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	))))	**File No. ER-2016-0285**

MECG Statement of Positions

COMES NOW, the Midwest Energy Consumers' Group, and for its Statement of Positions, respectfully provide as follows:

I. Commission Raised Issues

A. Installation of AMI smart meters for residential and commercial customers
B. Plug-in Electric Vehicle Rate
C. Optional Residential Time-of-Use rates (hourly) and Time-of-Day rates
D. PACE-Property Assessed Clean Energy Programs
E. PAYS-Pay As You Save Programs
F. Infrastructure Efficiency Tariff

Position: MECG takes no position on these issues.

II. Cost of Capital

A. Return on Common Equity – what return on common equity should be used for determining rate of return?

Position: Consistent with the testimony of Michael Gorman, MECG recommends that the Commission authorize a return on equity of 9.20% (range of 8.90 to 9.50%). (Gorman Rebuttal, page 2). This recommendation employs financial data as of December 16, 2016. This return on equity recognizes the continued reduction in the cost of equity since the Commission authorized a return on equity of 9.50% in KCPL's last case.

Mr. Gorman's recommendation is based upon several different, well accepted methodologies. Specifically, Mr. Gorman employs both a constant growth and multi-stage growth DCF methodology as well as CAPM and risk premium methodologies. Moreover, Mr. Gorman's analysis is unique in that it conducts an analysis designed to determine whether his ROE recommendation will allow KCPL to continue to attract capital and to maintain its current BBB+ investment grade credit rating. As reflected in his analysis (Gorman Direct, pages 54-57), Mr. Gorman's recommendation will allow KCPL to maintain its current credit rating and to attract capital. As such, a return on equity in excess of that recommended by Mr. Gorman is clearly excessive.

Mr. Gorman's return on equity recommendation is based upon KCPL's current risk profile. To the extent that the Commission authorizes any of KCPL's proposed trackers, or the use of forecasted costs, these mechanisms serve to reduce KCPL's risk profile going forward. In such a situation, the Commission should consider a return on equity at the lower end of Mr. Gorman's range. (Gorman Direct, page 3).

B. <u>Capital structure – what capital structure should be used for determining rate of return?</u>

<u>Position</u>: MECG takes no position on this issue.

C. <u>Cost of debt – what cost of debt should be used for determining rate of return?</u>

<u>Position</u>: MECG takes no position on this issue.

III. Fuel Adjustment Clause ("FAC")

A. Has KCPL met the criteria for the Commission to authorize it to continue to have an FAC?
B. Should the Commission authorize KCPL to continue to have an FAC?
C. What costs should flow through KCPL's FAC?
D. What revenues should flow through KCPL's FAC?
E. What is the appropriate sharing mechanism of the difference between actual and base fuel costs in KCPL's FAC?
F. What FAC-related reporting requirements should the Commission impose?
G. What is the appropriate base factor?
H. Should the Commission direct the parties to determine baseline heat rates for each of the utility's nuclear and non-nuclear generators, steam and combustion turbines and heat recovery steam generators?
I. If the Commission authorizes KCPL to have a FAC, should KCPL be allowed to add cost and revenue types to its FAC between rate cases?

<u>Position</u>: MECG supports the position advanced by OPC on all FAC issues.

IV. Transmission Fees Expense and Transmission Revenues

A. <u>What level of transmission fees expense should the Commission recognize in KCPL's revenue requirement?</u>

<u>Position</u>: MECG supports Staff's position on this issue. Specifically, based on Staff's analysis, KCPL's transmission expenses have significantly increased during the past seven years. Staff also analyzed the 12 month period ending June 30, 2016 and

determined the upward trend continued during this period. Consequently, Staff did not seek to include an historical average of prior years of transmission costs. Rather, Staff included an annualized level of transmission expense based on the 12-month period ended June 30, 2016, the most recent actual cost information available. Furthermore, Staff proposes to update transmission costs based on the most current available data in the true-up in this case. (Staff Cost of Service Report, pages 134-136).

In contrast, KCPL seeks, as an alternative to its transmission expense tracker proposal, to include a level of transmission costs based upon its forecasted level of transmission costs for 2017 and 2018. The proposal to quantify transmission costs based upon a forecast suffers from many of the same infirmities inherent in KCPL's transmission tracker proposal.

