
**Case No. GU-2005-0095**

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**REPORT AND ORDER**

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**Issue Date: September 8, 2005**

**Effective Date: September 18, 2005**



**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Application of Missouri Gas     )  
Energy, a Division of Southern Union Company,     )  
for an Accounting Authority Order Concerning the     ) **Case No. GU-2005-0095**  
Kansas Property Tax for Gas in Storage             )

**APPEARANCES**

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Brydon, Swearingen & England, P.C., 312 East Capitol, P.O. Box 456, Jefferson City,  
Missouri 65102-0456

For Missouri Gas Energy, a Division of Southern Union Company

**Douglas E. Micheel**, Senior Public Counsel  
P.O. Box 2230, Jefferson City, Missouri 65102

For the Office of the Public Counsel and the Public

**Thomas R. Schwarz, Jr.**, Deputy General Counsel  
**Robert Berlin**, Assistant General Counsel  
P.O. Box 360, Jefferson City, Missouri 65102

For the Staff of the Missouri Public Service Commission

**REGULATORY LAW JUDGE:**   **Morris L. Woodruff**

# **REPORT AND ORDER**

## **Table of Contents**

Findings of Fact	Page 2
Procedural History	Page 3
Overview	Page 3
The Specifics of the Requested AAO	Page 6
Amortization	Page 9
Conclusions of Law	Page 11
The Standard for Granting an AAO	Page 11
Decision	Page 14
The Granting of an AAO is Appropriate	Page 14
The Period of Deferral and Amortization	Page 16
Ordered Paragraphs	Page 18

## **Summary**

This report and order grants Missouri Gas Energy an Accounting Authority Order to permit it to defer its expenses incurred to pay property taxes on natural gas held in storage in the state of Kansas. Missouri Gas Energy will be allowed to defer taxes paid for tax years 2004, 2005, and 2006. The company will be required to begin amortization of the deferred amounts at the beginning of the month following a final judicial determination of the legality of the Kansas property taxes. Amortization must occur over a five-year period.

## **FINDINGS OF FACT**

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The Commission in making this decision has considered the positions and arguments of all of the parties. Failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

## **Procedural History**

On October 10, 2004, Missouri Gas Energy, a division of Southern Union Company (MGE), filed an application for an accounting authority order (AAO) that would authorize deferred accounting treatment for certain new property taxes incurred by MGE in the state of Kansas for natural gas held in storage in that state. On October 14, the Commission issued notice of MGE's application and established November 4 as the deadline for the submission of applications to intervene. A timely application to intervene was filed by the Midwest Gas Users' Association.<sup>1</sup> The Commission allowed that organization to intervene on November 9.

The parties prefiled direct, rebuttal, and surrebuttal testimony. An evidentiary hearing was held on March 8, 2005. Initial post-hearing briefs were submitted on April 26, with reply briefs filed May 10. Midwest Gas Users' Association did not participate in the hearing and did not file briefs.

## **Overview**

MGE is a division of Southern Union Company. As a division, MGE has no separate corporate existence apart from Southern Union. MGE's divisional headquarters is located in Kansas City, Missouri, and it provides natural gas service to customers in Kansas City, Joplin, St. Joseph, and other smaller cities in the western half of Missouri. MGE does not serve customers in the state of Kansas. MGE is a local distribution company, sometimes referred to by the acronym LDC. That means that MGE purchases natural gas from a

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<sup>1</sup> The Midwest Gas Users' Association is an unincorporated non-profit association consisting of and representing business concerns and corporations that are substantial users of natural gas.

supplier, pays to transport the gas to Missouri over one or more interstate pipelines, and then distributes the natural gas to its customers in this state.

