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Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY
AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. EU-2014-0077

Jefferson City, Missouri
December 2013

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

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Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1981. I have been employed by the Missouri Public Service Commission ("Commission") since September 1981 within the Auditing Unit.

Q. What is your current position with the Commission?

A. In April 2011, I assumed the position of Manager of the Auditing Unit, Utility Services Department, Regulatory Review Division, of the Commission.

Q. Are you a Certified Public Accountant (CPA)?

A. Yes, I am. In November 1981, I passed the Uniform Certified Public Accountant examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1990 to current, is attached as Schedule MLO-1 to this rebuttal testimony.

Q. What knowledge, skills, experience, training and education do you have in the areas of which you are testifying as an expert witness?

A. I have been employed by this Commission as a Regulatory Auditor for over 30 years, and have submitted testimony on ratemaking matters numerous times before the Commission, including a number of cases that dealt with accounting authority orders (AAO). I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings many times. I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission.

Q. Have you participated in the Commission Staff's ("Staff") audit of Kansas City Power & Light Company (KCPL) and KCP&L Greater Missouri Operations Company (GMO) (together, "Companies") concerning those companies' requests for an AAO in this proceeding?

A. Yes, I have, with the assistance of other members of Staff.

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony in this proceeding.

A. As set forth in their Application in this proceeding, as well as in the direct testimonies of Companies witnesses Ryan A. Bresette, John R. Carlson and Darrin R. Ives, KCPL and GMO are requesting an AAO to allow the Companies to defer certain types of transmission expenses they currently incur and will incur in the future. Most, but not all of these expenses, are billed to the Companies by the Southwest Power Pool (SPP). This testimony will explain the reasons for Staff's recommendation that the Commission reject the Companies' requests.

Granting the Companies' AAO requests is not conceptually appropriate because the transmission costs for which the Companies seek deferral are ordinary and ongoing costs of their utility business, and are not "extraordinary" in any way. The Commission has previously held that only extraordinary costs should be eligible for deferral treatment.

Even if the Companies' proposal was conceptually sound, KCPL and GMO have structured their request in a skewed and inappropriate manner. The Companies' deferral request seeks earnings protection against increases in portions of their transmission revenue requirement, but would totally ignore concurrent and potentially offsetting changes in the levels of transmission revenues received by them, as well as expected cost savings and benefits associated with the projected increases in transmission expenses for which they seek deferral.

In certain respects, the Companies' deferral request in this case is more akin to the past authorization of "tracker mechanisms" to utilities than to traditional AAO requests. However, even if viewed as equivalent to a request for a transmission expense tracker, the Company's Application still fails to meet appropriate criteria for such treatment, as will be explained in this rebuttal testimony.

In the event the Commission accepts a form of the relief the Companies' request in their Application, Staff proposes conditions concerning that approval.

Q. Are other members of Staff also submitting rebuttal testimony in this proceeding?

A. Yes. Staff witness Michael Stahlman of the Energy Rate Design & Tariffs Unit, Economic Analysis Section, of the Tariff, Safety, Economic and Engineering Analysis Department in the Regulatory Review Division is also submitting rebuttal testimony to provide the Commission with background information concerning the nature of the costs billed to the Companies on an ongoing basis by SPP.

ACCOUNTING AUTHORITY ORDERS/BACKGROUND

Q. What are KCPL and GMO requesting in their Application in Case No. EU-2014-0077?

A. The Companies request that the Commission issue an AAO authorizing the Companies to "(i) to defer and record in Account 182 of the Uniform System of Accounts of the Federal Energy Regulatory Commission ('USOA') certain incremental costs associated with their transmission costs or record in USOA Account 254 the annual transmission costs below the amount included in current base rates; (ii) to include carrying costs based on the Companies' latest approved weighted average cost of capital on the balances in this regulatory asset or regulatory liability; and (iii) to defer such amounts in a separate regulatory asset or regulatory liability with the disposition to be determined in each company's next general rate cases." (*Application for Accounting Authority Order ("Application")*, page 1).

Q. What is an AAO?

A. An AAO is an authorization by the Commission for a utility to account for a cost in a different manner than is normally prescribed in the USOA which the Commission has adopted for accounting purposes. The most common example of AAOs in this jurisdiction are orders from the Commission allowing a company to defer on its books costs associated with "extraordinary events," such as natural disasters (or so-called "acts of God") or other extraordinary events involving utility infrastructure. Staff counsel advises me that a Missouri appellate court case respecting an AAO is *State ex rel. Public Counsel v. Public Serv. Comm'n*, 858 S.W.2d 806 (Mo.App. W.D. 1993) (appeal of Report and Order in Case No. EO-91-358[1])

[1] In the matter of the application of Missouri Public Service for the issuance of an accounting order relating to its electric operations.

respecting the Sibley 1 and 2 generating units rebuild and coal conversion to burn low-sulfur coal.

Q. What is a "deferral?"

A. In the context of an AAO request, a "deferral" is the booking of a particular cost, normally charged to expense on a utility's income statement in the current period, to the company's balance sheet as an asset. For financial reporting purposes, a deferral allows a utility to avoid taking a charge against earnings in the amount of that cost in the current period. For ratemaking purposes, a deferral allows a utility to seek subsequent rate recovery of the deferred cost, even if it was incurred outside of a test year, test year update period, or true-up period of a general rate proceeding.

Q. Does it benefit a utility to defer costs associated with an extraordinary event?

A. Yes. Under normal accounting practices, a utility would charge to expense on its income statement all costs associated with an extraordinary event as it incurs them. If deferral of those costs is authorized through an AAO, the utility treats the costs associated with an extraordinary event as a regulatory asset and records them on its balance sheet to be amortized over some period of time. In that manner, an AAO gives the utility an opportunity to obtain rate recovery of extraordinary costs even if the costs were not actually incurred within an ordered test year, test year update period, or true-up period of a general rate proceeding.

Q. Is it the Commission's general practice to allow a utility to preserve deferrals on its balance sheet until such time that an amortization of the deferred costs can be included in the company's rates?

A. No. In most cases, utilities have agreed, or the Commission has ordered, that deferred costs begin to be amortized to expense a short time after the extraordinary event triggering the deferral has occurred, even if the company does not have a general rate case on file. However, utilities still benefit from the deferral and amortization process in the absence of immediate or near term rate recovery because they can spread the financial impact of the extraordinary event over a number of years rather than reflecting the entire impact in the year the extraordinary event occurred. This practice improves the earnings picture of the affected utility in the year the extraordinary event occurred.