<u>First</u>, as mentioned *infra*, proper ratemaking is dependent on an accurate and internally consistent or "matched" picture of the utility's earnings. Given this, costs, revenues, expenses and rate base investment must all be measured as of a common date. The Company's proposal to reach forward in time to include a forecasted level of transmission costs distorts this financial picture by mis-matching the test year level of revenues, rate base investments and other expenses, with selectively inflated transmission expenses at a level projected by KCPL to be experienced in 2017 and 2018.

<u>Second</u>, the proposal to include a forecasted level of transmission costs is one-sided. All of the elements of utility revenue requirement will tend to change between rate case test years, with some changes favorable and others unfavorable. Notably, KCPL seeks to use a forecasted level of costs only for those items which are expected to increase. At the same time, KCPL does not seek to include forecasted amounts for any costs that are decreasing or for revenues that may increase. For example, while KCPL forecasts significant decreases in interest expense through planned refinancing of its debt, it does not propose to base its test year cost of debt capital on a forecasted amount of this cost. Therefore, KCPL's proposal is only designed to inflate the revenue requirement and work against ratepayers.

Notably, KCPL has been able to offset the experienced historical increases in its transmission expenses with savings elsewhere and/or with growth in electric sales revenues. As reflected in the most recent surveillance reports, KCPL has realized earnings over the past 12 months that exceeded its authorized return. Clearly, since the implementation of a fuel adjustment clause, KCPL has been able to earn its authorized return. In fact, under similar circumstances, GMO voluntarily dropped its extraordinary requests for treatment of transmission costs and property taxes. The reality of KCPL's strong earnings in spite of historically increasing transmission costs illustrates why piecemeal ratemaking for only increasing elements of cost is unnecessary and harmful to ratepayers.

<u>Third</u>, forecasts are inherently unreliable. For instance, in its last case, KCPL sought to include a forecasted level of cyber-security costs for use in the revenue requirement. Ultimately the Commission rejected KCPL's proposal. Now, KCPL admits that cyber-security costs have moderated. If the Commission had granted KCPL's proposal in the last case, rates would have been higher simply as a result of using KCPL's pessimistic forecast when costs ultimately were seen to moderate.

This problem with using utility forecasts for costs is well established. Recently, the National Regulatory Research Institute (NRRI) published a report that found that utility's are inherently disposed to overstating costs. Given this predisposition, the use of forecasted costs will lead to higher rates. In Missouri, historical test year are utilized, with true-up adjustments for known and measurable changes in actual costs, in order to avoid the problems caused by reliance upon inherently biased utility management-prepared forecasts of costs.

<u>Fourth</u>, the use of a forecasted and inflated level of costs significantly reduces the incentive for KCPL management to seek to manage and minimize costs. Currently, KCPL is encouraged to carefully manage transmission costs to maximize its opportunity to earn the authorized return. To the extent that management is unable to manage transmission costs, KCPL must minimize other costs to make up for the shortfall or suffer a reduction in earnings. If the Commission includes an inflated level of transmission costs, through the use of a forecast, then KCPL has a reduced incentive to minimize transmission costs because any realized cost savings would be returned to ratepayers under the Company's proposed forecasted expense mechanism.

Fifth, in the final analysis, the use of a forecasted level of transmission expense is unnecessary. MECG evidence explains that the historical growth in transmission expenses has moderated and the Company's own forecasts predict stable and then declining cost levels after 2018.

For all of these reasons, KCPL's request to include a forecasted level of transmission costs should be rejected. (Brosch Direct, pages 12-18; Brosch Surrebutal, page 11).

> B. <u>Should the Commission authorize KCPL prospectively to compare its actual transmission expenses that it does not recover through its fuel adjustment clause with the level of transmission expense used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?</u>

<u>Position</u>: No. Asymmetrical tracking is not necessary if forecasted transmission expense amounts are not included in the revenue requirement, as recommended in issue A, above. Moreover, Missouri case law expressly provides that deferral mechanisms, other than a fuel adjustment clause, are limited to costs that are "extraordinary."

> 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.

> ***<u>This limited basis is when events occur during a period which are extraordinary, unusual and unique, and not recurring</u>***. 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. . . . The USOA recognizes that only extraordinary items should be deferred. The definition cited earlier [General Instruction 7] 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 normal business operations.[1]

Applying the "extraordinary" standard, the Commission has rejected KCPL's request for a transmission tracker on three separate occasions in the last four years (Case Nos. ER-2012-0174; EU-2014-0077; and ER-2014-0370). Following the Commission's decision in Case No. ER-2014-0370, KCPL sought judicial review from the Western District Court of Appeals. In a decision dated September 6, 2016, the Court of Appeals upheld the Commission's decision to again apply the "extraordinary" standard to requests for deferral accounting. "As such, we will not second-guess the PSC's reasoned decision that only extraordinary items may qualify for deferral treatment."