As a part of its routine operations, MGE keeps a portion of its natural gas supply in storage in underground formations in the state of Kansas. In June of 2004, the Kansas legislature enacted a law that permits Kansas counties to assess property taxes against the value of natural gas held in storage in that county.<sup>2</sup>

The law enacted in 2004 was not Kansas' first attempt to tax natural gas held in storage in that state. Kansas had attempted to assess and collect property taxes on such gas before 2003. However, in October 2003, the Kansas Supreme Court issued a decision, in an appeal brought by MGE and other companies, in which it held that out-of-state natural gas distributors, such as MGE, were entitled to a merchant's inventory exemption from the property tax by the terms of the Kansas constitution.<sup>3</sup> The 2004 law was enacted as an attempt to close that loophole.

Before it successfully obtained an exemption to the Kansas property tax on gas in storage as a result of the Kansas Supreme Court decision, MGE had anticipated including that tax in its cost of service for the purpose of calculating its rates. In the rate case filed in 2000 – Case No. GR-2001-292 – the Commission's Staff included \$400,000 for payment of

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<sup>2</sup> House Substitute for Senate Bill No. 147, Noack Revised Schedule MRN-1, Ex. 4.

<sup>3</sup> *In the Matter of the Application of Central Illinois Public Services Company*, 276 Kan 612, 78 P.3d 419 (2003) That decision contains an extensive discussion of the history of the tax on natural gas held in storage in Kansas. In brief, before 1999 Kansas counties were able to collect such taxes from the interstate pipeline companies that held title to the storage gas. In 1999, the FERC issued Order 636 that unbundled the interstate pipeline industry and prohibited the interstate pipeline companies from holding title to the storage gas. The Kansas Supreme Court's decision held that the out-state gas distribution companies, such as MGE, that now held title to the storage gas, did not meet the Kansas constitution's definition of a utility and as a result, MGE and the other plaintiff's were entitled to an exemption from the tax.

Kansas property taxes in its calculation of MGE's annual revenue requirement.<sup>4</sup> However, that case was settled by a stipulation and agreement among the parties by which they agreed upon an appropriate dollar amount of revenue to allow MGE to recover in its rates. The settlement did not specify the individual items that went into the revenue requirement and Kansas property taxes never became an issue.<sup>5</sup>

MGE filed its next rate case – Case No. GR-2004-0209 – in November 2003. At that time, Kansas was not imposing a property tax on storage gas. As a result, such a tax was not included in any party's calculation of MGE's revenue requirement relating to property taxes. A contested hearing was held in GR-2004-0209 from June 21 through July 2, 2004. Because the Kansas legislature did not pass a statute that attempted to reimpose the property tax until that hearing was underway, the tax never became an issue at that stage of the hearing.

The hearing did not, however, end on July 2. On July 23, 2004, the Commission held a "true-up" hearing in GR-2004-0209 for the purpose of updating certain costs on several issues identified by the parties before the main hearing. Property taxes were not identified as a true-up issue.<sup>6</sup> Nevertheless, MGE attempted to include the additional costs it would incur as a result of the newly imposed Kansas property taxes in its revenue requirement for the first time at the true-up hearing.

At the true-up hearing in GR-2004-0209, the Commission's Staff argued that while the new Kansas property taxes should not be included in MGE's revenue requirement for

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<sup>4</sup> Transcript page 108, lines 7-25.

<sup>5</sup> Transcript page 208, lines 18-22. The entire stipulation and agreement is exhibit 17.

<sup>6</sup> Transcript, pages 48-53.

that case, it would be appropriate for the Commission to grant MGE an AAO to allow those new taxes to be deferred for consideration in a future rate case. MGE indicated that it was willing to accept an AAO as a substitute for immediate inclusion of the taxes in the company's revenue requirement. Public Counsel and other parties to that rate case flatly opposed both the inclusion of the Kansas taxes in the revenue requirement and the issuance of an AAO.

In its Report and Order in GR-2004-0209, issued September 21, 2004, the Commission held that the new Kansas property taxes could not be included in MGE's revenue requirement for that case. As the basis for that decision, the Commission indicated that MGE's potential tax liability was not currently known or measurable. As a further basis for its decision, the Commission found that property taxes had not been included as a true-up issue and as a result, opposing parties had not received adequate notice of that issue, or of the question of the issuance of an AAO, to allow those issues to be considered in that case. The Commission did, however, indicate that if MGE wished to request an AAO, it should file a separate application, to which the Commission would give due consideration. The application for an AAO that is the subject of this case followed a few weeks later.

