Exhibit No.:	
Issues:	*Flood Deferral of Off-System Sales; Transmission Tracker Conditions*
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2012-0174*
Date Testimony Prepared:	*October 8, 2012*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY
Great Plains Energy, Inc.

CASE NO. ER-2012-0174

Jefferson City, Missouri
October 2012

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Great Plains Energy, Inc.

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Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. What is your present position with the Missouri Public Service Commission ("Commission")?

A. I am the Manager of the Auditing Unit, Utility Services Department, Regulatory Review Division.

Q. Are you the same Mark L. Oligschlaeger who submitted rebuttal testimony in this proceeding on September 5, 2012?

A. Yes, I am.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this testimony is to respond to the rebuttal testimony of Kansas City Power & Light Company ("KCPL" or "Company") witnesses Wm. Edward Blunk and Ryan A. Bresette concerning the requested inclusion by KCPL in an accounting deferral of "lost" or foregone off-system sales margins associated with the Company's 2011 flooding in its service territory from the Missouri river.

I will also respond to KCPL witness Darrin R. Ives' rebuttal testimony, page 24, line 8 commenting on Staff's failure to recommend approval of KCPL's request for a transmission tracker in its direct filing. I agree with Mr. Ives where he states at page 20, line 17-19 of his rebuttal testimony that "it is telling that Staff has had the Company's Direct filed case for over five months and did not provide for the newly requested Trackers in its Report." Staff's recommendation in this case is again to reject the transmission tracker requested by KCPL. In Case No. ER-2010-0355, Staff was able to develop its own transmission tracker design which it recommended to the Commission in that case. Unlike in that instance, here Staff's recommendation is to simply reject KCPL's proposed transmission tracker, as stated in Staff witness Daniel I. Beck's surrebuttal testimony. While Staff opposes KCPL's requested transmission tracker, Staff recognizes it is possible the Commission will authorize KCPL to implement one. I provide Staff's recommendations as to the conditions the Commission should attach to any transmission tracker mechanism the Commission may authorize KCPL to use.

EXECUTIVE SUMMARY

Q. Please summarize your surrebuttal testimony

A. Staff continues to recommend that the Commission reject KCPL's request to include lost off-system sales (OSS) margins in any deferral it allows of financial impacts of the 2011 flooding.

Staff also recommends that, if the Commission rejects Staff's recommendation not to authorize KCPL to implement a transmission tracker and allows KCPL to use one, then certain conditions be attached to the Commission's authorization.

DEFERRAL OF OFF-SYSTEM SALES MARGINS

Q. Please summarize the rebuttal testimony of KCPL witnesses Blunk and Bresette on this issue.

A. Mr. Blunk and Mr. Bresette continue to advocate inclusion in KCPL rates of certain OSS margins that KCPL calculates it would have received during the summer and fall of 2011 if not for the 2011 flooding. The errors in KCPL's calculation and quantification of these amounts were discussed in the rebuttal testimony of Staff witness Erin L. Maloney. In particular, in their rebuttal testimonies Mr. Blunk and Mr. Bresette express their dissatisfaction with the ratemaking methodology employed by the Commission in KCPL's recent rate proceedings concerning OSS margins, and appear to suggest that allowing inclusion of OSS margins in a 2011 Flood deferral is justified in order to offset the alleged detrimental impact of past rate treatment of KCPL OSS margins.

Q. Does Staff agree?

A. No. If KCPL believes the Commission's prior orders concerning OSS margins were decided inappropriately, the proper forum for rectifying this on an ongoing basis is for the Company to seek a change to treatment of OSS margins in this current rate proceeding. It is my understanding that is exactly what KCPL is requesting in this case. It is certainly not appropriate to attempt to flow through additional profit to KCPL in customer rates through an OSS margin deferral in this case in order to compensate it for an alleged improper allocation of risk between shareholders and customers resulting from prior OSS ratemaking.

Q. Do prior Commission decisions regarding KCPL OSS margins have a bearing on the 2011 Flooding deferral issue in this case?

A. Yes. The relevance of the Commission's decisions regarding OSS margins in past cases, particularly Case No. ER-2010-0355, KCPL's most recent rate proceeding, is whether the past decisions provide any implicit or explicit guidance as to how the subsequent impact of a natural disaster on OSS margins, such as flooding, might be regarded for future ratemaking purposes.

Q. Do prior Commission decisions on OSS issues for KCPL provide any explicit guidance as to whether lost margins associated with a major flood should be considered for future inclusion in rates?

A. No. Mr. Blunk correctly notes that no apparent consideration was given in prior cases to the possibility of natural disasters affecting the amount of OSS margins received by KCPL in the future. As I stated in my rebuttal testimony on this issue, this should not be surprising, since it is not possible or desirable to attempt to incorporate the impacts of very rare and extraordinary events into prospective rate levels.