Q. What are "regulatory assets" and "regulatory liabilities?"

A. A regulatory asset is a cost booked by a utility as an asset on its balance sheet based upon a reasonable probability that regulatory authorities will agree to allow rate recovery of the cost at a later time. A regulatory liability is an amount booked by a utility as a liability on its balance sheet based upon the actual or probable actions of regulators. Most regulatory liabilities relate to amounts that are likely to be returned to customers in rates through a refund or credit at a later point in time due to directives of regulatory authorities.

Q. What standard has the Commission used to determine whether it should authorize a utility to deviate from normal USOA accounting rules?

A. Generally, the Commission in prior cases has stated that the standards for granting the authority to a utility to defer costs incurred outside of a test year as a regulatory asset are: 1) that the costs pertain to an event that is extraordinary, unusual and unique, and not recurring; and 2) that the costs associated with the event are material.

Q. Has the Commission made ratemaking findings in the context of AAO applications?

A. No. The Commission has traditionally held that AAO applications are for the sole purpose of determining the accounting treatment to be afforded to certain costs. Any decisions regarding rate recovery of deferred costs have always been reserved by the Commission for subsequent general rate proceedings.

Q. What types of costs associated with extraordinary events has the Commission traditionally allowed utilities to defer through the AAO mechanism?

A. The Commission has most often granted utilities authority to defer incremental costs incurred to repair and restore the utilities' infrastructure from significant damage caused by floods, tornadoes and other wind storms, and ice storms; extraordinary mechanical failure not involving operator negligence; costs associated with Commission rules; and costs associated with completion of extraordinary capital projects.

Recently, the Commission approved an AAO request by Union Electric Company d/b/a Ameren Missouri in File No. EU-2012-0027 to defer lost revenues associated with an ice storm occurrence.

REQUEST FOR DEFERRAL

Q. Please describe in more detail the types of transmission costs the Companies seek authority to defer as part of this Application.

A. The Companies seek authority to defer transmission costs charged to them by SPP and other providers of transmission service. These other providers include utilities, municipalities and cooperatives from which the Companies currently obtain transmission service through "grandfathered transmission agreements." The majority of costs for which the Companies seek deferral are projected to be charges from SPP.

Staff's understanding at this time is that the Company is specifically seeking authority to defer costs charged by providers of transmission service that are booked to USOA accounts 561.4, 561.8, 565, 575.7 and 928.003. Staff witness Stahlman discusses Staff's concerns regarding the lack of detailed definition from the Companies regarding the scope of the costs for which they seek deferral in his rebuttal testimony.

Q. What are "grandfathered transmission agreements?"

A. While most of the transmission service required by KCPL and GMO is received from SPP, certain transaction agreements remain in effect between the Companies and other third party providers of transmission service within the SPP footprint; i.e., the Companies and their counterparties transact directly with each other, and not with SPP, for the transmission service within the SPP footprint. The Companies pay transmission expenses and receive transmission revenues as a result of their grandfathered transmission agreements.

Q. What are "regional transmission organizations," or RTOs?

A. RTOs are transmission providers that administer transmission service over a defined region generally comprising the service territories of its transmission owning members. KCPL and GMO belong to the SPP RTO. SPP administers transmission service over an eight-state region including parts of Missouri. KCPL and GMO, as well as other entities belonging to SPP, have transferred functional control over their transmission assets to SPP. The transmission service paid by the Companies for transmission service within the SPP region is provided under the terms of SPP's Open Access Transmission Tariff (OATT).

Q. How do KCPL and GMO currently recover their costs in retail rates associated with the transmission function?

A. KCPL and GMO own transmission assets associated with the provision of electric service to their retail customers, and such assets are included in their retail rate base on which a return is earned. In addition, the Companies' retail customers are responsible for paying in rates the direct costs associated with transmission service; i.e., depreciation expense on transmission assets, payment of salaries and other payroll-related costs for KCPL and GMO transmission employees, etc. Customer rates also include an allowance for amounts paid to SPP and other third party entities by KCPL and GMO for transmission service.

Transmission revenues received from SPP or other transmission providers by KCPL and GMO are intended to compensate the Companies' for other entities use of their transmission facilities. These revenues are reflected in the Companies' retail cost of service as an offset to transmission expenses to recognize that retail customers should not be responsible for the portion of KCPL's and GMO's transmission investment used to serve other entities.

Q. Why do KCPL and GMO pay SPP for transmission service, and not other regional utilities?

A. First, SPP is the designated entity that has functional control over transmission service within its eight-state territory, and all amounts paid by members for transmission service within this region are made to SPP, and not individual members. Second, as the entity responsible for administering transmission service over a broad service territory, SPP incurs certain administrative and operating costs that it charges to all of its member entities. Third, recognizing that transmission is a utility function that optimally needs to be planned and coordinated on an intra-regional basis, SPP has directed the construction of various transmission capital assets whose costs are charged to SPP members on a regional or zonal basis determined by a number of different allocation methodologies. The costs associated with these SPP transmission projects, in particular, are projected to lead to increased allocation of transmission expenses to KCPL, GMO and other SPP members over the next few years.

Q. Why do KCPL and GMO also receive transmission revenues as part of belonging to SPP?

A. The costs that KCPL and GMO pay to SPP for transmission service can be thought of as the compensation due to the other members of SPP from KCPL and GMO for use of the other members' transmission assets in providing service to retail customers. In the same fashion, however, other members of SPP utilize the transmission assets of KCPL and GMO in providing service to their customers, and such members pay amounts to SPP that are in turn remitted to KCPL and GMO as transmission revenues through various allocation methodologies. In assessing the Companies' request for an AAO in this Application, it is crucial to understand that, as members of SPP, KCPL and GMO both pay out expenses to SPP and receive revenues from SPP associated with provision of transmission service by SPP members on an ongoing basis.

<u>CRITERIA FOR DEFERRAL</u>

Q. Do KCPL's and GMO's AAO request for an AAO covering transmission costs meet the criteria previously set out by the Commission for allowing deferral of costs?

A. No. The Commission has maintained a policy of restricting issuance of AAOs in most circumstances to costs associated with extraordinary events. Transmission expenses in general, and the specific expenses for which the Companies seek deferral authority in this proceeding, are not extraordinary in any way.

Q. What criteria has the Commission established in the past to determine whether costs should be deferred through the AAO mechanism?

A. In Case Nos. EO-91-358 and EO-91-360,[2] the Commission set out policy directives regarding the use of AAO to defer costs normally charged to income as incurred. At page 7 in its Report and Order (December 20, 1991) in that proceeding, the Commission stated:

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

Later, at page 8 of the Report and Order in Case Nos. EO-91-358 and EO-91-360, the Commission stated the following regarding materiality of costs for which deferral treatment is sought:

> The issues of whether the event has a material or substantial effect on a utility's earnings is also important, but not a primary concern.