Just as the Commission held in Case No. EU-2014-0077, MECG again asserts that transmission costs are not extraordinary and should not be the subject of deferral accounting.

> Companies began incurring transmission expenses when they began providing retail electric service. Transmission costs are part of the ordinary and normal costs of providing electric service and are expected to continue in the foreseeable future. Furthermore, while the transmission costs at issue may have a significant effect on Companies, they are not "abnormal and significantly different from the ordinary and typical activities" of the Companies. The increase in transmission costs was anticipated and is indeed the norm for all electric utility members of SPP. Therefore, the transmission costs are not extraordinary.[2]

The reason for strict application of the "extraordinary" standard is founded in the standard for proper ratemaking. As pointed out by MECG witness Brosch, proper ratemaking relies upon an accurate test period snapshot of a utility's financial situation. This requires that regulatory consideration of revenues, costs and rate base investment all take place as of the same date (the matching principle). KCPL's tracker mechanism destroys this accurate financial snapshot. Specifically, KCPL would be allowed to capture any increases in transmission costs from rate case "allowed" levels and defer

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[1] *Application of Missouri Public Service Company*, Report and Order, Case No. EO-91-358 and EO-91-360, 1 Mo.PSC 3d 200, 205 (emphasis added).
[2] Case No. EU-2014-0077, *Report and Order*, issued July 30, 2014, at page 10.

them for consideration in future rate cases. Thus, whenever these costs are deferred into a future period, current earnings are inflated. Moreover, because these costs are recovered in a future case, future rates are increased to "recover" the deferred costs from the prior period.

An additional problem with deferral accounting is that it reduces the utility's incentive to minimize costs. Comfortable with the knowledge that it can defer any increases in a particular cost, the utility becomes apathetic regarding the need to minimize that cost. On a larger scale, the utility has an incentive between rate case test years to minimize all costs in order to offset any costs that are increasing and thus improve achieved earnings. Again, this incentive to minimize all costs is blunted by the granting of regulatory authority to defer any costs that are increasing to be charged to future ratepayers. Thus, future rates are virtually guaranteed to increase when deferral accounting and rate recovery is allowed under circumstances that are not extraordinary.

The final problem is that KCPL's request to apply deferral accounting is decidedly one-sided. Specifically, KCPL only seeks to defer those costs that are increasing. Noticeably, KCPL does not seek to defer any decreasing costs or increasing revenues that may offset the impact of these increased costs. In his testimony, Mr. Brosch identifies specific costs that are decreasing that would offset the increased transmission costs for which KCPL seeks to apply deferral accounting. (Brosch Direct, pages 12-25).

In addition to the "extraordinary" standard, MECG recommends that the Commission apply certain other criteria to its consideration of any request for deferral accounting. Specifically, MECG recommends that any tracker be used only for situations in which the following criteria are met.

1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases.
2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels.
3. Volatile in amount, causing significant swings upward and downward in income and cash flows if not tracked.
4. Straightforward and simple to administer, readily audited and verified through expedited regulatory reviews.
5. Balanced, such that any known factors that mitigate cost impacts are accounted for in a manner that preserves test year matching principles. (Brosch Direct, pages 25-26).

Applying the "extraordinary" standard as well as these additional criteria leads to the unmistakable conclusion that transmission costs are not extraordinary and do not meet the criteria for application of deferral accounting. As such, the Commission should reject KCPL's request for a transmission tracker. (Brosch Direct, pages 26-36).

C. Should the Commission accept KCPL's revenue adjustment R-80 to remove utility transmission revenues from its cost of service?

Position: MECG supports the position advanced by Staff on this issue.

D. Should the adjustment for Transource incentives as proposed by KCPL be adjusted for KCPL's cost of debt?

Position: MECG supports Staff's position on this issue. Specifically, in accounting for differences in the Annual Transmission Revenue Requirement associated with the Transource projects, Staff set the rate of long-term debt equal between the two calculations. (Majors Rebuttal, pages 32-36).

E. What level of transmission revenues should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff in this case. Specifically, KCPL's participation in SPP encompasses both the financial impacts of KCPL's ownership of transmission assets and the financial impacts of the use of other SPP members' transmission assets. Consequently, KCPL customers are entitled to all transmission revenues that offset a part of the significant increases in transmission expense. Consistent with this viewpoint, Staff included an annualized level of transmission revenues based on the 12 month period ending June 30, 2016. MECG anticipates that Staff will update this number through the true-up date of December 31, 2016. (Staff Cost of Service Report, pages 69-71).