Q. If no one anticipated the possibility of major flooding affecting OSS margins in past cases, then what should the Commission do in this proceeding regarding the 2011 flooding impacts on KCPL's OSS margins?

A. The Commission should reject the Company's request to defer lost OSS margins, as that is the result implicitly provided for in the Commission's prior OSS decisions, including its decision in Case No. ER-2010-0355.

Q. Please explain.

A. As discussed in my rebuttal testimony, since KCPL's 2006 rate case the Commission has determined the level of OSS margins to use in setting rates by selecting a certain percentile value within a range of projected OSS margins (in Case No. ER-2010-0355, the Commission set KCPL's rates using the 40th percentile of expected OSS margin outcomes). If KCPL would earn more OSS margins than projected under this approach, those excess margins would be booked as a regulatory asset by the Company for return to customers through an amortization to expense in future cases. If KCPL did not earn OSS margins equal to the percentile value previously used by the Commission, KCPL was to absorb that deficit.

Staff views the ratemaking treatment presently in effect for OSS as clearly putting the risk on KCPL of failing to attain a level of OSS margins equal to the 40th percentile for any reason. There are many reasons for a utility to achieve less OSS margins than it might expect during a particular period, including weather conditions, economic conditions, outages on the utility's generating system or on neighboring systems, or the impact of abnormal weather events, such as a flood. Staff believes that the Commission's prior decisions on OSS margin issues provide no indication that the reason why KCPL might fail to achieve the expected value of margins incorporated into the ratemaking process would be a relevant consideration in subsequent rate proceedings.

Q. Mr. Blunk attempts to contrast the OSS margins KCPL is attempting to defer in this proceeding with the "lost revenues" that The Empire District Electric Company ("Empire") earlier requested be deferred related to the 2011 Joplin tornado. Please comment.

A. Mr. Blunk states at page 8, line 18 to page 9, line 5 of his rebuttal testimony that Empire claimed in its accounting authority order request (Case No. EU-2011-0387) that it was seeking deferral of "fixed cost components" included in its customer's rates that it lost due to the tornado. According to Mr. Blunk, in contrast to Empire, KCPL is not seeking recovery of lost "fixed cost components" through its OSS margins deferral request, or for that matter "lost revenues" or "lost profits" from retail sales.

Staff disagrees with this analysis. For the reasons stated in my rebuttal testimony, attempts to defer lost revenues due to events such as tornadoes are substantively no different than attempts to defer lost OSS margins due to flooding. Both OSS margins and retail rate revenues are included the revenues section of utilities' income statements for ratemaking purposes. Both events were claimed to result in a reduction in total revenues by the affected utility. The reduction in rate revenues for Empire (and also for Missouri Gas Energy) due to the tornado, and the reduction in OSS margins to KCPL due to the flooding, both had the direct impact of reducing those companies' profitability in the periods affected by the event. For the reasons discussed in my rebuttal testimony, it is inappropriate for a utility to use the deferral accounting process solely or primarily for protection of a certain revenue or profit level, and that would precisely be the effect of granting KCPL's request to defer OSS margins.

TRANSMISSION TRACKER CONDITIONS

Q. What is your understanding of Staff witness Daniel I. Beck's transmission tracker surrebuttal testimony in response to the rebuttal testimony KCPL witness Darren R. Ives regarding KCPL's request for a transmission tracker?

A. Mr. Beck presents Staff's recommendations that the Commission reject at this time KCPL's request for a transmission tracker. Among other things, Mr. Beck discusses the importance of including transmission revenues in any tracker the Commission may approve, as that was a significant feature of a prior transmission tracker the Staff had supported.

Q. If the Commission rejects Staff's recommendation not to authorize KCPL to implement a transmission tracker and allows KCPL to use one, then should the Commission condition that authorization?

A. Yes. If the Commission authorizes KCPL to implement a transmission tracker, then the Commission should order a number of conditions to that authorization. Those conditions follow:

1. That the tracker reflect both transmission revenues and expenses, and thereby operate as a two-way mechanism (i.e., tracking both under and over collections of net transmission costs).
2. That KCPL 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 tracker and will report, per its general ledger, all expenses and revenues included in the tracker by month by Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) account and KCPL subaccount or minor account. KCPL 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 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 all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to a tracker be reserved to the next KCPL rate proceeding, including examination of the prudence of the revenues and expenses.
4. That KCPL must impute into its tracker mechanism, the level of transmission revenues earned by any transmission company affiliate related to facilities in KCPL's Missouri jurisdictional service territory into its tracker mechanism to the extent necessary to ensure that no additional revenue requirement resulting from any decision by Great Plains Energy, Inc. (GPE) to transfer responsibility for transmission construction activity from KCPL's regulated business is passed on to KCPL's Missouri retail customers through the tracker.
5. That nothing in any order authorizing KCPL's use of a transmission tracker is intended to amend, modify, alter, or supersede any previous Commission order or agreement approved by the Commission

concerning KCPL's involvement in SPP or treatment of SPP transmission revenues and expenses.