Q. How do KCPL and GMO attempt to justify the transmission expenses for which they seek deferral in this Application as being allegedly extraordinary in nature?

A. The Companies witnesses filing direct testimony in support of the Application do not directly attempt to explain how the transmission expenses at issue here would be considered

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[2] In the matter of the application of Missouri Public Service for the issuance of an accounting order relating to its purchase power commitments.

"extraordinary" under prior Commission criteria. However, in his direct testimony, Mr. Ives states "But what makes the current environment of transmission costs extraordinary in nature is that currently the Southwest Power Pool's ('SPP') regional transmission upgrade projects are being planned, constructed and billed to SPP members in order to expand and enhance the ability of the SPP transmission footprint. In addition, the associated SPP administrative fees are increasing contributing to KCP&L's transmission costs extraordinarily rising over historical norms." (Ives direct; page 3, line 21 through page 4, line 3).

Q. Do you agree with Mr. Ives that the allocated costs of SPP's regional transmission upgrade projects are extraordinary in nature?

A. No. As previously discussed, the Commission has defined "extraordinary" as meaning "unusual and unique; not recurring." The existence of these regional projects, and the potential funding required of SPP members related to their capital and operating costs, has been well known for some time. In addition, my understanding is that other RTOs are also following the same general approach of requiring the construction of major transmission assets funded on a regional basis by member entities. The current transmission cost environment faced by the Companies appears to be the norm for electric utilities within SPP and beyond that region.

Q. In general, can transmission expenses paid by the Companies to SPP and other transmission providers be considered "unusual and unique and not recurring?"

A. No. KCPL and GMO have incurred transmission expenses since the Companies began providing retail electric service to customers many decades ago. Nor is the Companies' membership in SPP a new phenomenon, or payment of transmission charges to SPP through the OATT. To summarize, transmission expenses in general, including the costs for which KCPL and GMO seek deferral treatment in this proceeding, are an ordinary and normal cost of providing electric service by utilities.

Q. Why does it matter whether a cost is extraordinary or not in assessing whether it should be allowed deferral treatment?

A. Customer rates are best set taking into consideration "all relevant factors;" that is, measuring a utility's rate base, cost of capital, expenses and current level of revenues at a consistent point in time. Deferral of costs provides an exception to this approach, by allowing a utility the ability to seek subsequent rate recovery of the costs of an extraordinary event, even if such costs were incurred prior to the test year selected in the subsequent rate proceeding. However, such exceptions should only be allowed on a very limited basis, as was discussed by the Commission in its Report and Order in Case Nos. EO-91-358 and EO-91-360 noted above.

Q. Do the transmission costs at issue in this Application meet the criteria quoted above from the Report and Order in Case Nos. EO-91-358 and EO-91-360 of not being expected to recur frequently, and not being considered in the evaluation of ordinary business operations of KCPL and GMO?

A. No.

Q. Do you agree with Mr. Ives' characterization that transmission costs have been "extraordinarily rising" over historical norms?

A. No. The Commission has in the past required that costs be extraordinary in nature to be eligible for deferral, with the materiality of amount to be deferred as a secondary consideration for deferral. The words "extraordinary" and "material" do not mean the same thing; the concept of "extraordinary" relates to the circumstances under which a particular cost was incurred, and the concept of "material" relates to the overall magnitude of the cost. A cost can be extraordinary but not material, or material but not extraordinary. The fact that the Company's transmission payments might by material or might be significantly increasing over past levels is not relevant to a determination of whether the costs can be reasonably determined to be extraordinary in nature.

Q. Are there any other aspects of the Companies' deferral request that call into question any assertion by KCPL and GMO that the costs sought to be deferred are, in fact, extraordinary?

A. Yes. The Companies' Application seeks authority to defer all transmission costs in excess of the amount allegedly included in rates in their prior Missouri rate proceedings. A deferral request that implicitly treats any amount of transmission expense incurred above the level included in current rates as being "extraordinary" is not a reasonable use of that term. A cost should not be deemed "extraordinary" due to the simple fact that it is not included in a utility's current rate levels.

Q. Regarding the issue of materiality, have the Companies provided evidence that all components of KCPL's and GMO's transmission expenses for which they are seeking deferral treatment are projected to significantly increase over time?

A. No. ** ____

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Q. Excluding the impact of allocated regional transmission projects, what is the expected level of increase in the other types of transmission expenses for which the Companies seek deferral in the future?

A. The Companies' response to Staff Data Request No. 5 present projections that KCPL's transmission costs in Accounts 561.4, 561.8, 575.7 and 928.003 will ** ____________

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I have attached a copy of the Companies' response to Staff Data Request No. 5 as Highly Confidential Schedule MLO-2 to this testimony.

Q. At page 5 of his direct testimony, Mr. Ives presents a chart showing a comparison of the types of transmission costs for which the Companies seek deferral between the amount they assert is included in their current rates and the amount of these expenses that is expected to be incurred in calendar year 2013. What does this chart show?

A. Again not taking into account the projected increase in account 565, this chart shows that all other transmission related expenses in accounts 561, 575 and 928 are projected to stay steady for KCPL, and actually decline for GMO, over this period. This is further evidence that KCPL and GMO have not demonstrated that the all types of the transmission costs for which they are seeking deferral have or will experience material increases over time.

Q. In the response above, are you conceding that the projected increases in account 565 costs, which include allocated costs associated with SPP regional transmission projects, should be considered for deferral treatment?

A. No, not at all. While the Company's projections for this particular transmission cost indicate the possibility of material increases over the next few years, these costs cannot be considered to be extraordinary in nature for the reasons already discussed.

Q. At page 2 of his direct testimony, Mr. Ives states that the transmission costs for which deferral is sought are "mostly out of the Companies' control." Does Staff agree?

A. Staff agrees from a narrow perspective that KCPL and GMO, as individual participants in the SPP RTO, do not exercise unilateral control over the level of transmission costs allocated to them by SPP. However, that does not mean that these transmission costs are in any way analogous to the unpredictable and volatile costs of natural disasters which have been traditionally been treated through the AAO process in this jurisdiction. The costs of catastrophic ice storms, wind storms/tornadoes, floods and similar events cannot be precisely anticipated or planned for, and for this reason there is no allowance made in utility rates for this type of cost prior to their incurrence. In contrast, transmission costs in general, and costs specifically allocated by SPP, are the result of detailed discussions and plans made years in advance, and these costs are included in KCPL's and GMO's rates on an ongoing basis through the general rate case process.