### **The Specifics of the Requested AAO**

The amount of taxes assessed to MGE by Kansas is based on the value of the gas in storage as of December 31 for each year. Because it is based on the value of the stored gas, the amount of tax owed will fluctuate in future years as the value of the gas goes up and down.<sup>7</sup> For 2004, the first year for which the tax will be owed, MGE has been

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<sup>7</sup> Transcript, page 63, lines 3-8.

assessed and billed a total of \$1,721,830.<sup>8</sup> The full amount of the assessed and billed taxes have been recorded on MGE's books as an expense as of December 2004.<sup>9</sup>

The amount of taxes that Kansas seeks to impose on MGE is substantial in relation to MGE's annual income. The amount assessed for taxes in 2004 represents 9.03% of MGE's net income for 2004.<sup>10</sup> MGE has a history of failing to earn its allowed rate of return and if it is unable to recover the cost of paying the Kansas property taxes it is even less likely to earn the rate of return that the Commission authorized in the company's most recent rate case.<sup>11</sup>

MGE has appealed its tax bill to the Kansas Board of Tax Appeals, as well as to the Kansas courts.<sup>12</sup> As a result, although the full amount of taxes for 2004 have been recorded as an expense on MGE's books, MGE will not actually have to pay the assessed taxes until after its scheduled hearing with the Board of Tax Appeals.<sup>13</sup> MGE anticipates receiving a final decision on its tax appeal in mid-2006.<sup>14</sup>

If the Commission grants the AAO that MGE requests, MGE would move the Kansas taxes that are currently booked as expenses into a deferred account. If MGE is successful in overturning the Kansas tax, then the deferred amounts would simply be written off against the payable that is also booked, with no effect on the companies earnings.<sup>15</sup> If, on

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<sup>8</sup> Noack Direct, Ex. 1, page 3, lines 1-4.

<sup>9</sup> Noack Direct, Ex. 1, page 3, lines 11-14.

<sup>10</sup> Noack Direct, Ex. 1, page 6, lines 18-20.

<sup>11</sup> Noack Direct, Ex. 1, Page 7, lines 12-21.

<sup>12</sup> See. Exhibit 12.

<sup>13</sup> Transcript, page 54, lines 8-10.

<sup>14</sup> Transcript, page 79, lines 6-12.

<sup>15</sup> Transcript page 63, lines 12-23.

the other hand, the legality and constitutionality of the Kansas tax is upheld, MGE would be able to ask the Commission to allow it to recover those deferred costs in its next rate case. Of course, if the Kansas property taxes are upheld, MGE would also be responsible for paying those taxes in future years.

Generally, the property taxes paid by a utility are considered to be a cost of doing business. The utility is allowed to recover those costs from its customers when those costs are included in the company's cost of service, which is used to establish the rates that the company will be allowed to charge. For example, MGE's cost of service established in its most recent rate case, GR-2004-0209, includes a normalized amount for payment of Missouri property taxes. If MGE were to file a new rate case, an estimation of the amount of Kansas property taxes MGE would be required to pay could simply be added to the existing property tax amount and those additional costs would be recovered from ratepayers. In that circumstance, there would be no need for an AAO.

There are, however, a couple of barriers that will make it difficult for MGE to recover for the Kansas taxes that it must pay simply by filing a new rate case. First, rate cases are expensive. For its last rate case, which ended in October 2004, MGE was allowed to recover nearly \$900,000 from its ratepayers, amortized over a three-year period.<sup>16</sup> Filing a new rate case to recover the cost of paying the Kansas property taxes so soon after MGE's last rate case would impose a substantial financial cost on MGE's ratepayers.

The second barrier to recovering the Kansas property tax costs through a new rate case results from the uncertainty regarding the legality of the imposition of those taxes

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<sup>16</sup> Transcript, pages 64-65, lines 17-25, 1-2.



against MGE. For a cost to be included in a utility's cost of service for the purpose of calculating the utility's rates, that cost must be both known and measurable.