In contrast to this methodology, KCPL seeks, as an alternative to its transmission tracker, to use a forecasted level of transmission revenues. As reflected in the position attached to issue IV(A), the use of a forecasted level of costs and revenues is problematic and should be rejected by the Commission.

F. Should the Commission authorize KCPL prospectively to compare its actual transmission revenues that do not flow through its fuel adjustment clause with the level of transmission revenue used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Position: No. Just as transmission expenses are not "extraordinary" and should not be subjected to deferral accounting (see the position provided in response to issue IV B), transmission revenues are also not "extraordinary" and should not be deferred for consideration in future rate cases.

G. What level of RTO administrative fees, FERC Assessment Fees, and NERC Assessment Fees should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff on this issue. Specifically, Staff found that under its Open Access Tariff, SPP establishes a rate for its administration charge annually that enables it to recover 100% of its total annual administrative costs for RTO functions, subject to a rate cap. The rate cap serves as a limit on the annual administration charge in order to provide SPP customers a level of certainty and predictability regarding SPP's year-to-year administrative costs. SPP's administrative rate cap is currently $.39 per MWh. Although the administrative fee rate cap is still in effect, on December 8, 2015, SPP's Board of Directors approved SPP's Finance Committee recommendation to reduce the administrative fee to $.37 per MWh for the calendar year 2016.

Staff annualized SPP administration fees based on the administrative rate of $0.37 per MWh effective January 1, 2016. Included in the annualized amount are North American Electric Reliability Corporation ("NERC") fees and Midcontinent Independent System Operator, Inc. ("MISO") RTO administrative fees for point-to-point transmission.

In contrast to this methodology, KCPL seeks, as an alternative to its transmission tracker, to use a forecasted level of RTO administrative fees, FERC assessment fees, and NERC assessment fees. As reflected in the position attached to issue IV A, the use of a forecasted level of costs and revenues is problematic and should be rejected by the Commission.

H. Should the Commission authorize KCPL prospectively to compare its actual RTO administrative fees with the level of RTO administrative fees used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Position: No. Just as transmission expenses are not "extraordinary" and should not be subjected to deferral accounting (see the position provided in response to issue IV B), RTO administrative fees are also not "extraordinary" and should not be deferred for consideration in future rate cases.

I. Is there currently regulatory lag preventing KCPL from achieving its authorized return and, if so, does the amount of such regulatory lag experienced currently and in the recent past by KCPL justify adoption of its tracker proposal for transmission expense in this proceeding?

Position: No. In support of its argument that regulatory lag prevents it from achieving its authorized return, KCPL repeatedly relies upon historical earnings. Noticeably, KCPL relies upon earnings that were achieved prior to it being authorized to implement a fuel adjustment clause in the last rate case. The evidence indicates that, since it was authorized to implement a fuel adjustment clause, KCPL has been able to achieve its authorized return. In fact, for the third quarter of 2016, which includes a full year of operations under the fuel adjustment clause, KCPL actually earned a return in excess of its authorized return. KCPL's continued reliance on earnings that were achieved prior to the implementation of a fuel adjustment clause is inaccurate and misleading. Clearly, the implementation of a fuel adjustment clause has eliminated any negative implications of regulatory lag in the most recent and relevant period for which earnings data is available. As such, regulatory lag does not mandate the implementation of any further deferral requests. (Brosch Direct, pages 7-11; Brosch Surrebuttal, pages 8-9).

Perhaps the best evidence that regulatory lag does not prevent a utility from achieving its authorized return is from KCPL's sister company (KCP&L Greater Missouri Operations). In its recent rate case, GMO made similar allegations as made by KCPL in this case. Specifically, GMO alleged that regulatory lag prevented it from achieving its authorized return and that transmission costs and property tax trackers should be implemented. Noticeably, as here, GMO was achieving earnings that met or exceeded its authorized return. Ultimately, GMO settled the case for a very small increase and voluntarily withdrew its request for both a transmission and property tax tracker. As such, it is clear that regulatory lag under traditional Missouri regulation with true-up accounting is not preventing KCPL or GMO from achieving its authorized return. (Brosch Surrebuttal, page 12).