Q. Do KCPL and GMO participate in the SPP stakeholder process?

A. Yes. The Companies' response to Staff Data Request No. 9 indicates that a number of KCPL and GMO employees participate in various respects on SPP stakeholder committees and working groups. Such participation is very important in working toward the goal of ensuring that KCPL, GMO and its retail customers are not adversely affected by the SPP process for allocating transmission costs and revenues among SPP members.

Q. Would approval of the Companies' AAO request affect KCPL's and GMO's incentive to diligently protect the financial interests of the Companies and their customers through participation in the SPP stakeholder process?

A. Yes. Inherently, an authorization to book any increase in transmission expenses above the level already included in rates would weaken the Companies' incentive to control such expense increases to a minimum, as KCPL's and GMO's reported earnings would be insulated from increases in their transmission expenses above the level currently reflected in rates through the general rate case process.

<u>SPP TRANSMISSION REVENUES</u>

Q. Do KCPL and GMO seek authority to defer the entire financial impact on their transmission revenue requirement associated with membership in SPP?

A. No. The Companies do not directly reference in their Application the fact that they receive transmission revenues as a result of membership in SPP. Within this Application, KCPL and GMO have not proposed to offset any deferral of increased transmission expenses with increased receipt of transmission revenues from SPP.

Q. Why have the Companies ignored the existence of SPP transmission revenues in their Application?

A. Again, their Application and supporting testimony are silent as to why such revenues should not be reflected as an offset against any deferral of transmission expense. However, both because of positions reflected in filed testimony by the Companies in prior proceedings, and from a Companies' data request response in this proceeding, it is clear that

KCPL and GMO oppose any reflection of transmission revenues in a transmission deferral resulting from this Application.

Q. Why do the Companies oppose this treatment?

A. Based upon the response to Staff Data Request No. 7 submitted in this proceeding, the Companies assert that their deferral request only considers the costs imposed upon KCPL and GMO as transmission customers, and not the financial impact on the Companies from SPP memberships associated with their ownership of transmission assets. KCPL and GMO assert it would be a mismatch to offset revenues associated with the Companies' ownership of transmission against expenses associated with the Companies' use of transmission service obtained from other entities. I have attached the Companies' response to Staff Data Request No. 7 as Schedule MLO-3 to this testimony.

Q. Does Staff agree with this contention?

A. No. The Companies' participation in SPP as members encompasses both the financial impacts of their ownership of transmission assets and the financial impacts of the Companies' use of other member's transmission assets in providing electricity to retail customers. From a revenue requirement perspective, the financial impacts of SPP membership on KCPL's and GMO's financial situation are opposite sides of the same coin. To the extent that the costs of providing transmission service increase for other members of SPP, this will lead to an increased level of transmission expense charged to KCPL and GMO by SPP. To the extent that KCPL's and GMO's cost of providing transmission service increase, that in turn will lead to an increased level of transmission revenues being allocated to KCPL and GMO by SPP. To determine an accurate measurement of the impact on the Company's revenue requirement associated with SPP membership, one must take into account changes in both SPP allocated revenues and expenses. To ignore one side of the SPP revenue requirement equation, as KCPL and GMO propose to do, would result in creation of an overstated regulatory asset. Some portion of the Companies' increased transmission expenses would, in actuality, be "recovered" through receipt of concurrent increases in transmission revenues; therefore in this circumstance, KCPL and GMO could obtain double recovery of those expenses under its proposal if it seeks rate recovery of the transmission expenses it is able to defer, and transmission revenues are not offset against the expenses.

Q. Can you illustrate this concern with a simple example?

A. Yes. One year after its last Missouri general rate proceeding, assume that KCPL has incurred an additional $10 in allocated expenses for SPP transmission service over the level reflected in its current customer rates. Further assume that KCPL is receiving $2 in additional transmission revenues from SPP above the level reflected in its last Missouri rate proceeding. Therefore, the net increase in KCPL's cost of service related to SPP membership is $8. However, KCPL's position in this Application is that it should be allowed to defer the increase in expense of $10, to enable it to seek recovery of that amount on a dollar-for-dollar basis in future rate proceedings. In contrast, KCPL would pocket the benefit of the increase of $2 in transmission revenues for itself, and not provide its customers the benefit of that increased level of revenues in future rate proceedings. This example shows that, as structured, the Companies' deferral request in this Application would result in a financial windfall for them. AAOs should not be used to obtain this result, in Staff's view.

Q. Does Staff have the same concern regarding the revenues received and the expenses incurred regarding the Companies' grandfathered transmission agreements?

A. Yes. Staff understands that KCPL's position is that any increase in the level of transmission revenues it receives related to grandfathered transmission agreements should be ignored for purposes of deferral, while any increase in its expense associated with these agreements should be deferred to enable the Companies to seek dollar-for-dollar recovery of the increases in future rate proceedings. The inequity to ratepayers of that position is the same as with the SPP situation.

SPP PARTICIPATION BENEFITS

Q. Have KCPL and GMO asserted in the past that they will receive a net benefit from membership in SPP; i.e., the benefits of membership are projected to exceed the costs?

A. Yes, most recently in File Nos. EO-2012-0135 and EO-2012-0136, in which the Companies sought authority to maintain their ongoing memberships in SPP. This request was supported by filing of a cost/benefit study that purported to show a net benefit to both KCPL and GMO from participation in SPP over the four-year period of 2014-2017. The Commission approved a stipulation and agreement in those cases that allowed KCPL and GMO to continue their participation in SPP through September 30, 2018, at a minimum.

Q. Does the cost/benefit study filed by KCPL and GMO in File Nos. EO-2012-0135 and EO-2012-0136 reference various benefits/savings that should accrue to the Companies in the period of 2014-2017 from membership in SPP?

A. Yes. These amounts include benefits/savings accruing to the Companies related to the new "Integrated Marketplace" functions within SPP that are planned to be implemented in early 2014. In addition, the cost/benefit study also references the existence of benefits to KCPL and GMO related to the construction of regional transmission assets in the SPP region.

Q. Have the Companies proposed to include the costs associated with the new Integrated Marketplace function, as well as the allocated costs of regional transmission projects, within the deferral requested in this Application?

A. Yes.

Q. Have the Companies proposed to include the savings/benefits associated with the new Integrated Marketplace function, as well as the savings/benefits of the regional transmission projects, within the deferral requested in this Application?

A. No.

Q. Does the cost benefit study submitted in File Nos. EO-2012-0135 and EO-2012-0136 assume benefits to the Companies in the form of generation savings?

A. Yes. It should be noted that GMO's existing fuel adjustment clause mechanism should lead to flowing through to customers in between general rate proceedings of 95% of any fuel/purchased power expense savings that may be attributable to that utility's SPP membership. Thus, in this circumstance GMO will only be able to retain 5% of the savings that will occur in the production cost function as a result of SPP participation. However, KCPL currently does not have a fuel adjustment clause mechanism in place, and any savings in fuel/purchased power expense for that utility will be retained by KCPL in entirety and not offset against deferred transmission expenses under this Application.