MGE's Kansas property tax bill is currently measurable; MGE knows how much it has been told to pay. But until it is finally determined whether MGE will be required to pay the tax, the actual cost cannot be said to be known. If, in a new rate case, the Commission were to allow MGE to recover the cost of the Kansas taxes, those costs would be built into the company's rates and would result in higher rates charged to customers. If the Kansas taxes were then set aside, the higher rates would remain in effect, even though the higher costs had gone away. The result could be a windfall for the company and a detriment to ratepayers. For that reason, both Public Counsel and Staff indicate that they would oppose inclusion of the cost of paying Kansas property taxes in MGE's cost of service until the question of the legality of those taxes has been finally resolved.

### **Amortization**

Assuming that MGE is allowed to defer the cost of paying its Kansas property taxes through an AAO, an additional issue arises concerning the amortization of that expense. It would not be appropriate to allow MGE, or any other utility, to defer an expense forever. At some point, the regulatory asset that is created through an AAO must be recognized as an expense. Usually that asset is turned back into an expense over a period of years through an amortization process. In other words, a percentage of the total cost is recognized as an expense in each subsequent year.

Once amortization begins the utility starts to lose the benefit of the AAO unless that expense is recognized in the company's rates through the filing of a rate case. It is entirely possible that a deferred expense could be amortized out of existence before a company

chooses to file a rate case. Indeed, that might be an appropriate result if the company is earning enough income to offset the deferred expenses so that it is earning a sufficient return without a rate increase.

MGE originally proposed that the amortization of the Kansas property tax expense begin on the effective date of the report and order in MGE's next general rate case.<sup>17</sup> Subsequently, in response to Staff's concern that a limit should be placed on the amount of time that the property tax asset could accrue on MGE's books, MGE proposed that if it has not filed its next rate case by May 31, 2008, it would cease further deferrals and begin amortizing the deferred taxes beginning June 1, 2008, with the amortization occurring over a five-year period.<sup>18</sup>

Staff countered that MGE should be required to begin amortizing the deferred Kansas property tax expenses beginning the month after the final judicial resolution of the legality of the Kansas tax. Staff agrees with MGE that the amortization should occur over a five-year period.<sup>19</sup> In addition, Staff would limit the amount of taxes that MGE could defer under the AAO to the taxes paid for the years 2004 and 2005.<sup>20</sup> Although Public Counsel opposes the granting of an AAO, if such an AAO is granted, it supports Staff's proposal regarding the period of deferral and amortization.<sup>21</sup>

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<sup>17</sup> Noack Direct, Ex. 1, page 8, lines 12-14.

<sup>18</sup> Noack Rebuttal, Ex. 2, page 4, lines 10-16.

<sup>19</sup> Hyneman Direct, Ex. 5, page 3, lines 3-6.

<sup>20</sup> Hyneman Surrebuttal, Ex. 6, page 2, lines 3-7.

<sup>21</sup> Bolin Rebuttal, Ex. 7, pages 12-13, lines 20-22, 1-20.

MGE estimated that under Staff's proposal it would be required to amortize approximately \$57,000 per month once amortization began.<sup>22</sup> Unless MGE is able to incorporate that expense into its rates through a rate case by the time amortization begins, it will not be able to recover that expense from its ratepayers. Assuming that a final judicial decision on the legality of the Kansas property taxes will be obtained sometime in the summer of 2006, and that a rate case would need to be filed eleven months before the proposed rates could go into effect, under Staff's proposal, MGE would need to file a rate case in the late summer of 2005 if it is to recover all of the deferred expenses.

### **CONCLUSIONS OF LAW**

The Missouri Public Service Commission has reached the following conclusions of law.

MGE is a public utility, and a gas corporation, as those terms are defined in Section 386.020(42) and (18), RSMo 2000. As such, MGE is subject to the Commission's jurisdiction pursuant to Chapters 386 and 393, RSMo.