V. **Transmission Revenue ROE adjustment-** Should transmission revenues be adjusted to reflect differences between MoPSC and FERC authorized ROEs?

Position: MECG supports the position advanced by Staff on this issue.

VI. Property Tax Expense

A. What level of property tax expense should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports Staff's position on this issue. Specifically, Staff's recommended treatment of Property Tax Expense is to annualize property taxes based upon property that is in-service on January 1, 2016, by multiplying that property amount by Staff's property tax ratio derived from historical tax payments. Staff chose the level of property that is in-service on January 1, 2016 because tax bills are assessed based on the property that KCPL owns as of January 1 of each year. Staff adjusted test year property tax expense in order to include in rates the annualized level of 2016 property taxes. (Staff Cost of Service Report, pages 120-121).

In contrast to this methodology, KCPL seeks, as an alternative to its property tax tracker, to use a forecasted level of property taxes. As reflected in the position attached to issue IV(A)(E) and (G), the use of a forecasted level of costs and revenues is problematic and should be rejected by the Commission.

B. Should the Commission authorize KCPL prospectively to compare its actual property tax expense with the level of property tax expense used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Position: No. Just as transmission expenses are not "extraordinary" and should not be subjected to deferral accounting (see the position provided in response to issue IV B), property taxes are also not "extraordinary" and should not be deferred for consideration in future rate cases.

C. Does the amount of regulatory lag experienced currently and in the recent past by KCPL justify adoption of its tracker proposal for special ratemaking treatment of property tax expense in this proceeding?

Position: No, as explained in response to issue IV(I), regulatory lag associated with property taxes does not prevent KCPL from earning its authorized return. In fact, in its most recent surveillance report, KCPL earned a return that is in excess of its authorized return. Moreover, in its settlement in the last rate case, GMO voluntarily withdrew its request for a property tax tracker in light of the fact that it was also earning at or above its authorized return.

VII. Incentive Compensation

A. What methodology should be used to determine the level of incentive compensation included in KCPL's cost of service used for setting rates in this case?

Position: MECG supports the position advanced by Staff. Specifically, Staff continues to recommend calculating incentive compensation expense by averaging the historical payouts made for plan years 2012, 2014, and 2015. The average of these three plan years represents a going-forward expense that is based on known-and-measurable payouts that are not specifically tied to earnings per share ("EPS").

In contrast, KCPL is supporting an incentive compensation expense calculated by assuming all individuals on its current payroll achieve 100% of the metrics defined in both of the 2016 incentive compensation plans for executives and management. KCPL's methodology is flawed in that it produces an assumed payout per employee that is much higher than most of the past 11 years. In fact, KCPL calculates an expense that is near the upper limit of the range of historical payments.

Furthermore, Staff notes that if KCPL wishes to assume a level of achievement as a substitute for relying on historical payouts, it should assume the midpoint of possible achievements. As illustrated in the 2016 ValueLink Plan, each management employee may receive from 0% to 150% of the target amount and the mathematical midpoint of this range is 75%. By assuming 100% achievement as the "average" payout, KCPL has embedded another assumption in its calculation, that the achievement will never be 0%.

However, 0% achievement of plan metrics is a real possibility, as can be derived from the payouts in 2007, 2008, and 2014. If KCPL were to project incentive compensation expense based on 75% achievement, its annualization would be more in line with actual historical payouts per-employee. (Young Surrebuttal, pages 4-7).

B. <u>Should that level be based on data not known and measurable as of the true up cutoff date of December 31, 2016?</u>

<u>Position</u>: MECG supports Staff's position on this issue. Specifically, Staff notes that KCPL pays incentive compensation on or about March 15 of the year following the plan year in which the compensation was earned. In this case, the payout for plan year 2016 is projected to be paid on March 15, 2017, which is two and one-half months after the true-up date of December 31, 2016. Consequently, the payout for the plan year lies outside the true-up date in this case and is an out-of-period expense. Furthermore, KCPL's projected expense does not account for employee transfers and employee turnover. KCPL's incentive compensation plan mandates that, in order to receive the incentive compensation, employees must be employed as of the date of the payment (March 15, 2017). KCPL's position fails to recognize that some number of employees will have left between December 31, 2016 and March 15, 2017. In addition, while some employees may be employed on December 31, they are only eligible to receive incentive compensation to the extent that they have been employed for a full year. KCPL's position fails to recognize that some employees have not been employed for a full year. For all of these reasons, Staff's quantification of incentive compensation is the most reasonable. (Young Surrebuttal, pages 7-9).