<u>REGULATORY LAG</u>

Q. Starting at page 9 of his direct testimony, Mr. Ives discusses the concept of "regulatory lag," and why issuance of an AAO would be appropriate to counteract the negative financial impact to the utility of regulatory lag. How does Mr. Ives define "regulatory lag?"

A. At page 9 of his direct testimony, lines 17-20, Mr. Ives defines "regulatory lag" as "the lag that is built into the regulatory framework that prevents the utility from actually realizing an earned return on equity that is commensurate with the allowed return on equity authorized by the Commission in a previous case."

Q. Is this an accurate definition of "regulatory lag?"

A. No. Mr. Ives' definition is slanted. Regulatory lag is simply the passage of time between when a utility incurs a financial change of some sort, and when that change can be reflected in the utility's rate levels. Depending upon the circumstances, regulatory lag can either be detrimental or beneficial to a utility's earnings situation.

Q. Is some amount of regulatory lag inherent in the regulatory process?

A. Yes. The use of historical test years/update periods/true-up periods in this state, as well as the requirement in general that audits be conducted of utilities' cost of service before rate changes can be approved, necessarily means some time will elapse between the time that financial changes occur for a utility and the time such changes can be reflected in rates. In Missouri, due to use of true-up periods in setting rates, that period is usually no more than four to six months.

Q. Should regulatory lag be regarded as an entirely negative phenomenon?

A. No. The existence of regulatory lag creates significant incentives for the utility to be productive and efficient as possible. This can best be illustrated by comparing the current regulatory environment in Missouri to a hypothetical situation where no regulatory lag exists; i.e., where changes in a utility's rate base, expenses, cost of capital and revenues can be reflected in rates virtually instantaneously. In that hypothetical situation, where an increased cost of service can be passed on virtually instantly to customers without financial detriment to the utility, and a decreased cost of service can be passed on virtually instantly to customers to without financial benefit to the utility, it can easily be seen that utilities will have no meaningful incentives to attempt to restrain cost increases or to achieve operational efficiencies in the absence of regulatory lag.

Q. Would granting of the Companies' AAO request be an appropriate way to limit the regulatory lag experienced by KCPL and GMO?

A. No. As already discussed, the Companies' AAO request in this proceeding involves singling out one element of its cost of service (transmission expenses) for special treatment in future rates, and ignoring all other elements of its cost of service, including receipt of SPP transmission revenues and other SPP participation benefits. Such a skewed ratemaking approach is likely to ultimately result in an overall rate that is less fair and reasonable than what would be produced through normal ratemaking practices taking all relevant factors into account. At a minimum, if the Companies' AAO is approved in this proceeding, KCPL's and GMO's earnings would very likely be overstated for the deferral period, even if the deferred costs were never included in future rate changes. Staff advises that any initiative to restructure or reform the current practices for setting rates in this jurisdiction based upon regulatory lag concerns should be applied upon an overall cost of service basis to all elements of utilities' cost of service, and not by providing individual elements of utilities' revenue requirement calculation with "special" treatment.

Q. In his direct testimony, Mr. Ives suggests that granting the Companies' AAO requests will be beneficial in regard to promoting rate stability for customers, and avoiding costly rate proceedings (page 11, lines 1 – 12; page 13, lines 1-3). Has the Commission considered these arguments in previous AAO requests?

A. Yes. In the Report and Order for Case Nos. EO-91-358 and EO-91-360, pages 9-11, the Commission rejected arguments that AAOs should be issued for the reasons of rate stability, avoidance of rate case expense, lessening the effect of regulatory lag, or maintaining the financial integrity of the utility. The Commission in its decision in that proceeding stated that none of those factors would justify granting deferrals if the underlying event were not extraordinary in nature.

<u>TRACKER MECHANISMS</u>

Q. What are tracker "mechanisms," and how do they differ from AAOs?

A. Trackers are similar in concept to AAOs, in that both mechanisms are intended to result in deferral of certain financial impacts on utility books, with the deferral amount eligible for recovery in subsequent rate proceedings. However, trackers are typically different from AAOs in that the associated costs are not extraordinary in nature, the amount of the deferral is tied to a comparison of the cost allowance for the item included in the utility's current rates, and trackers are usually established in general rate proceedings. Based upon the structure of the deferral sought by the Companies in this Application, Staff views this deferral request to be closer to prior requests for use of tracker mechanisms than what has been traditionally sought within AAO requests.

Q. What kind of costs has been provided tracker treatment by the Commission in the past?

A. Typically, trackers have been granted for costs showing significant fluctuation and up-and-down volatility over time, and for which accurate estimation is difficult (pensions and OPEB costs, some storm damage costs); new costs for which there is no or little historical experience, and for which accurate estimation is difficult (O&M costs for new generating stations); and costs imposed upon utilities by Commission rule (vegetation management and infrastructure inspections).

Q. Do KCPL's and GMO's transmission expenses meet these tests?

A. No. As previously discussed, the types of transmission expenses for which deferral is sought by the Companies are not new. The Companies' transmission expenses cannot be considered to be highly unpredictable and volatile; in fact, the Companies' deferral request is supported by forecasted expense totals taken out nearly ten years into the future. Nor are these costs mandated by Commission rule.

Q. Why is use of tracker mechanisms best reserved for general rate proceedings?

A. First, as previously discussed, the use of trackers generally entails a specific agreement by all parties or a directive from the Commission as to the amount of the "starting point" from which any deferred or "tracked" amounts are calculated. Second, consideration of a tracker proposal in a general rate proceeding also allows the Commission to consider any rate of return implications associated with the tracker proposal.

Q. If the Commission were to choose to treat the Companies' application in this proceeding as more akin to a tracker proposal than a traditional AAO request, would that change Staff's recommendation to reject this proposal?

A. No. As previously referenced, the Companies' proposal to defer incremental transmission expenses fails to meet the criteria used in the past to justify deferral of costs through AAOs or tracker mechanisms. Fundamentally, Staff believes the primary reason KCPL and GMO seek this treatment of a portion of its transmission revenue requirement is to lessen its regulatory lag; or, stated a different way, to protect its earnings from the impact of a projected increasing level of ongoing and ordinary transmission costs. Staff asserts that this is not an appropriate or sufficient rationale for either issuance of an AAO or implementation of a tracker mechanism regarding these costs.

CARRYING CHARGES

Q. In its Application, the Companies seek authority to calculate "carrying charges" to add to deferred transmission expenses. What are "carrying charges?"