#### **The Standard for Granting an AAO**

As a gas company subject to the Commission's jurisdiction, MGE is required by regulation to keep all its accounts in conformity with the Uniform System of Accounts (USOA) prescribed by the Federal Energy Regulatory Commission.<sup>23</sup> In general, the USOA requires that a company's net income reflect all items of profit or loss occurring during the period. The USOA, however, recognizes that special accounting treatment, what this Commission refers to as an AAO, may be appropriate when accounting for

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<sup>22</sup> Noack Rebuttal, Ex. 2, page 3, line 18.

<sup>23</sup> 4 CSR 240-40.040. The USOA for gas companies is found at 18 CFR part 201.

extraordinary items of profit or loss. The question then becomes, what is an extraordinary item?

The USOA indicates that an extraordinary item for which special accounting treatment would be appropriate is “of unusual nature and infrequent occurrence.” Furthermore, “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 addition, the USOA requires that to be considered extraordinary, the item “should be more than approximately 5 percent of income, computed before extraordinary items.”<sup>24</sup>

The Commission has also established a test to determine when an AAO should be granted. In a 1991 decision, often referred to as the Sibley case,<sup>25</sup> the Commission stated that it would consider the appropriateness of granting an AAO on a case by case basis. In doing so, it would approve an AAO for events that it found to be “extraordinary, unusual and unique, and not recurring.”<sup>26</sup> The Commission’s decision in the Sibley case was subsequently affirmed by the Missouri Court of Appeals.<sup>27</sup>

The classic example of an event that would be extraordinary, unusual and unique, and not recurring would be a fire, or flood, or ice storm that causes a large amount of damage to the utility’s property. In those circumstances, it is generally agreed that the company should be permitted to defer the costs related to that extraordinary event through

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<sup>24</sup> 18 CFR part 201, general instruction 7.

<sup>25</sup> *In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Electrical Operations. In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Purchase Power Commitments.* 1 MPSC 3d 200 (1991)

<sup>26</sup> *Id.* at 205.

<sup>27</sup> *State ex rel. Public Counsel v. Public Service Commission*, 858 S.W. 2d 806 (Mo. App. W.D. 1993)

an AAO.<sup>28</sup> However, the Commission has never limited the granting of an AAO to expenses resulting from such natural catastrophes.

On the contrary, the Commission has found that an AAO would be appropriate in a wide variety of circumstances. For example, in the Sibley case – the case in which the Commission set out its standards for the granting of an AAO – the Commission approved an AAO for the deferral of costs relating to refurbishment of the company’s coal-fired generating plant.<sup>29</sup> Similarly, the Commission has granted an AAO for the deferral of costs related to a company’s compliance with changed accounting standards,<sup>30</sup> and for a company’s costs incurred to enhance security after the terrorist attacks of September 11, 2001.<sup>31</sup>

On several occasions, the Commission has granted AAOs authorizing deferral of costs relating to actions that a utility has been required to take as a result of governmental orders, regulations, or statutes. For example, the Commission has granted AAOs for costs related to a company’s compliance with emergency amendments to the Commission’s cold

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<sup>28</sup> For an example see: *In the Matter of Aquila Inc.’s Application for the Issuance of an Accounting Authority Order Relating to its Electrical Operations in the Aquila Networks-MPS Division as a Result of a Severe Ice Storm*. Order Granting Accounting Authority Order, Case No. EU-2002-1053 (June 27, 2002)

<sup>29</sup> *In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Electrical Operations. In the Matter of the Application of Missouri Public Service for the Issuance of an Accounting Order Relating to its Purchase Power Commitments*. 1 MPSC 3d 200 (1991)

<sup>30</sup> *In the Matter of the Application of Union Electric Company for an Accounting Authority Order*. 1 MPSC 3d 329 (1992)

<sup>31</sup> *In the Matter of the Joint Application of Missouri-American Water Company, St. Louis Water Company, d/b/a Missouri-American Water Company, and Jefferson City Water Works Company, d/b/a Missouri-American Water Company, for an Accounting Authority Order Relating to Security Costs*. Report and Order on Remand, Case No. WO-2002-273 (November 10, 2004)

weather rule,<sup>32</sup> and for expenses related to a company's compliance with a gas safety line replacement program.<sup>33</sup>

## **DECISION**

After applying the facts as it has found them to its conclusions of law, the Commission has reached the following decisions regarding the issues identified by the parties.