6. That deferrals resulting from the transmission tracker mechanism cease under certain circumstances, identified in the sixth condition specified below, depending upon KCPL's reported return on equity (ROE) level.

Q. What is the purpose of Staff's first proposed condition, that the tracker reflect both transmission revenues and expenses, and thereby operate as a two-way mechanism (i.e., tracking both under and over collections of net transmission costs)?

A. The intent of this condition is to require that both over collections and under collections in rates of KCPL's actual net transmission expenses (i.e., Southwest Power Pool (SPP) transmission expenses less SPP transmission revenues) be booked by the Company as a regulatory asset or liability for potential reflection in KCPL's rates.

Q. Is exclusion of transmission revenues from a transmission tracker acceptable?

A. No. In the case of KCPL's SPP membership, KCPL is both assigned expenses by SPP for transmission service and receives revenues from SPP for the KCPL facilities used by SPP to provide transmission service. The SPP transmission charges paid by KCPL are intended to reimburse other SPP members for use of their transmission facilities. KCPL pays a portion of its costs associated with use of its facilities for SPP transmission service, but receives all of the related revenues. KCPL'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 equation is included in a tracker (the expenses), but the other side is excluded (the revenues), a skewed and inappropriate approach to transmission ratemaking results. Under this 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.

Mr. Beck also addresses the issue of exclusion of transmission revenues from the transmission tracker in his surrebuttal testimony.

Q. What is the purpose of Staff's second condition, that KCPL 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 tracker and will report, per its general ledger, all expenses and revenues included in the tracker by month by FERC USOA account and KCPL subaccount or minor account. KCPL 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 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?

A. The purpose of Staff's second condition is to specify ongoing reporting requirements for KCPL in regard to the transmission costs and revenues flowing through the tracker.

Q. What is Staff's third proposed condition, that all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to a tracker be reserved to the next KCPL rate proceeding, including examination of the prudence of the revenues and expenses?

A. The purpose of Staff's third condition is to avoid any claim that any order entered by this Commission 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 trackers or other accounting authority, the Commission includes language in its order reserving rate treatment of costs and revenues included in a special accounting mechanism, such as a tracker or accounting authority order, to subsequent rate proceedings.

Q. What is the purpose of Staff's fourth condition, that KCPL must impute into its tracker mechanism the level of transmission revenues earned by any transmission company affiliate related to facilities in KCPL's Missouri jurisdictional service territory to the extent necessary to ensure that no additional revenue requirement resulting from any decision by GPE to transfer responsibility for transmission construction activity from KCPL's regulated business is passed on to Missouri retail customers?

A. Any decision by GPE to transfer responsibility for construction of transmission projects from KCPL to a transmission company affiliate will also transfer primary ratemaking authority over the transmission project's costs and capital investment to the FERC. In recent years, FERC has adopted a number of ratemaking policies that would have the probable impact of increasing revenue requirements associated with these transmission projects above the level that would be normally established under this Commission's ratemaking policies. The purpose of this condition is to require KCPL to pass through SPP transmission revenue requirements to Missouri retail customers calculated on an equivalent basis with Missouri Commission ratemaking practices. Staff has expressed a view that the Missouri Commission ratemaking practices rather than the FERC ratemaking practices are appropriate.

In his surrebuttal testimony, Mr. Beck discusses the current efforts of GPE to gain approval for a transmission company affiliate to construct SPP transmission projects in KCPL's service territory.

Q. What is the purpose of Staff's fifth proposed condition, that nothing in any order authorizing KCPL's use of a transmission tracker is intended to amend, modify, alter, or supersede any previous Commission order or agreement approved by the Commission concerning KCPL's involvement in SPP or treatment of SPP transmission revenues and expenses?

A. The purpose of this condition is to make clear that any approval of a tracker for KCPL in this proceeding is not intended to and does not change any prior order from the Commission or stipulation and agreement approved by the Commission involving KCPL's participation in SPP.

Q. What is the purpose of Staff's sixth and final condition, that deferrals resulting from the transmission tracker mechanism cease under certain circumstances depending upon KCPL's reported return on equity (ROE) level?

A. The Commission has authorized tracker mechanisms primarily as earnings protection measures for both the utilities and their customers. From that perspective, there is no reason for KCPL to defer the impact of under collections in rates of one cost of service element when it is earning in excess of its authorized ROE on an overall basis. Conversely, if a tracker is authorized, there is no reason for KCPL 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 the Company 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 tracker 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, tracker 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 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 a transmission tracker 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 surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

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 Surrebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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
Mark L. Oligschlaeger

Subscribed and sworn to before me this 6th day of October, 2012.

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

D Suzie Mankin
Notary Public