A. Carrying charges are the equivalent of a return on investment that may be added to a deferred cost to recognize the delay in recovering the cost in rates. Some, but not all, prior AAO deferrals have featured accrual of carrying costs on deferred amounts.

Q. What is Staff's position in this proceeding regarding accrual of carrying costs on deferred transmission expenses?

A. In the event the Commission grants the Companies the requested AAO, Staff opposes inclusion of carrying charges within the deferral. Even if deferral authority is granted for a particular cost, the utility deferring the cost will still lose the time value of money for the lag between incurring the cost and recovering the cost in rates through an amortization. Such a lag is generally inherent in the regulatory process regarding all elements of cost of service. In this instance, accrual of carrying charges is intended to make the Companies "whole" for the time value of money associated with rate recovery of deferred transmission expenses. Granting the Companies authority to book a carrying charge on the deferred transmission costs would go beyond reducing the amount of regulatory lag associated with this cost to an attempt to eliminate regulatory lag on transmission costs in entirety. When the regulatory lag that beneficial to utilities (for example, delay in reflecting increased revenue levels in rates) is not afforded equivalent treatment, the result is inequitable and overstated customer rates.

Q. Traditionally, has the Commission used the AAO process to compensate utilities for the entirety of their losses associated with extraordinary events, such as natural disasters?

A. No. The normal practice has been to allow rate recovery of deferred costs associated with a natural disaster over a multi-year amortization period (usually five years), but not to allow a rate base return on the unamortized portion of deferred costs. The practical effect of this approach is to "share" responsibility for the extraordinary expenses between the utility's shareholders and ratepayers. This demonstrates that the AAO mechanism has not been used in the past to entirely insulate utilities from the financial impact of the triggering events.

DEFERRAL ACCOUNTING

Q. At pages 5-9 of Mr. Ives' direct testimony and in the entirety of Mr. Bresette's direct testimony, there is discussion generally concerning whether the Commission must issue an explicit order directing deferral of certain costs for utilities to be able to book such a deferral. Please comment.

A. Staff does not disagree with the overall conclusion made by Mr. Ives and Mr. Bresette that utilities may not be able to book deferrals of costs in certain circumstances for financial reporting purposes without an order from the Commission explicitly authorizing such a deferral. Therefore, in the event that it is the Commission's intent that the Companies be allowed to book a deferral of transmission costs as a result of this proceeding, Staff believes that the Commission should issue an order authorizing an AAO or tracker for that purpose.

PROPOSED CONDITIONS

Q. If the Commission were to grant KCPL and/or GMO AAOs, or to authorize KCPL and/or GMO to implement transmission trackers, then does Staff propose conditions to those approvals?

A. Yes. If the Commission authorizes KCPL to defer transmission costs in this Application by means of AAOs or tracker mechanisms, then Staff proposes the following conditions:

1. That the deferral reflects both transmission revenues and expenses, and thereby be based upon the level of net transmission costs experienced by KCPL and GMO.
2. That KCPL and GMO will provide to all parties in this case on a monthly basis copies of billings from SPP for all SPP rate schedules that contain charges and revenues that will be included in the deferral and will report, per its general ledger, all expenses and revenues included in the deferral by month by FERC USOA account and KCPL/GMO subaccount or minor account. KCPL and GMO shall also provide, on no less than a quarterly basis, the internally generated reports it relies upon for management of its ongoing levels of transmission expenses and revenues. KCPL and GMO should also commit to notify the parties to this case of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenues and expenses.
3. That KCPL and GMO maintain an ongoing analysis and quantification of all benefits and savings associated with participation in SPP not otherwise passed on to retail customers between general rate proceedings.
4. That KCPL and GMO be required to maintain documentation of its efforts to minimize the level of costs deferred under any AAOs or trackers authorized for it.
5. That all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to Commission

authorization be reserved to the next KCPL and GMO rate proceedings, including examination of the prudence of the revenues and expenses.

6. That an amortization to expense over a 60-month period of the amounts accumulated in any deferral commence on KCPL's and GMO's books in the first full calendar month following Commission approval of the AAOs or trackers.

7. That deferrals resulting from the AAOs or trackers cease under certain circumstances, described below, depending upon KCPL's and GMO's reported return on equity (ROE) levels.

Q. What is the purpose of Staff's first proposed condition, that the deferral reflects both transmission revenues and expenses, and thereby be based upon the net transmission expenses incurred by KCPL and GMO?

A. The intent of this condition is to require that both SPP allocated transmission expenses and SPP allocated transmission revenues be incorporated into any regulatory asset or liability created by KCPL and GMO pursuant to this proceeding.

Q. Is exclusion of transmission revenues from a deferral of transmission expenses acceptable?

A. No. In the case of the Companies' SPP membership, KCPL and GMO are both assigned expenses by SPP for transmission service and receive revenues from SPP for the KCPL and GMO transmission facilities used by SPP to provide transmission service. The SPP transmission charges paid by the Companies are intended to reimburse other SPP members for the Companies' use of the transmission facilities of the other SPP members. In turn, the Companies' have and will receive reimbursement through receipt of revenues from SPP for the use by all other SPP members of KCPL's and GMO's transmission facilities. KCPL's and

GMO's revenue requirement associated with membership in SPP is dependent upon the ongoing relationship of its assigned SPP transmission revenues to its assigned SPP transmission expenses.

If one side of the SPP transmission revenue requirement equation is included in a deferral (the expenses), but the other side is excluded (the revenues), a skewed and inappropriate approach to transmission accounting and ratemaking results. Under the Companies' approach, changes in transmission expenses will be deferred for future recovery from ratepayers, while offsetting and concurrent transmission revenues will be ignored. This result should not be accepted by the Commission.

Q. What is the purpose of Staff's second condition, that KCPL and GMO will provide to all parties in this case on a monthly basis copies of billings from SPP for all SPP rate schedules that contain charges and revenues that will be included in the AAOs or trackers and will report, per its general ledger, all expenses and revenues included in the AAOs or trackers by month by FERC USOA account and KCPL/GMO subaccount or minor account. KCPL and GMO shall provide, on no less than a quarterly basis, the internally generated reports it relies upon for management of its ongoing levels of transmission expenses and revenues. In addition, the Companies should commit to notify the parties to this case of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenues and expenses?

A. The purpose of Staff's second condition is to specify ongoing reporting requirements for KCPL and GMO in regard to the transmission costs and revenues flowing through the deferral. Receipt of this information will enable Staff to monitor the ongoing levels of costs being deferred through the AAOs or trackers, to investigate any unusual trends in the deferred amounts, and expedite its review of these costs in subsequent rate proceedings.