### **The Granting of an AAO is Appropriate**

Based on the Sibley standard that the Commission has applied to requests for AAOs for the last fifteen years, an AAO is appropriate if MGE demonstrates that the costs to be deferred are "extraordinary, unusual and unique, and not recurring." In this case, the costs that MGE seeks to defer are property taxes. In most cases, the payment of property taxes by a utility would not be a fit subject for an AAO. MGE, like all investor-owned utilities, routinely pays property taxes. Again, like all other investor-owned utilities, MGE is routinely allowed to recover the taxes it pays from its ratepayers through the inclusion of those tax payments in its cost of service when its rates are calculated in a rate case.

The Kansas property tax on gas held in storage in that state is unusual in that MGE, which does not serve customers in Kansas, has never before had to pay property tax in Kansas. However, if the Kansas taxes are found to be legal in the ongoing court challenge,

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<sup>32</sup> *In the Matter of the Application of UtiliCorp United, Inc., d/b/a Missouri Public Service and St. Joseph Light and Power Company for an Accounting Authority Order Relating to Commission Rule 4 CSR 240-13.055(13)*, 11 MPSC 3d 78 (2002), and *In the Matter of the Application of Missouri Gas Energy, a Division of Southern Union Company, for an Accounting Authority Order Relating to Commission Rule 4 CSR 240-13.055(13)*, 11 MPSC 3d 317 (2002)

<sup>33</sup> *In the Matter of the Tariff Revisions of Missouri Gas Energy, a Division of Southern Union Company, Designed to Increase Rates for Natural Gas Service to Customers in the Missouri Service Area of the Company*. 10 MPSC 3d 369 (2001).

and MGE is required to pay the tax, it should be able to recover those tax payments for future years through its rates when it includes those taxes in its cost of service in a future rate case.

The problem is that, at the moment, MGE could not include the Kansas taxes in its cost of service even if it were to immediately file a new rate case. As a general rule, for an item of cost to be included in a utility's cost of service, that item of cost must be both known and measurable. A utility's customers should not be expected to pay, through their rates, for costs that are speculative and might never actually be incurred. MGE's Kansas tax liability is now measurable – it has received a bill from the Kansas tax authorities for the 2004 year, and future tax bills can be estimated – but its Kansas tax liability is not yet known because of the uncertainty resulting from the ongoing legal challenge. If MGE prevails in court, it may never have to pay the Kansas property taxes.

The amount of taxes that MGE might have to pay in Kansas is significant, both to MGE and to its ratepayers. It would not be appropriate to allow MGE to recover millions of dollars from its ratepayers for taxes that it might never have to pay. On the other hand, these taxes are a legitimate cost of doing business for which the ratepayers should be responsible. It would not be fair to MGE's shareholders to shift that burden on to them if those taxes ultimately must be paid. Furthermore, it was MGE's decision to challenge the legality of the Kansas taxes, a decision that could greatly benefit its ratepayers, that has placed MGE in this difficult position. If MGE had accepted the Kansas taxes without challenge, it could have simply passed the added taxes on to its ratepayers by filing a rate case. Instead, by looking out for the interest of its ratepayers, it has created the possibility that it will not be able to recover several million dollars to which it would otherwise be

entitled. It is that conundrum that makes an AAO the appropriate means for dealing with the potential Kansas tax liability.

By granting MGE an AAO, it will be allowed to defer the cost of paying the Kansas property taxes for consideration in a future rate case after the legality of those taxes is determined and the costs are known and measurable. If those taxes are found to be illegal and MGE does not have to pay them, then the deferred amounts will simply be written off the balance sheet and neither the ratepayers nor the shareholders will be harmed. If, on the other hand, MGE ultimately must pay the taxes, it will be able to make its case for the inclusion of its additional tax liability into its cost of service in a future rate case.