VIII. Supplemental Executive Retirement Program ("SERP")

A. <u>What level of SERP expense should the Commission recognize in KCPL's revenue requirement?</u>

B. <u>Should SERP expense be capitalized?</u>

<u>Position</u>: MECG supports the position advanced by Staff on this issue.

IX. Severance- <u>Should employee severance expenses be reflected in the cost of service?</u>

<u>Position</u>: MECG supports the position advanced by Staff on this issue. Specifically, Staff recommends disallowance of severance costs on the basis that KCPL has effectively recovered these costs through the positive aspects of regulatory lag. The best recitation of the reason for disallowing these costs is a recent Commission decision in a recent MGE rate case.

> The Commission finds that MGE's position is based upon fallacious reasoning. It is appropriate that prospective rates will be set on recently available payroll expense. MGE overlooks the substantial cash flow

> savings that it has achieved by terminating the employees. OPC's evidence shows that Southern Union's shareholders have already received more than the severance costs in terms of reduced payroll. The rates that MGE has been charging are premised on a payroll level higher than that which it currently has, so it has profited by the decreased number of employees.
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> The Commission finds that MGE's shareholders have already received monetary compensation through the reduction in payroll expense. The Commission will not allow MGE to charge ratepayers the costs associated with employee severances where MGE has already recovered those costs. The Commission finds that the position of Staff and OPC is most reasonable on this issue.[3]

Similar logic was applied by the Commission in recent Ameren and KCPL rate cases in rejecting other attempts to recover severance costs.

In this case, KCPL attempts to distinguish itself from the Commission's well established position on this issue. Specifically, KCPL claims that, because of earnings below its authorized return, it did not recover these costs through regulatory lag. As Staff points out, however, in its most recent surveillance report, reflecting the 12 months ended September 30, 2016, KCPL earned a return on equity that is in excess of its authorized return. As such, KCPL has clearly recovered these severance costs through regulatory lag. The Commission should adopt Staff's position and reject any recovery of severanace costs. (Majors Surrebuttal, pages 25-29).

X. **Kansas City Earnings Tax-** <u>What level of Kansas City Earnings Tax expense should the Commission recognize when determining KCPL's revenue requirement?</u>

<u>Position</u>: MECG supports Staff's position on this issue. Specifically, in the test year, a negative amount was recorded on the books of KCPL. Recognizing that the historical earnings tax liability has been $0 in four of five previous years, Staff asserts that $0 is a reasonable amount to include in rates for this item as an ongoing expense. (Majors Surrebuttal, pages 21-22).

XI. **Trackers in Rate Base -** <u>Should expense trackers be included in rate base?</u>

<u>Position</u>: MECG takes no position on this issue.

[3] *Report and Order*, Case No. GR-96-285.

XII. Bad debt gross-up – Should bad debt expense be grossed-up for the revenue requirement change the Commission finds for KCPL in this case?

Position: MECG supports the position advanced by Staff on this issue. Specifically, Staff is opposed to KCPL's request to gross-up bad debt expense to account for any rate increase authorized in this case. KCPL's rationale for making this request regarding bad debt expense is based on the faulty assumption that any increase in revenue requirement granted by the Commission will cause bad debt expense to also proportionally increase. However, KCPL has not demonstrated a direct correlation between the level of rates and the percentage of bad debts that would justify the reflection of increased bad debt expense in rates. After reviewing actual results of past rate case increases, Staff has found no corresponding increases of bad debts after an increase in revenues. In fact, there are many occurrences when bad debts decline at the time revenues increase. (Young Rebuttal, pages 6-17).

XIII. Dues and Donations

A. What level of dues and donations expense should the Commission recognize in KCPL's revenue requirement?

B. What level of Edison Electric Institute expense should the Commission recognize in KCPL's revenue requirement?

C. What level of EPRI expense should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff on this issue.

XIV. Credit Card Acceptance Fees - What level of Credit Card Fee expense should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff on this issue.

XV. Bank Fees - What level of accounts receivable bank fee expense should the Commission recognize in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff on this issue.

XVI. Rate case expense

A. Were any rate case expenses claimed by KCPL imprudently incurred?

B. Should the Commission allocate a portion of proposed rate case expense to KCPL shareholders?

C. What method of rate case expense allocation should the Commission order in this case?

Position: MECG supports the position advanced by Staff on this issue.

XVII. Depreciation Study Expense - Over what period of time should KCPL's normalized depreciation study expense be amortized to determine the level of depreciation study expense to include in KCPL's revenue requirement?