Q. What is Staff's third proposed condition, that KCPL and GMO maintain an ongoing analysis and quantification of all benefits and savings associated with participation in SPP not otherwise passed on to retail customers between general rate proceedings?

A. The purpose of Staff's third proposed condition is that the Companies maintain documentation, to the best of their ability, quantifying the ongoing benefits and savings associated with their membership in SPP, for offset as appropriate against any claimed recovery of deferred transmission expenses in future proceedings.

Q. What is the purpose of Staff's fourth condition, that KCPL and GMO be required to maintain documentation related to its efforts to minimize costs deferred under AAOs or trackers?

A. As previously discussed, granting of a deferral mechanism will be a disincentive to minimize costs to a utility. This condition is intended to require KCPL and GMO to maintain information as to their efforts to minimize transmission costs, so that evidence concerning their efforts and success, or lack thereof, can be considered in conjunction with the Companies' request to recover the deferrals in future rate proceedings.

Q. What is Staff's fifth proposed recommendation, that all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to a AAOs or trackers be reserved to the next KCPL and GMO rate proceedings, including examination of the prudence of the revenues and expenses?

A. The purpose of Staff's fifth condition is to avoid any claim that any order entered by this Commission in a nonratemaking proceeding has the effect of making or setting any present or future ratemaking determinations by the present Commission or regarding a future Commission case. Typically when authorizing an AAO or a tracker, the Commission includes language in its order reserving ratemaking treatment of costs and revenues included in a special accounting mechanism to subsequent rate proceedings.

Q. What is the purpose of Staff's sixth condition, that an amortization to expense over a 60-month period of the amounts accumulated in any deferral commence on KCPL's and GMO's books in the first full calendar month following the approval of any AAOs or trackers?

A. This condition is intended to prevent the Companies from "hoarding" transmission expense recoveries over a long period of time in order to maximize their potential rate recovery of transmission costs. It is neither appropriate regulatory policy nor appropriate application of accounting theory to allow a utility to defer recognition on its financial statements of incurred costs for a prolonged period of time simply to preserve the utility's ability to attempt to recover the entirety of the cost in question. An AAO or tracker, if granted in this circumstance, should only allow the utility to spread recognition of the deferred costs over a five-year period for financial reporting purposes, not to indefinitely delay any recognition of these costs at all, especially in time periods in which the related benefits to these expenditures are recognized in the Companies' income.

Q. What is the purpose of Staff's seventh and final condition, that deferrals resulting from the AAOs or trackers cease under certain circumstances depending upon KCPL's and GMO's reported return on equity (ROE) levels?

A. The AAOs and tracker mechanisms authorized by the Commission have operated, in part, as earnings protection measures for both the utilities and their customers. From that perspective, there is no reason for KCPL or GMO to defer the impact of under collections in rates of one cost of service element when KCPL or GMO is earning in excess of its authorized ROE on an overall basis. Conversely, if AAOs or trackers are authorized, there is no reason for

KCPL or GMO to defer over collections in rates of one cost of service element when it is earning below its authorized ROE on an overall basis. For that reason, Staff recommends that if KCPL or GMO reports it is earning at or in excess of its authorized ROE on a twelve-month rolling forward average basis in quarterly earnings "surveillance" reporting, any deferrals of under collections in net transmission costs should cease from that point forward, and only resume on a prospective basis if this surveillance reporting shows it is now earning below its authorized ROE. Likewise, deferrals of over collection of net transmission costs should cease from the point that surveillance shows it is earning below its authorized ROE.

Q. Is it your understanding that KCPL currently submits quarterly surveillance reports to Staff?

A. No. Unlike GMO, KCPL currently does not operate under a fuel adjustment clause (FAC) and, accordingly, is not required to submit quarterly FAC surveillance reports. Instead, it files an annual surveillance report with Staff. If the Commission grants KCPL's request for transmission AAOs or trackers in this case, Staff recommends that it be ordered to begin submitting quarterly surveillance reports in the same format as GMO's current FAC surveillance reporting.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for the Issuance of an Accounting Authority Order relating to their Electrical Operations and for a Contingent Waiver of the Notice Requirement of 4 CSR 240-4.020(2)	)	Case No. EU-2014-0077

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 33 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark L. Oligschlaeger

Subscribed and sworn to before me this 9th day of December, 2013.

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

Notary Public

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water Company	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	Accounting Authority Order
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
The Empire District Electric Company	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
UtiliCorp United & The Empire District Electric Company	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy
Ozark Telephone Company	TT-2001-117	Policy

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2001-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
The Empire District Electric Company	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectables
Laclede Gas Company	GA-2002-429	Accounting Authority Order Request
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Empire District Electric	ER-2006-0315	Fuel/Purchased Power; Regulatory Plan Amortizations; Return on Equity; True-Up
Missouri Gas Energy	GR-2006-0422	Unrecovered Cost of Service Adjustment; Policy
Laclede Gas Company	GR-2007-0208	Case Overview; Depreciation Expense/Depreciation Reserve; Affiliated Transactions; Regulatory Compact
Missouri Gas Utility	GR-2008-0060	Report on Cost of Service; Overview of Staff's Filing

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
The Empire District Electric Company	ER-2008-0093	Case Overview; Regulatory Plan Amortizations; Asbury SCR; Commission Rules Tracker; Fuel Adjustment Clause; ROE and Risk; Depreciation; True-up; Gas Contract Unwinding
KCP&L Greater Missouri Operations Company	EO-2008-0216	**Rebuttal:** Accounting Authority Order Request
Missouri Gas Energy, a Division of Southern Union	GR-2009-0355	**Staff Report Cost of Service: Direct** Report on Cost of Service; Overview of the Staff's Filing; **Rebuttal:** Kansas Property Taxes/AAO; Bad Debts/Tracker; FAS 106/OPEBs; Policy; **Surrebuttal:** Environmental Expense, FAS 106/OPEBs
The Empire District Electric Company, The-Investor (Electric)	ER-2010-0130	**Staff Report Cost of Service: Direct** Report on Cost of Service; Overview of the Staff's Filing; Regulatory Plan Amortizations; **Surrebuttal:** Regulatory Plan Amortizations
The Empire District Electric Company	ER-2011-0004	**Staff Report on Cost of Service: Direct:** Report on Cost of Service; Overview of the Staff's Filing, **Surrebuttal:** SWPA Payment, Ice Storm Amortization Rebasing, S02 Allowances, Fuel/Purchased Power and True-up
Missouri-American Water Company	WR-2011-0337	**Surrebuttal:** Pension Tracker
Missouri Gas Energy, A Division of Southern Union	GU-2011-0392	**Rebuttal:** Lost Revenues **Cross-Surrebuttal:** Lost Revenues
KCP&L Greater Missouri Operations Company	EO-2012-0009	**Rebuttal:** DSIM
Union Electric Company d/b/a Ameren Missouri	EU-2012-0027	**Rebuttal:** Accounting Authority Order **Cross-Surrebuttal:** Accounting Authority Order
Union Electric Company d/b/a Ameren Missouri	EO-2012-0142	**Rebuttal:** DSIM