This uncertainty surrounding MGE's obligation to pay a significant amount of taxes is an unusual and unique situation that is not likely to recur. As such it meets the Sibley standard for the granting of an AAO and the granting of such an AAO is appropriate.

### **The Period of Deferral and Amortization**

The Commission has found that an AAO should be granted to allow MGE to defer recognition of its Kansas property tax obligations because of the uncertainty surrounding its ultimate obligation to pay those taxes. Once the legality of those taxes is resolved by the appropriate court, that uncertainty goes away and the Kansas property taxes become just another item of expense. At that point the need for the AAO also goes away and the deferral must end.

MGE argues that the deferral should be allowed to continue until it is in a position to file its next rate case because otherwise it will not be able to recover the full amount of the deferred expenses from its customers in rates. That argument is not compelling because an AAO is not a guarantee that the company will be able to recover all of its deferred



expenses in rates. Indeed, under some circumstances the expenses deferred under an AAO may never be recovered in rates. If MGE wishes to recover its Kansas property tax expenses in its rates, it controls the date when it will file a rate case. Once the uncertainty surrounding the Kansas property taxes is judicially resolved, MGE is free to file a rate case at a date of its choosing to attempt to recover those costs. It would not be appropriate to continue the deferral just to allow MGE more time to file a rate case.

Furthermore, an extended deferral period increases the mismatch between the customers who benefit from the payment of the Kansas property taxes, and the customers who will be asked to pay for those costs. Obviously, MGE had customers in 2004 who will no longer be customers in 2008. The reverse is also true. MGE will have customers in 2008 who were not customers in 2004. By deferring costs from 2004 to 2008, the customers of 2008 will be required to subsidize the customers of 2004.

Any AAO creates a mismatch and resulting subsidization. For that reason, the deferral should not be allowed to continue any longer than necessary. An inappropriately long deferral period will only increase the mismatch. Since several million dollars would be deferred each year under the AAO, each year of deferral will substantially increase the subsidization.

For those reasons, the Commission agrees with Staff's position and will require MGE to start amortization of the deferred Kansas property tax expense beginning the month after the final judicial resolution of the legality of that tax.

In addition to requiring that MGE start amortization of the deferred Kansas property tax expenses promptly after final determination of the legality of that tax, Staff proposes that the company be allowed to defer only two years of taxes. In other words, MGE would

be allowed to defer Kansas property taxes only for the 2004 and 2005 tax years. However, since a judicial decision regarding the legality of the tax is not expected until the summer of 2006, a two-year limit on deferral of those expenses would unfairly deny MGE a portion of the benefit of the AAO. Therefore, the Commission will allow MGE to defer Kansas tax expenses for three years, 2004, 2005, and 2006.

**IT IS THEREFORE ORDERED:**

1. That Missouri Gas Energy, a division of Southern Union Company, is granted an Accounting Authority Order whereby the company is authorized to record on its books a regulatory asset, which represents the expenses associated with the property tax to be paid to the state of Kansas pursuant to Senate Bill 147 for tax years 2004, 2005, and 2006. Missouri Gas Energy may maintain this regulatory asset on its books until the beginning of the month after the final judicial resolution of the legality of that tax. Thereafter, Missouri Gas Energy shall commence amortization of the deferred amounts, with the amortization to be completed over a five-year period.
2. That nothing in this order shall be considered a finding by the Commission of the value or prudence for ratemaking purposes of the properties, transactions, and expenditures herein involved. The Commission reserves the right to consider any ratemaking treatment to be afforded the properties, transactions, and expenditures herein involved in a later proceeding.
3. That any pending motions that the Commission has not specifically ruled upon are denied.

4. That this report and order shall become effective on September 18, 2005.

**BY THE COMMISSION**

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written in a cursive style.

Colleen M. Dale  
Secretary

( S E A L )

Davis, Chm., Murray and Appling, CC., concur;  
Gaw and Clayton, CC., dissent;  
certify compliance with the  
provisions of Section 536.080, RSMo 2000.