Position: MECG supports the position advanced by Staff on this issue.

XVIII. Depreciation

A. Should the Commission allow terminal net salvage in the calculation of KCPL's depreciation rates?

B. What depreciation rates should the Commission order KCPL to use?

Position: MECG supports the position advanced by OPC on this issue.

XIX. Greenwood Solar Energy Center — Should the Commission allocate any of the capital costs, operating and maintenance costs, etc., attributable to the Greenwood Solar Energy Center between GMO and KCP&L? If so, how should it be allocated?

Position: MECG supports the position advanced by Staff on this issue. Specifically, some portion of the capital and O&M costs associated with the Greenwood development should be allocated between GMO and KCPL. In its case, Staff recommends allocating the Greenwood solar capital costs and any related expenses based on number of customers. The Commission addressed in its Order in Case No. EA-2015-0256 the intangible benefits that will be gained from the experience of constructing and operating the facility and the results that will lead to increased use of solar power in the future. Since the experience gained will benefit all of KCPL and GMO's customers in the future, allocating the costs using customers is a reasonable approach. In addition, Staff recommended that the costs of the Greenwood Solar project be allocated to KCPL to include the Kansas jurisdiction. Staff utilizes a demand allocator to allocate production plant and reserve costs between Kansas and Missouri. Staff used the same approach to allocate the Greenwood Solar Project between Missouri and Kansas. (Staff Cost of Service Report, pages 51-53).

XX. Revenues

A. Should KCPL be permitted to make an adjustment to annualize kWh sales in this rate case as a result of KCPL's Missouri Energy Efficiency Investment Act ("MEEIA") Cycle 1 demand-side programs?
B. How should the Large Power class kW demand billing units be adjusted when a customer leaves the Large Power class?
C. How should customers who left the Large Power class and switched into the Large General Service and Medium General Service classes be annualized?
D. What methodology should be utilized to measure customer growth?

Position: MECG supports the position advanced by Staff on this issue.

XXI. Rate Design/Class Cost of Service

A. What interclass shifts in revenue responsibility, if any should the Commission order in this case?

Position: Consistent with its last decision regarding production plant allocation, the Commission should allocate production costs on the basis of the Average & Excess (A&E) methodology. Recognizing that production assets are valued for meeting both capacity and energy needs, the A&E methodology careful balances both of these considerations. (Brubaker Direct, pages 17-19). For this reason, the A&E methodology is well established throughout the nation. (Brubaker Direct, page 17). In fact, the A&E methodology has been adopted by Ameren, Empire and Westar just within the Missouri and Kansas service areas. (Brubaker Rebuttal, page 4). The widespread acceptance of the A&E methodology is not surprising in that it properly reflects the considerations and manner in which capacity additions are planned and constructed. (Brubaker Rebuttal, page 14).

In contrast, as the Commission has repeatedly pointed out, KCPL's Peak & Average methodology is inherently flawed in that it double counts each class' energy usage. (Brubaker Rebuttal, pages 3-11). Similarly, Staff's BIP method is inherently flawed in that it assumes that baseload capacity does not provide any value in terms of meeting system peak. Instead, Staff allocates the investment associated with baseload capacity on the basis of class energy needs. Given this, the Staff's BIP methodology is overwhelming dependent on class energy usage. As such, like the Peak & Average methodology, which relies heavily on energy considerations, the BIP method should also be rejected. (Brubaker Rebuttal, pages 11-23). In fact, the BIP methodology has found very little acceptance within the industry. As Mr. Brubaker points out, "The BIP method is certainly not among the frequently used mainstream cost allocation methodologies, and lacks meaningful precedent for its use."

Given this, Mr. Brubaker's class cost of service study, which relies upon the A&E method for allocating fixed production costs, is the most reasonable for allocating costs of service. (Results contained at Brubaker Direct, pages 21-23 and Schedule MEB-COS-

4).

Relying upon Mr. Brubaker's class cost of service study, the Commission should seek to eliminate 25% - 50% of any subsidies that are currently built into KCPL's rates. (Brubaker Direct, pages 26-28 and Schedule MEB-COS-6). With a 25% elimination of current subsidies, the Commission should order the following revenue neutral shifts:

Residential:	+3.7%
Small General Service:	-1.9%
Medium General Service:	-1.5%
Large General Service:	-2.6%
Large Power:	-1.9%
Total Lighting:	-3.1%

(Brubaker Direct, Schedule MEB-COS-6).