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Union Electric Company d/b/a Ameren Missouri	ER-2012-0166	**Responsive:** Transmission Tracker
Kansas City Power & Light Company	ER-2012-0174	**Rebuttal:** Flood Deferral of off-system sales **Surrebuttal:** Flood Deferral of off-system sales, Transmission Tracker conditions
KCP&L Greater Missouri Operations Company	ER-2012-0175	**Surrebuttal:** Transmission Tracker Conditions
The Empire District Electric Company	ER-2012-0345	**Direct (Interim):** Interim Rate Request **Rebuttal:** Transmission Tracker, Cost of Removal Deferred Tax Amortization; State Income Tax Flow-Through Amortization **Surrebuttal:** State Income Tax Flow-Through Amortization
KCP&L Greater Missouri Operations Company	ET-2014-0059	**Rebuttal:** RES Retail Rate Impact **Surrebuttal:** RES Retail Rate Impact
Kansas City Power & Light Company	ET-2014-0071	**Rebuttal:** RES Retail Rate Impact **Surrebuttal:** RES Retail Rate Impact
Union Electric Company d/b/a Ameren Missouri	ET-2014-0085	**Rebuttal:** RES Retail Rate Impact **Surrebuttal:** RES Retail Rate Impact

Cases prior to 1990 include:

COMPANY NAME	CASE NUMBER
Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14

SCHEDULE MLO-2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Missouri Public Service Commission

Data Request

Data Request No.	0007
Company Name	Kansas City Power & Light Company-Investor(Electric)
Case/Tracking No.	EU-2014-0077
Date Requested	11/4/2013
Issue	Rate Base - Transmission
Requested From	Lois J Liechti
Requested By	Steve Dottheim
Brief Description	Transmission Revenues as a Deferral/Offset
Description	(1) Is it KCPL's and GMO's intent that no amount of the change in the level of transmission revenues it records from January 26, 2013 onward compared to the level of transmission revenues assumed in the Companies' last Missouri general rate cases be deferred pursuant to this AAO request? (2) If the answer to part one is "yes," please explain why deferral of transmission revenues in whole or in part would be inappropriate as a potential offset to a transmission expense deferral. (3) If the answer to part one is "no," please list all categories of transmission revenues that are appropriate for deferral in the Companies' view, if this application is accepted, along with the FERC account the revenues are currently booked to. (Oligschlaeger)
Due Date	11/19/2013

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 Staff if, during the pendency of Case No. EU-2014-0077 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.

Security	Public
Rationale	NA

Missouri Public Service Commission

Respond Data Request

Data Request No.	0007
Company Name	Kansas City Power & Light Company-Investor(Electric)
Case/Tracking No.	EU-2014-0077
Date Requested	11/4/2013
Issue	Rate Base - Transmission
Requested From	Lois J Liechti
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Response	Please see attached.
Objections	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. **EU-2014-0077** 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.

Security :	Public
Rationale :	NA

MLO-3 Page 2 of 5

Company Name: KCP&L
Case Description: Accounting Authority Order 2013
Case: EU-2014-0077

Response to Dottheim Steve Interrogatories – Set MPSC_20131104
Date of Response: 11/19/2013

Question No. :0007

(1) Is it KCPL's and GMO's intent that no amount of the change in the level of transmission revenues it records from January 26, 2013 onward compared to the level of transmission revenues assumed in the Companies' last Missouri general rate cases be deferred pursuant to this AAO request?

(2) If the answer to part one is "yes," please explain why deferral of transmission revenues in whole or in part would be inappropriate as a potential offset to a transmission expense deferral.

(3) If the answer to part one is "no," please list all categories of transmission revenues that are appropriate for deferral in the Companies' view, if this application is accepted, along with the FERC account the revenues are currently booked to. (Oligschlaeger)

RESPONSE: (do not edit or delete this line or anything above this)

(1) Yes, that is KCP&L's and GMO's intent.

(2) It is KCPL's and GMO's intent not to include any revenue in the deferral under this AAO request because of the principle that revenue and cost should be properly matched. Transmission revenue provides compensation for the ongoing cost of owning, operating, and maintaining transmission facilities. In the response to this interrogatory, this annualized facilities cost will be referred to as the Annual Transmission Revenue Requirement (ATRR). The AAO request by KCPL and GMO does not contemplate deferral of costs included in the ATRR. Instead, the AAO request addresses the deferral of transmission customer charges levied by Southwest Power Pool (SPP) and other providers of transmission service.

    The transmission customer charges to be deferred under the AAO and the ATRR are mutually exclusive categories. The ATRR is caused by, and is directly related to, KCPL's and GMO's function as transmission owners. The transmission charges are caused by, and are directly related to, KCPL's and GMO's function as transmission customers. The transmission ownership function and the transmission customer function are completely separate under the SPP Open Access Transmission Tariff (OATT). Under the

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SPP OATT, some companies operate exclusively as transmission owners. Others operate exclusively as transmission customers. Still others operate in both capacities but with those roles clearly separated under both the SPP OATT and the FERC Standards of Conduct. The transmission ownership function is one of providing facilities for bulk transportation of electric power. Therefore, revenue derived from that function is intended to offset the resulting cost (i.e., ATRR). If changes in such transmission revenue instead are used to offset changes in transmission customer charges, the transmission revenue will not be serving its intended purpose. For Missouri regulated utilities, the transmission customer function is driven by the requirement to serve native load. Therefore, expenses driven by that function should be recovered from native load.

The transmission revenue received by KCPL and GMO is for recovery of, and correlates with, the ATRR. Only if changes in the ATRR (determined by KCPL's and GMO's FERC-approved transmission formula rates) were to be included in the deferral would it be appropriate to include changes in revenue. This would result in proper matching of cost and revenue. However, the revenue should not be included as an offset of only transmission customer charges because those charges correspond to a function separate from transmission ownership. Furthermore, those charges are driven by the cost of facilities located throughout SPP and regions served by other transmission providers. In summary, the revenue changes should not be included in the deferral unless matching changes in the ATRR values are included as well.

(3) NA

Attachment: Q0007 Verification.pdf

Verification of Response

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

Docket No. EU-2014-0077

The response to Data Request #_____0007_________ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: November 19, 2013