Dated at Jefferson City, Missouri,  
on this 8th day of September, 2005.

## Missouri Public Service Commission

### Respond Data Request

<b>Data Request No.</b>	0273.1
<b>Company Name</b>	Kansas City Power & Light Company-Investor(Electric)
<b>Case/Tracking No.</b>	ER-2016-0285
<b>Date Requested</b>	11/9/2016
<b>Issue</b>	General Information & Miscellaneous - Other General Info & Misc.
<b>Requested From</b>	Lois J Liechti
<b>Requested By</b>	Nicole Mers
<b>Brief Description</b>	Greenwood Solar Allocation
<b>Description</b>	1. Provide a breakdown of the actual plant in service and accumulated depreciation by FERC account at June 30, 2016 and December 31, 2016 (when available) for the Greenwood solar generation facility. 3. Provide the actual labor, non-wage maintenance costs by month, FERC account and resource beginning when the Greenwood facility was placed in service and continue to update throughout the case. 4. Provide any other actual expenses by month, FERC account and resource code beginning when the Greenwood facility was placed in service and continue to update throughout the case. DR requested by: Karen Lyons (karen.lyons@psc.mo.gov)
<b>Response</b>	Please see attached.
<b>Objections</b>	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **ER-2016-0285** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Kansas City Power & Light Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Kansas City Power & Light Company-Investor(Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

<b>Security :</b>	Public
<b>Rationale :</b>	NA

KCPL  
Case Name: 2016 KCPL Rate Case  
Case Number: ER-2016-0285

Response to Lyons Karen Interrogatories - MPSC\_20161109  
Date of Response: 11/21/2016

Question:0273.1

1. Provide a breakdown of the actual plant in service and accumulated depreciation by FERC account at June 30, 2016 and December 31, 2016 (when available) for the Greenwood solar generation facility. 3. Provide the actual labor, non-wage maintenance costs by month, FERC account and resource beginning when the Greenwood facility was placed in service and continue to update throughout the case. 4. Provide any other actual expenses by month, FERC account and resource code beginning when the Greenwood facility was placed in service and continue to update throughout the case. DR requested by: Karen Lyons ([karen.lyons@psc.mo.gov](mailto:karen.lyons@psc.mo.gov))

Response:

1. The attached file “Q0273.1\_KCPL GMO Greenwood Solar Plant and Reserve” presents the plant in service and accumulated allocated reserve by Plant Account at June 30, 2016.

Answered by: Martin Stark, Property Accounting

Attachment: Q0273.1\_KCPL GMO Greenwood Solar Plant and Reserve.xlsx

3. There have been no maintenance costs charged to the Greenwood Solar Facility since it was placed in service.
4. There have been no other actual expenses charged to the Greenwood Solar Facility since it was placed in service.

Answered by: Robert E. Anderson, Generation Engineering Services

Attachments:

Q0273.1\_KCPL GMO Greenwood Solar Plant and Reserve.xlsx

Q0273.1\_Verification.pdf

**Kansas City Power & Light Co.  
Q0273.1\_KCPL GMO Greenwood Solar Plant and Reserve**

**Case No: ER-2016-0285**

**KCPL Greater Missouri Operations  
Greenwood Solar Generating Facility  
Plant in Service and Allocated Reserve  
As of June 30, 2016**

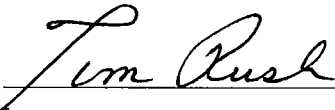
<b>Plant Account</b>	<b>Cost</b>	<b>Allocated Reserve</b>
<b>34401-Oth Prod-Solar</b>	<b><u>8,376,555.77</u></b>	<b><u>0.00</u></b>

## *Verification of Response*

**Kansas City Power & Light Company  
AND  
KCP&L Greater Missouri Operations**

**Docket No. ER-2016-0285**

The response to Data Request # 0273.1 is true and accurate to the best of my knowledge and belief.

Signed:   
Date: November 21, 2016