After making these interclass shifts, the Commission should allocate any rate increase authorized for KCPL on an equal percentage basis to all customer classes.

B. <u>How should any increase ordered in this case be applied to each class?</u>

<u>Position</u>: See the position provided in response to the previous sub-issue.

C. <u>Should KCPL be permitted to increase the fixed customer charge on residential customers?</u>

<u>Position</u>: MECG takes no position on this issue.

D. <u>Should KCPL be required to implement the block rate structure proposed by the Division of Energy for residential customers?</u>

<u>Position</u>: MECG takes no position on this issue.

E. <u>Should KCPL be required to propose time-varying rate offerings for residential customers in future cases?</u>

<u>Position</u>: MECG takes no position on this issue.

F. <u>How should any increase to Rates LGS and LPS be distributed?</u>

<u>Position</u>: Properly rates should be constructed in a way such that variable charges (i.e., the energy charge) are used to collect variable costs while fixed costs are collected through either the customer or demand charge. As reflected in Mr. Brubaker's testimony, however, the energy charges in the LGS and LP rate schedules current collect a significant amount of fixed costs. While KCPL's average energy cost is approximately 2.0-2.1¢ / kWh, the LP high load factor energy block charge ranges from 2.4-2.6¢ / kWh

and the LGS high load factor energy block charge ranges from 3.5-4.3¢ / kWh. (Brubaker Direct, pages 30-31). Thus, the energy charges in these rate schedules collect a significant amount of fixed costs. This collection of fixed costs in the energy charge creates a subsidy for the benefit of the low load-factor customers that, by definition, utilize the KCPL system in an inefficient manner. Given that the energy charges collect a large amount of fixed costs, the Commission should seek to reduce the energy charges and increase those charges (i.e., customer and demand charges) which should more properly be used to collect fixed costs. As such, MECG recommends that the Commission maintain the energy charges for the high load factor (over 360 hours use per month, or over a 50% load factor) block at their current levels, increase the middle blocks (hours use from 181 to 360) by three quarters of the average percentage increase, and to collect the balance of the revenue requirement for the tariff by applying a uniform percentage increase to the remaining charges in the tariff. This includes the customer charge, the reactive demand charge, the facilities charges, the demand charges and the initial block energy charges. (Brubaker Direct, pages 32-33 and Schedules MEB-COS-7 and 8).

XXII. Clean Charge Network

A. Is the Clean Charge Network a regulated public utility service?

B. Should capital and O&M expenses associated with the Clean Charge Network be recovered from ratepayers?

C. Should KCPL develop a PEV-TOU rate to be considered in its next general rate case?

D. Should the session charge be removed from the tariff?

Position: MECG supports the positions advanced by OPC on this issue. Specifically, current ratepayers should be protected from rate increases associated with KCPL's decision to construct the Clean Charge Network. This can be done by either finding that the Clean Charge Network is not a regulated service or by finding that the capital and O&M expenses should not be recovered from ratepayers. Instead, these capital costs and O&M expenses should be treated below the line.

XXIII. Economic Relief Pilot Program ("ERRP") - Should the program annual funding be decreased to $589,984 for both ratepayers and shareholders? Should enrollment for the program be extended to include other community action agencies?

Position: MECG takes no position on this issue.

XXIV. Cost Allocation Manual ("CAM") - Should the Commission approve a CAM for KCPL in this case?

Position: MECG takes no position on this issue.

XXV. **Management Expense**

A. Is KCPL incurring and charging imprudent and excessive management expenses to ratepayers?

B. Should the Commission adjust KCPL's management expense amount as proposed by OPC witnesses?

C. Should the Commission direct or encourage KCPL to adopt the expense report policy changes as listed at page 9 of OPC witness Mr. Hyneman's Direct testimony?

Position: MECG supports the position advanced by OPC on this issue.

XXVI. **Customer disclaimer** – Should the Commission order KCPL to adopt a customer declaimer as proposed by OPC witness Marke?

Position: MECG takes no position on this issue.

XXVII. **Customer Experience -** Is KCPL's strategy with respect to customer service, customer experience and community involvement in the interest of its customers?

Position: MECG supports the position advanced by OPC on this issue.

Respectfully submitted,

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ATTORNEYS FOR MIDWEST ENERGY CONSUMERS GROUP

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by email, facsimile or First Class United States Mail to all parties by their attorneys of record as provided by the Secretary of the Commission.

David L. Woodsmall

Dated: February 2, 2016